

Annual Corporate Responsibility Report

2005

Telefónica

Telefónica S.A.



Annual Corporate Responsibility Report

2005

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Letter from the Chairman



Dear Friend,

Telefónica would like to present you, for the fourth consecutive year, its Annual Corporate Responsibility Report, one of the keystones of the Group's corporate responsibility strategy.

The report we present for FY 2005 is a further step towards Telefónica's strategic goal of being a committed and responsible Group. Committed, in that we are involved in the progress and development of the countries where we operate, through the transformation of our innovations into global communications solutions. And responsible in that we are focused on permanently improving the way in which we carry out our operations. At Telefónica we understand that as far as we are capable of generating a positive impact on society, we will also be capable of generating profitable and sustainable growth for everyone, thereby guaranteeing the sustainability of our company.

This annual Report introduces improvements with regard to the reports for previous years, in an effort to remain at the forefront of the corporate responsibility movement that has been growing throughout Europe and Latin America for some years now.

The first improvement in this Report has been its ability to consolidate a comprehensive corporate responsibility reporting system at Telefónica. This system has already borne results, such as the CR Reports for Argentina, Brazil, Chile and Peru. These "country reports" are a natural consequence of our commitment to initiatives promoted by the UN such as the Global Compact and the Millennium Goals, as well as the result of our "multidomestic" character. On the one hand, we are global, because of our size, presence and services. In 2005 we have further reinforced our internationality with the acquisitions of Český Telecom and O2 in Europe and our strategic alliance with China Netcom. On the other hand, we are also local, because, beyond sharing the same language, especially in Latin America, it is our desire to contribute to the communities we belong to through understanding and addressing their needs.

The second improvement in this Report has been its ability to transform internal management processes and systems on a worldwide scale. In 2005, special progress was made with the environmental management systems and the implementation of specific policies to extend best corporate responsibility practices from Europe to Latin America, and vice versa. To this aim, the 2005 report includes a detailed account of goals and challenges for 2006.

Thirdly, the 2005 Report includes many of the lines for improvement and progress suggested to us by our stakeholders following a detailed analysis of the reports for previous years. The fact is that, as was expressed in a series of dialogue panels held during the financial year, there is great interest in Telefónica's behaviour towards its customers, suppliers, employees of Telefónica Group, etc.

Fourthly, the report on corporate responsibility strives to present what we internally refer to as "the other Telefónica", that is, the Telefónica that lies behind its financial results. For many of our stakeholders, Telefónica is much more than a telecommunications services provider. Many already perceive us as a driving force behind the social, technological and economic development of the societies in which we operate. Our activity generates an important wealth in social, employment, digital inclusion and education terms, as well as in product and service innovation, business opportunities for suppliers... The benefits that information and communication technologies can bring to sustainable development provide a great opportunity for our business and for the societies in which we are present.

Lastly, the 2005 Report has taken us a step further in our search for rigour, transparency and relevance of information. Thus, the 2005 Report has been externally verified by Ernst&Young, in accordance with the Standard AA1000/AS, as regards the consolidation boundary in Spain. The aim has been to offer a balanced and reasonable presentation of the economic, environmental and social performance of our organisation. In addition, once again, the Report has been prepared in accordance with the 2002 Global Reporting Initiative Guidelines for all the consolidation boundary of the Group. We are proud that our commitment to transparency has been acknowledged with the inclusion of Telefónica in the main indices of companies who invest responsibly and with the many awards and special mentions received in 2005.

To conclude, I would like to reaffirm our commitment to permanent improvement in this corporate responsibility report. This improvement would be possible without the understanding and support from our stakeholders. That is why I wish to express our sincere gratitude to all those who, through their opinions and suggestions, have allowed us to make progress.

Best regards,

César Alierta
Executive Chairman, Telefónica, S.A.



Telefónica, the power behind progress for all



Customers
Quality and fulfilment



Shareholders
Profitability and transparency



Employees
Clarity and professional development

Economic Progress

Customer satisfaction

84% fixed Spain
73% fixed Argentina
55% fixed Brazil
66% fixed Chile
63% fixed Peru
>70% mobile LATAM

Price evolution

Fall of 12% in mobile telephony in Spain in 2005
5.1% a year fall in fixed telephony in Spain (since 1998)

Productivity increases

Investment

>1.5 million shareholders

Profitability

+76% accumulated profitability 2003-2005
0.5 € dividend per share

Results 2005

+40% results
+24% income
+17 free cash flow generation

Employment

207,000 employees
60,405 Spain
14,326 Europe
131,968 LATAM

Compensation

5,045 billion euros
147,000 employee with variable salaries

Pension Plans

94 million € contributed by Telefónica to private plans
>12% profitability (fonditel)

Technological Progress

Innovation

2,9 billion € on innovation in 2005
533 million € on R&D
>130 new products

Operation

2.18% faults in Spain
4.17% faults in Latam
95% minimum network efficiency GSM CDMA

Digital household

150 cities with digital television coverage in Spain in December 2005
(3 in Dec. 2004)

Shareholder and investor website

1,182,000 visits
963,000 downloads

Shareholder helpline

>88,000 queries

Training

9.3 million hours
48 training hours per employee
20% online training
>43,000 training plans

Telework

>1,000 teleworkers

Professional career

350 published vacancies

Competencies

>78,000 jobs evaluated

Social Progress

Digital inclusion

5.5 million low income lines in Latin America
>300,000 social subscribers in Spain

Telefónica Accessible

>30 services for the disabled

Service responsibility

Responsible investment

48.1 million euros invested by Fonditel in responsible funds (1.01% of total)



Working practices

142,000 employees in collective agreements

Work auditing

26 companies audited in 2004
4 companies audited in 2005

Integration

1,079 disabled employees
49.3% women
21.8% female managers

Contracting

85.4% payroll with permanent or indefinite contract



Society

Contribution and proximity

Economic impact

(% TEF income on GDP)
 2.2% Spain
 1.3% Argentina
 1.1% Brazil
 1.8% Chile
 2.1% Peru
 1.6% Venezuela

Public Administrations

8,511 billion € paid in 2005



Suppliers

Equal opportunities and mutual benefit

Purchases

>13 billion €
 >18,000 awarded suppliers
 >42,000 suppliers in catalogue

Local suppliers

90% awarded suppliers
 85% volume adjudicated

Supplier satisfaction

67,5% overall satisfaction



Environment

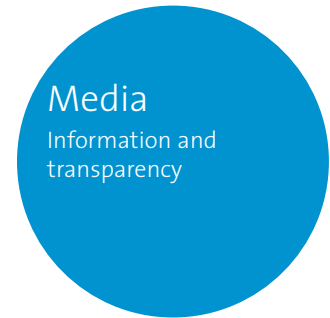
Respect and protection

Investments

District C: largest rooftop solar power producing park in Europe (21.5 million €) (16,600 solar panels)

Support to environmental organisations

10 NGOs receive support from Telefónica



Media

Information and transparency

Advertising investment

47% television
 19% press
 18% exterior
 10% radio

Digital inclusion ADSL coverage

97,3% Spain, 89,5% Argentina, 96,8% Brazil, 96,5% Chile, 97,0% Peru

Mobile coverage

99% Spain, 92% Argentina, 95% Chile, 76% Ecuador, 69% Mexico, 62% Peru, 93% Venezuela

Public services

≈700,000 boxes

Online purchasing >8 billion € adjudicated >20,000 online purchasing processes

Online auctions 685 million € adjudicated 948 purchasing processes

Joint innovation 5,000 people collaborate with Telefónica

Environmental impact of ICT 12 studies in 2005

Internal training 3,348 employees trained in 2005

Infrastructure development Agreement with the Federation of Municipalities for the development of the Information Society

Online press room 176,000 sessions in 2005 (82,000 in 2004)

Product information 42% press notes on products

Social action >54 million € invested

Fundación Telefónica 763 projects 31,000 participating entities 41 million participants

Internet training >5,000 schools connected in Chile

Telefónica Accessible Manual of accessible communication in collaboration with CERMI

Ethical standards in the supply chain 90% of suppliers support them (survey)

Compliance with payment times 98% invoices 96% amount (data for Spain)

Global environmental management 13 countries share the regulation of minimum environmental requirements

Training in society Social training on electromagnetic emissions

Transparency Telefónica, the company with the best information in social action* 1º Telefónica: 746 points 2º Classified: 496 points 3º Classified: 465 points

*Fundación Empresa y Sociedad

00 Telefónica in 2006

Telefónica is a world leader in the telecommunications sector, with over 154 million accesses and presence in 19 countries

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World leader in the telecommunications sector

Accelerating to strengthen our leadership

International Presence

Organisational Profile

Driving Progress

2005 Highlights

Telefónica is the world leader in the telecommunications sector

Almost 154 million accesses

Accesses

As at the end of FY 2005, Telefónica Group had a total of 153,5 million accesses. Including customers of O2, whose acquisition materialised in 2006, Telefónica Group's customer base rises to 180.9 million.

4th company in the world in terms of number of customers

The mobile telephony customer base grew to 99.1 million, and fixed telephony reached the figure of 40.9 million customers.

Almost 2,900 million euros invested in technological innovation

Including O2 customers, Telefónica was fourth largest company in the world in terms of number of customers as of FY 2005.

More than 207,000 employees

Investment

During the last two years, Telefónica has considerably expanded with the acquisition of BellSouth's assets in Latin America in 2004, the acquisition of Cesky Telecom and the purchase of 5% of the share capital of China Netcom in 2005 and the acquisition of the European assets of operator O2 in 2006.

Included in the Dow Jones Global 50 Titans

Telefónica has relevant operations in 19 countries, and is the leading private investor in Latin America.

In the course of 2005, Telefónica assigned almost 2,900 million euros to technological innovation activities.

Financial Results

Telefónica Group's income increased by 25.1% with respect to 2004, reaching 37,882.1 million euros.

Telefónica Group's OIBDA amounted to 15,276.4 million euros, with an increase of 25.0% compared to 2004.

Telefónica Group's net income rose to 4,445.8 million euros, a 40.0% increase compared to 2004, thanks to the good performance of operations as a whole, and to the positive contribution of the acquisitions made.

Employees

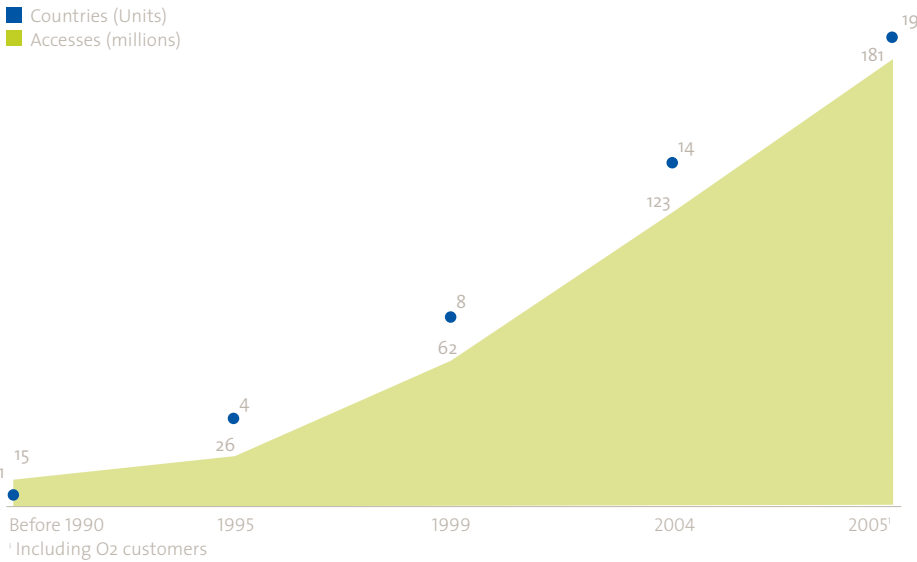
Telefónica's direct staff as a consolidated Group includes over 207,000 employees, of which 37% correspond to Europe and 63% correspond to Latin America.

Shareholders

Telefónica is an entirely private company, with over 1.5 million direct shareholders, listed in the main national and foreign stock exchanges.

Telefónica is part of the Dow Jones Global 50 Titans index, which includes the 50 most important companies in the world.

Transformation of the Telefónica Group



Accelerating to strengthen our leadership

The desire to become the best combination in the telecommunications sector in terms of growth and profitability is based on a programme of transformation, which, under the motto “Accelerating to strengthen our leadership”, is built on five cornerstones: customer orientation, innovation, operational excellence, commitment, leadership in people and a common Group identity.

In 2005, Telefónica continued in its transformation programme, focused on becoming an integrated Group that satisfies its customers’ overall communication needs, extending innovation from the technological field to different processes in the value chain. The aim is to have the best customer satisfaction levels in its sector, and to be a company which employees are proud to be a part of. It aims to be one company, with a set of values and a common identity shared by all the businesses that comprise the Telefónica Group.

Over the last 20 years, Telefónica has experienced an important process of transformation, which has allowed it to acquire a new dimension, and to strengthen its competitive positioning through the scale of the company:

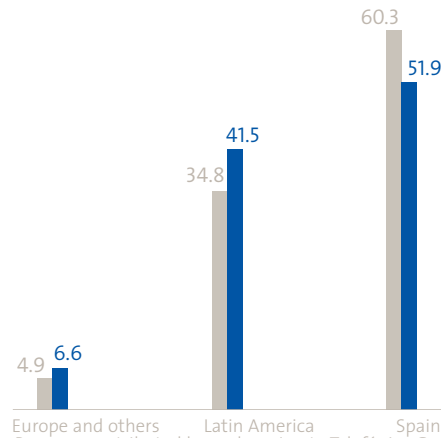
- From operating only in Spain to offering its services in nineteen countries, representing a potential market of 670 million people.
- From offering basic communication services to offering a wide range of communication solutions tailored to the needs of each client.
- Telefónica has increased the value of its assets by seven, has multiplied its revenue by twenty-one, and has increased its market capitalisation by thirty-nine times.
- Telefónica has increased the number of its employees by three times, and its number of clients has increased by twenty times.



Geographic Distribution of Revenue¹

Percentages

■ 2004
■ 2005



¹Revenue contributed by each region to Telefónica Group's consolidated results

International Presence

Growth of Telefónica
2003-2005:

Accesses x2

Countries +10

Employees x1.5

Global presence, local focus

Telefónica operates in many countries, each one of them with very different challenges and opportunities. The value of a business is not only focused on the penetration into new markets, but rather in the day-to-day management of the companies, thinking globally while keeping the local focus on our operations.

Telefónica will only become a genuinely global company if it acts and manages its affairs as a local company. To this aim, the common focus of Telefónica Group lies in its customers, and the importance of customers for Telefónica Group is what makes Telefónica different from other operators.

Dimension and scale

The year 2005 has meant an important step ahead in terms of the Group's dimension and scale. The integration of the operations of BellSouth and Cesky Telecom, together with the acquisition of O2, have accelerated its growth profile, increasing its differential factor with regard to its European competitors.

These operations are proof that one of Telefónica's strategic aims is the obtention of synergies. More specifically, and as a result of the integration of BellSouth mobile operators Latin America, Telefónica Group has already met over 50% of its own synergy previsions. In the case of the integration of O2 in Telefónica Group, previsions point to the synergies generated reaching 3,300 million euros in the first year.

As from April 2006, Telefónica is a strategic partner of the State operator Colombia Telecom. In addition, Telefónica owns 5% of the share capital of the Chinese telecommunications company China Netcom, which has allowed Telefónica to start creating a strategic framework for cooperation in fields such as joint acquisition of technology and infrastructures, technology transfers and other fields related to management.

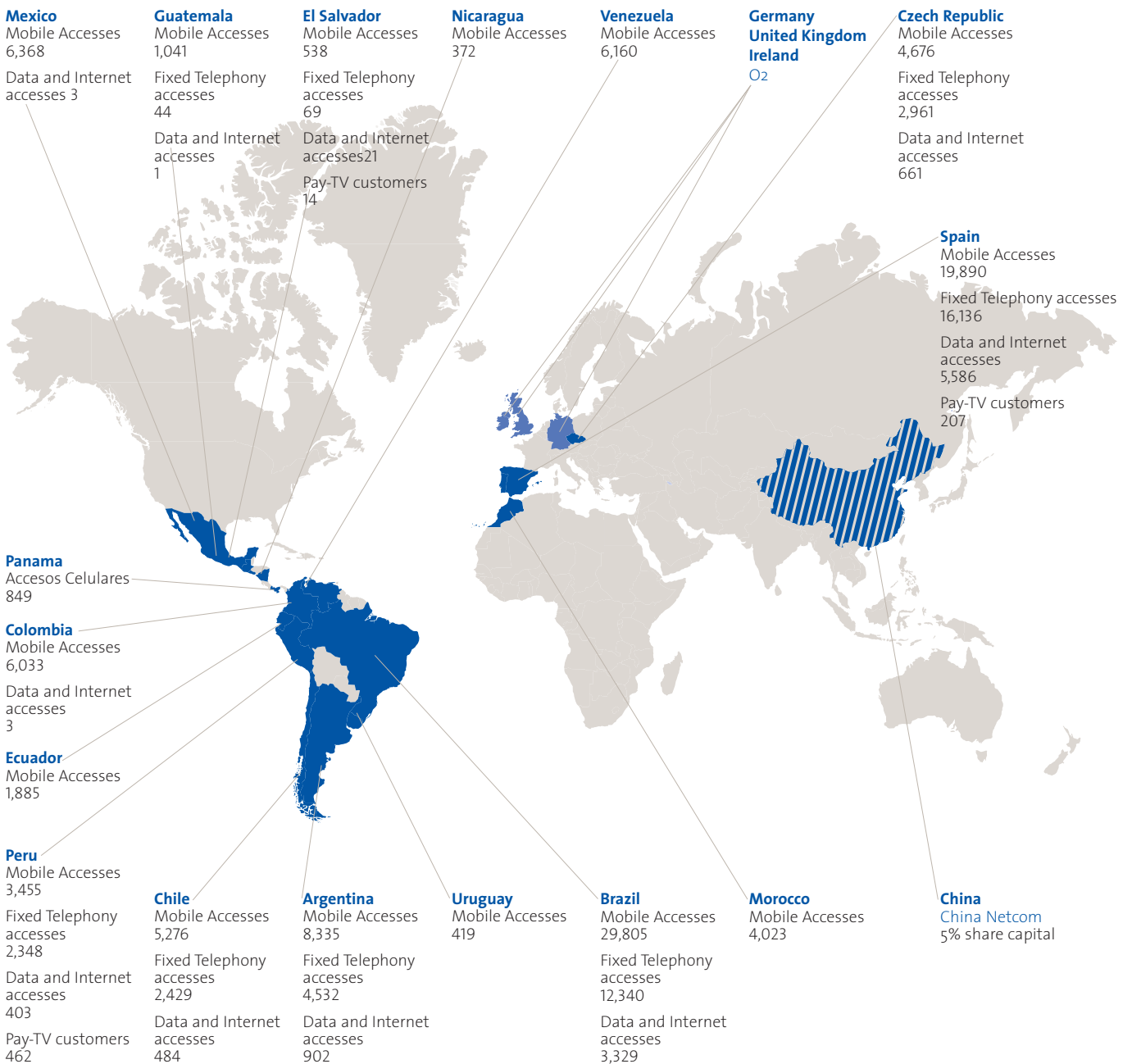
Integrated Operator: business diversification

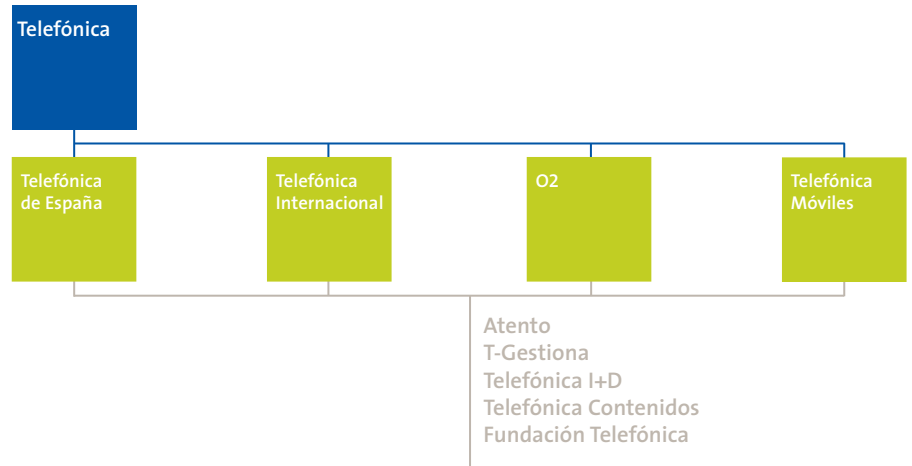
The financial results for 2005 have been strengthened by the diversification brought by being an integrated operator. In this context, the mobile telephone business is the main contributor to the Group's revenue (+38.1%/year) while the fixed telephony business is the most profitable line, having grown by 19.9% in Spain and 14.6% in Latin America with regard to 2004.

By geographic regions, Spain represents 51.9% of the Group's consolidated revenue, while Latin America represents 41.5%. The acquisition of Cesky Telecom, in July 2005, has brought increased geographic diversification, with the Czech Republic representing 2.7% of the consolidated revenue.

Telefónica: Market size (2005)

Figures in thousands





Organisational Profile

Throughout recent years, Telefónica has concentrated its telecommunications business, strengthening its presence in fixed and mobile telephony markets, and focusing its business model on satisfying all its customers' communication needs.

Telefónica de España

Its main activity is providing fixed telephony and broadband services in Spain. Telefónica Empresas, Telefónica Soluciones and Terra in Spain are also integrated in this business unit, offering value-added services to its customers.

Telefónica Internacional

Telefónica's investments in the fixed telephony sector in Latin America are managed through Telefónica Internacional (also known as Telefónica Latinoamérica). Its activities are carried out mainly in Argentina (TASA), Brazil (Telesp), Chile (CTC), Peru (TdP). Telefónica Empresas América, Terra Latinoamérica and Telefónica International Wholesale Services are also integrated in this business unit.

Telefónica Móviles

Telefónica Móviles leads the Spanish- and Portuguese-speaking markets. As at December 2005 Telefónica Móviles offered its services to over 94 million clients, being present in all key markets in Latin America, and achieving a leading position in the region.

O2

At the start of 2006 Telefónica concluded a tender offer to buy the operator O2, with significant operations in Germany, Ireland and the United Kingdom.

As a result of the reorganisation carried out by Telefónica in December 2005, Cesky Telecom and Telefónica Deutschland are also integrated within this Business Unit.

Atento

Provides customer assistance service through contact centres or multi-channel platforms (telephone, fax, Internet...).

Telefónica I+D

Oriented towards the creation of services, the management of networks, services and businesses, with special attention to technological innovation of a strategic nature or new to the market.

T-Gestiona

Administrative support for the Group related to non-strategic activities common to the different business units.

Fundación Telefónica

Channels all the non-profit social and cultural activities.

Centro Corporativo

Responsible for the definition of global strategy and corporate policies, for the management of common activities and the coordination of the activities of the business units.

Driving Progress

Telefónica is an important driving force for economic, social and technological development in the countries where it is present.

Driving Economic Development

In 2005 Telefónica distributed over 51,000 million euros among its stakeholder groups, of which over 4,000 million euros were used for employee remuneration; almost 5,000 million euros were distributed among shareholders and over 19,000 million euros went to suppliers. It is important to note the collecting role of Telefónica which, through fees, licenses, consumer taxes and indirect taxes, has channelled over 8,500 million euros for the Public Administrations.

Telefónica's revenue represents an average of 1.7% of the Gross Domestic Product of the economies of the main countries where it is present.

Over 18,000 suppliers collaborate with Telefónica worldwide, with a high percentage of contracts being awarded to local suppliers (an average of 85% in 2005).

Driving Technological Development

During 2005, Telefónica earmarked almost 2,900 million euros for technological innovation activities.

Telefónica further increased its investment in R&D activities in 2005, reaching a total of 530 million euros, which amounts to 1.4% of Telefónica Group's total revenue.

Driving Social Development

Telefónica wishes to be perceived as a group that is responsible and committed towards its stakeholders.

Telefónica is increasingly customer-oriented, and committed to excellency in quality and services. As a result of this effort, in 2005, Telefónica has reached a customer satisfaction level in Spain of 83%.

During 2005, Fundación Telefónica carried out a strategic revision of all its projects, focusing its efforts on two areas of activity: Education (Educared) and the integration of children into society (Proniño). It is important to note the commitment of employees to volunteer activities, and their commitment towards disabled people through ATAM.

The digital inclusion of people with low economic resources (over 5 million prepaid and controlled lines in Latin America) or people with disabilities (via the project Telefónica Accesible) are initiatives which show Telefónica's commitment to social inclusion.

Implementation of Telefónica Group's Code of Ethics.

Publication of annual reports on Corporate Responsibility in Argentina, Brazil, Chile and Peru.

Presence of Telefónica in the main sustainability indices: DJSI and FTSE4good, among others.

51,000 million euros redistributed among stakeholder groups

Revenue / GDP = 1.7% for main countries

Over 18,000 suppliers

533 million euros on R&D

83% customer satisfaction in Spain

5.5 million accesses for low income households in Latin America

Over 54 million euros on social and cultural action



2005 Highlights

Profitable Growth*

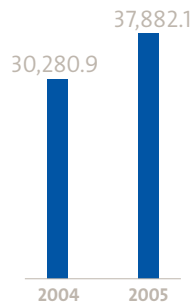
+40%

Results

4,445.8 Million Euros

Revenue

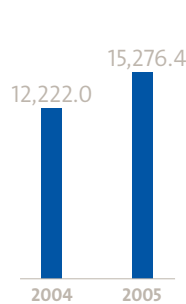
Millions of Euros



+25.1%

OIBDA

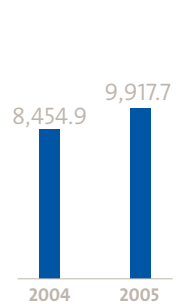
Millions of Euros



+25.0%

Cash flow generation

Millions of Euros



+17.3%

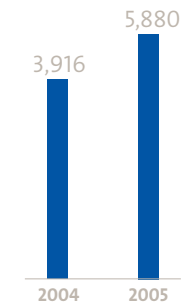
+24%

Clients

154 million accesses (not incl. O2)

ADSL Lines

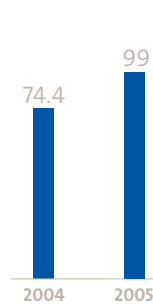
Thousands of clients



+50.2%

Mobiles

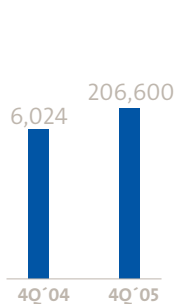
Millions of clients



+33.2%

Imagenio

Clients

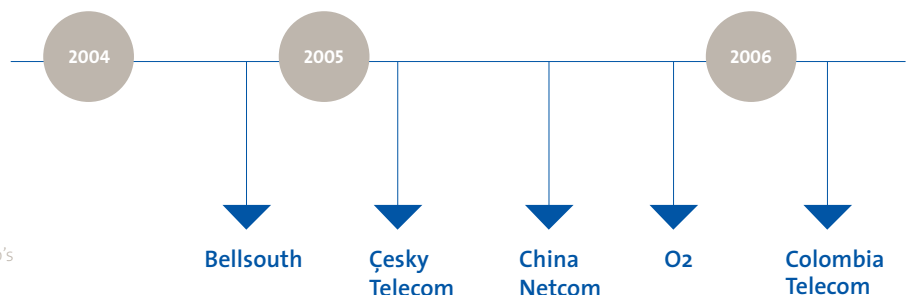


+200.6%

Growth

5 corporate acquisitions in 2 years

Growth due to acquisition 2004-2005



*For a broken down, detailed analysis of Telefónica Group's consolidated financial statements, please refer to the audited information in the annual statement of accounts

Driving Progress

Economic progress

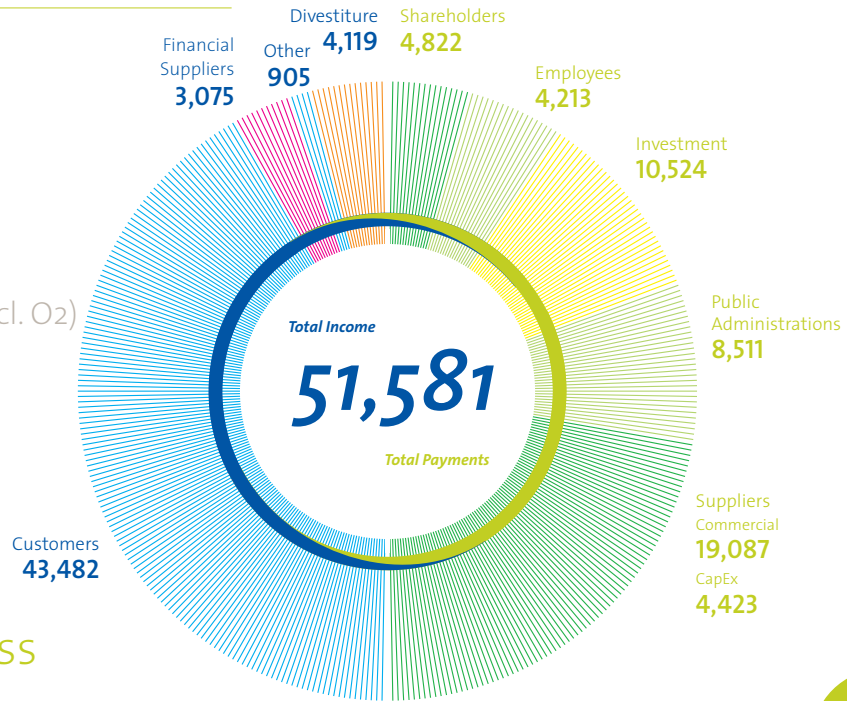
18,000 suppliers

1.7% Contribution of income to National GDP

154 Million accesses (not incl. O2)

1.5 Million shareholders

207,000 Employees



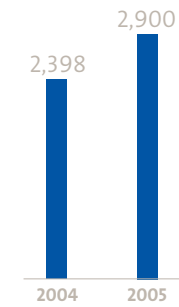
Tecnological Progress

2,900 million euros on innovation

+21%

Innovation

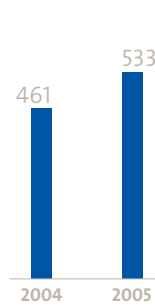
Millions of Euros



+20.9%

R&D

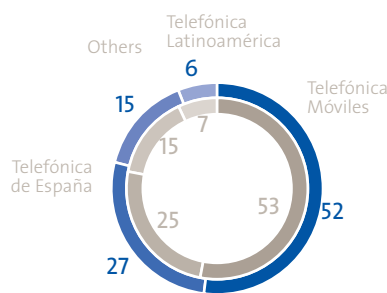
Millions of Euros



+16.6%

Who innovates?

In percentages



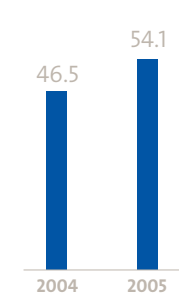
Social progress

54 million euros in social action

+16%

Social action

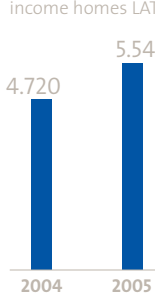
Millions of Euros



+16.6%

Digital inclusion

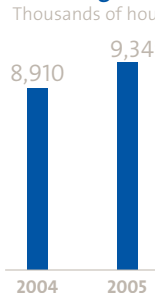
Thousands of lines in low income homes LATAM



+17.4%

Employee Training

Thousands of hours



+5%

Credits

Departments that collaborated in the preparation of the report

Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
05 Shareholders	Shareholders' Office / Investor Relations / Secretariat General
06 Employees	Corporate Human Resources / Human Resources Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Communication / Health and Safety / Fundación Telefónica / ATAM / Fonditel
07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

Telefónica complies
with the main national
and international
guidelines and
requirements for
Corporate Governance

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Ownership

Corporate Governance in Telefónica

Transparency of the Information to Shareholders

Risk Control Systems

Ownership

Telefónica’s fully subscribed and paid-up share capital amounts to 4,921,130,397 euros, and is divided into 4,921,130,397 ordinary shares, of a single class and series, with a nominal value of (1) one euro each, represented by book entries.

In accordance with the information available in the Company, there is currently no natural or legal person that exercises, or may exercise control, directly or indirectly, individually or jointly, over Telefónica. There are, however, two shareholders with significant shareholdings, directly and indirectly, as is shown in the following table: Caja de Ahorros y Pensiones de Barcelona (La Caixa), and Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), with 5.09% and 6.632% of the share capital, respectively.

Shareholders with significant stakes

Name or corporate name	% total share capital
“La Caixa”	5.09%
BBVA	6.63%

Information as at December, 31, 2005

This chapter presents a summarised version of the Annual Report on Corporate Governance of Telefónica S.A. for FY 2005. This report, which addresses the requirements established in the Circular 1/2004, of March 17, of the Comisión Nacional del Mercado de Valores (Spanish Stock Exchange Commission), is published on an annual basis, and can be accessed through the Company's website for shareholders and investors. (www.telefonica.es/investors).

Corporate Governance in Telefónica

Principles of Corporate Governance

The basic corporate governance regulations of Telefónica are set out in the Company By-laws, in the Regulations of the General Shareholders Meeting and in the Regulations of the Board of Directors.

The Regulations of the General Shareholders' Meeting establishes the principles of organisation and its operation, offering shareholders a framework that guarantees and enables the exercise of their rights with regard to the General Shareholder's Meeting, as the governing body of the Company.

Likewise, the Regulations of the Board of Directors, as the founding rules of corporate governance for the Company, determine the principles guiding the actions of the Board of Directors, regulate its organisation and operation and establish the rules of conduct for its members.

In accordance with the foregoing, and as the basis of the governance structure of Telefónica, the Regulations of the Board of Directors of the Company determine the fundamental principles that guide the actions of the Board of Directors:

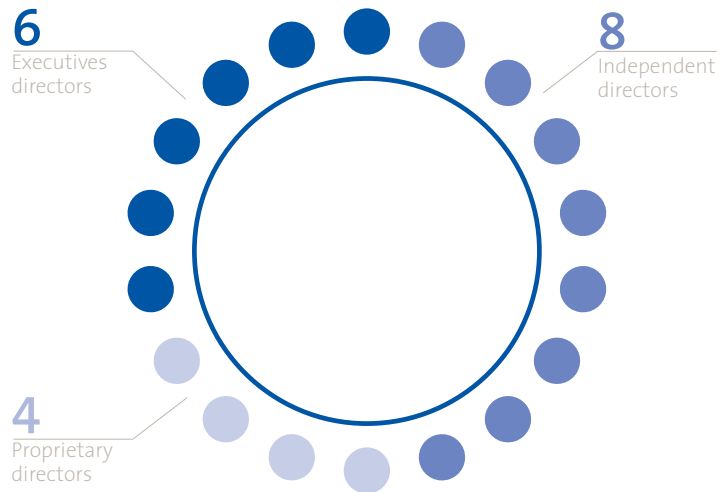
With respect to corporate interest. The Board of Directors executes its functions in accordance with corporate interest, understood as the Company's interest, and, in this respect, acts to guarantee the long term viability of the Company and maximise its value, whilst taking into account the plurality of legitimate public or private interests that converge in the execution of all business activities.

With respect to its shareholders. The Board of Directors, as the liaison between the shareholders and management, is responsible for setting up the necessary channels to be aware of the suggestions put forward by shareholders with respect to the corporate management. The Board of Directors also undertakes to guarantee equal treatment in its relations with shareholders.

With respect to the market. The Board undertakes to execute the acts and take the necessary measures to ensure the Company's transparency in financial markets, and to promote correct formation of the Company's share prices, particularly avoiding manipulation and abuse of privileged information.

The information regarding the General Shareholders' Meeting is detailed in the Shareholders chapter in this report

Composition of the Board of Directors



The Board of Directors

The Regulations of the Board of Directors establish it as a basically supervisory body controlling the Company's activity, while entrusting the day-to-day management of the business to the executive bodies and the management team. Moreover, and in keeping with the provisions of these Regulations, those powers that are legally or statutorily reserved for the Board of Directors may not be delegated, nor may any others necessary for the responsible performance of its basic supervisory and control duties.

Accordingly, and within the scope of its duties of supervision and control, the Board of Directors (i) determines the strategies and guidelines for the Company management, (ii) establishes the basis for corporate organisation to ensure its maximum efficiency, (iii) implements and oversees the suitable information procedures to report Company information to shareholders and the markets in general, (iv) makes decisions regarding business and financial transactions of particular importance to the Company and (v) approves the bases of its own organisation and operation to ensure the optimal fulfilment of these duties.

The Company By-Laws of Telefónica establish that the Board of Directors must comprise a minimum of five and a maximum of twenty Board Members. In April 2006, the Board of Directors of Telefónica was comprised of 18 Directors, of which 6 are Executive Directors, 4 are Proprietary Directors and 8 are Independent Directors.

The Board of Directors Executive Committee

Subject to the legislation in force, the Board of Directors has expressly delegated all of its powers and attributes, save those that may not be legally or statutorily delegated, to an Executive Committee with general decision-making powers.

The relationship between the Board of Directors and its Executive Committee is based on the principle of transparency, such that the Board is always fully aware of the decisions adopted by the Committee. Thus, the Board of Directors is informed at each of its sessions of all the resolutions adopted by the Executive Committee, distributing a summary of the minutes of the Committee sessions for this purpose to all the Board members. The Board then proceeds to ratify these resolutions. Moreover, the election of the members of the Board of Directors to the Executive Committee must have the backing of, at least, two thirds of the Board of Directors.

Telefónica's Board of Directors' Committees

Board of Directors' Committee	Non-executive board members	Executive board members	No. of sessions 2005
Executive Committee	4	4	19
Audit and Control	4	0	12
Nominating, Compensation and Corporate Governance	4	0	10
Regulation	3	1	9
Human Resources and Corporate Reputation	4	0	5
Service Quality and Customer Service	3	1	4
International Affairs	5	0	6

The Board of Directors' Consultative or Control Committees

The Board of Directors of Telefónica has constituted several consultative or control Committees –precisely six- which it entrusts with the continual study and monitoring of areas of particular relevance for the Company's good governance, or for the monographic analysis of certain significant aspects or issues where such study is appropriate. These Committees are not corporate bodies, but rather are structured as instruments to serve the Board of Directors, which receives the conclusions reached in the matters and issues the Committees are instructed to study.

Among the consultative or control Committees constituted by the Board of Directors of Telefónica, are those that have been specifically recommended:

Audit and Control Committee, established in 1997, is regulated by the Company By-Laws and the Board Regulations. It verifies both the financial information and the annual accounts of the Company, ensuring that all the financial information is prepared in accordance with the same professional principles and practices. Its responsibilities are mainly (i) to know the financial information process and evaluate the accounting verification system, (ii) to safeguard the independence of the external auditor, supervising their work and serving as a liaison between the Board of Directors and the external auditor; (iii) to supervise the internal auditing services and (iv) to supervise compliance and integrity of the internal control systems for financial information.

The Nominating, Compensation and Corporate Governance Committee, regulated by the Board Regulations, has the following competencies: (i) to inform with regard to proposals for the appointment of Directors and other high-ranking officers of the Company and its subsidiaries, (ii), to approve the remuneration bands for the high-ranking officers of the Company, (iii) to approve the standard contracts for the high-ranking officers, (iv) to determine the remuneration scheme for the Chairman, (v) to inform and propose to the Board of Directors the retribution schemes for Directors and to revise them periodically, (vi) to inform of the incentive plans, (vii) to perform an annual analysis of the remuneration policy for Directors and high-ranking officers, (viii) to inform with regard to proposals for the appointment of members to the Board Committees, (ix), to prepare and keep a register of the status of the Directors and high-ranking officers of the Company, (x) to prepare the Annual Report on Corporate Governance and (xi) to exercise those competencies assigned to this Committee by the Board of Directors.

In addition, the Board of Directors deemed it convenient to constitute four additional consultative Committees: the Human Resources and Corporate Reputation Committee, the Regulation Committee, the Service Quality and Customer Service Committee and the International Affairs Committee.

Directors

Appointment

In accordance with the provisions of the Ley de Sociedades Anónimas (Spanish Corporations Act), the appointment of Directors is submitted for decision and approval by the General Shareholders' Meeting. In addition, and in accordance with the Regulations of the Board of Directors of the Company, the proposals for appointment are preceded by the relevant favourable report from the Nominating, Compensation and Corporate Governance Committee.

Rights and Obligations

The Regulations of the Board of Directors specifically devote title V, comprised of nine articles, to the detailed description of the rights and obligations of Directors. This title sets out the duties arising from the obligations of diligence, fidelity and loyalty of Directors and, in particular, envisages situations of conflict of interest, the duty of confidentiality, the exploitation of business opportunities and the use of corporate assets.

Furthermore, the Regulations of the Board of Directors also includes the right of Directors to obtain the information and counsel necessary to perform their duties, as well as the establishment of the suitable channels for the exercise of such rights. In this respect, the Company has adopted the measures required to ensure that Directors are furnished in a timely manner with sufficient information specially drawn up to this effect, geared to preparing for the sessions of the Board and its Committees.

In accordance with the Regulations of the Board of Directors, the latter performs an annual evaluation of its performance and quality of its work on the occasion of the approval of the Annual Report on Corporate Governance.

Remuneration Policy

As regards the remuneration policy for Directors, this policy is proposed, evaluated and reviewed by the Nominating, Compensation and Corporate Governance Committee, always in keeping with criteria of moderation. Currently there is no remuneration system linked to the market price of the company shares or that involves handing over shares or stock options to Board Directors.

On an annual basis, the Company provides information regarding the remuneration received by the Members of the Board of Directors, both in its Annual Report and in the Report on Corporate Governance, in accordance with the criteria established for each of these documents. .

Composition of the Board of Directors of Telefónica S.A. and its Committees

	Type of Director	Executive Committee	Audit and Control	Nominating Compensation, and Corporate Governance	Human Resources and Corporate Reputation	Regulation	Service Quality and Customer Service	International Affairs
César Alierta Izuel (Chairman)	●	●						
Isidro Fainé Casas (Vice Chairman)	●	●						
Gregorio Villalabeitia Galarraga (Vicepresidente)	●	●	●			●		●
Fernando de Almansa Moreno-Barreda	●					●		●
David Arculus	●							
Maximino Carpio García	●	●	●	●				
Carlos Colomer Casellas	●	●					●	
Peter Erskine	●	●						
Alfonso Ferrari Herrero	●			●	●			●
Gonzalo Hinojosa Fernández de Angulo	●		●	●			●	●
Pablo Isla Álvarez de Tejera	●			●	●			
Luis Lada Díaz	●						●	
Julio Linares López	●	●				●		
Antonio Massanell Lavilla	●		●		●		●	
Vitalino Manuel Nafría Aznar	●							
Enrique Used Aznar	●				●	●		●
Mario Eduardo Vázquez	●							
Antonio Viana-Baptista	●	●						

Non member Secretary

Ramiro Sánchez de Lerín García-Ovies		●	●	●		●		
--------------------------------------	--	---	---	---	--	---	--	--

- Executive
- Proprietary
- Independent
- Chairman
- Director

CASE STUDY

Handbook of Internal Control for Financial Information Reporting

The Sarbanes-Oxley Act affects companies listed on US financial markets and establishes, among their obligations, the need for senior managers of companies to evaluate the internal control systems regarding financial information reporting as a necessary condition for ensuring reliability.

Telefónica has considered this legal requirement as an opportunity for improvement and, far from merely complying with the law, it has fully developed its internal control structures, control mechanisms and applied evaluation procedures.

As a result of this experience, the “Manual de Control Interno para el Reporte de la Información Financiera” (Handbook of Internal Control for Financial Information Reporting) has been published, with three main goals:

- **To share** the knowledge acquired
- **To transmit** to the markets Telefónica’s commitment to the development of good corporate governance practices
- **To provide** an easier understanding of the model developed, with a practical handbook for all its users or users of information reported by Telefónica with reference to its Internal Control Model for Financial Reporting (SEC, rating agencies...)

Transparency of the Information for Shareholders

Regulations for Reporting to Markets

In 2003, The Board of Directors of Telefónica approved the “Regulations on Communication of Information to the Markets”, which includes the legal requirements that affect Telefónica derived both from the Spanish law and from international laws applicable to the Company due to its shares being listed on other stock markets. In accordance with these Regulations, the Company disseminates immediately and simultaneously to the markets where it is present all the information that could be considered relevant, and therefore must be communicated to the market.

Likewise, these communications are published on the Company’s website.

Independence of the External Auditor

Among the main competencies of the Audit and Control Committee is to propose to the Board of Directors, for submittal to the General Shareholders’ Meeting, the appointment of the Accounts Auditor, as well as the terms and conditions of contract, the scope of the auditor’s professional mandate and the renewal or not of their appointment.

The External Auditor has direct access to the Audit and Control Committee, and regularly takes part in its meetings, without the presence of the administrator when necessary.

In line with the legal requirements established by American regulations, the contracting of any service from the External Auditor of the Company must always be previously approved by the Audit and Control Committee. In addition, contracting services other than account auditing must be done in strict compliance with the Spanish Auditing Act and the Sarbanes-Oxley Act published in the United States, and its regulations. In this sense, the amount corresponding to work other than auditing with regard to the total amount invoiced by the auditing firm was 11% in FY 2005.

Risk Control Systems

Telefónica carries out constant monitoring of the most significant risks that could affect the main companies that form part of its Group. To this aim it has a Corporate Model that is applied periodically and homogeneously in the Companies of the Group, allowing the evaluation of both the importance of each of the risks that could affect the companies, and the degree of control over each of the risks.

Thus, the Group has a risk map that allows it to identify those risks that require specific control and monitoring, prioritised in accordance with their importance. In addition, the model has a matrix that includes all the operational processes where each of the risks considered are managed, in order to allow the evaluation of the established controls and be able to have reasonable certainty that they will not materialise.

The identification of these risks and processes is carried out by the Internal Auditing Office, which is responsible for the internal control of the Group. Its results are informed periodically to Telefónica's Audit and Control Committee.

The 50 risks considered in the model are classified in the following categories:

- Business process risks: (operational risks, integrity risks, management and human resources risks, technological risks and financial risks).
- Information risks: (operational, financial and strategic)
- Contextual risks: (competition; shareholder relations; availability of resources; political and economic environment; legal and fiscal; regulations and changes in the sector).

Créditos del informe

Departments that collaborated in the preparation of the report

Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
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07 Society Telefónica	Main lines of business (Telefónica de España, Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

02 Identity

Telefónica wishes to be perceived as an integrated telecommunications group, recognised for its commitment and responsibility towards its stakeholders

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A Strategic Goal

CR Organisation at Telefónica

Management Model

Telefónica in the debate on CR

Awards and Recognition

To Be a Responsible Company: A Strategic Goal

CASE STUDY

Difference Between the Concepts of Corporate Responsibility and Social Action

Social Action

Altruistic and in principle philanthropic funding of activities, within or without the company's sector of activity.

Corporate Responsibility

It involves, besides strict compliance with legal obligations, the voluntary integration of stakeholders' concerns in the management. This implies that the companies recognise and manage the impact of their actions through specific business management processes.

Telefónica has included in its Strategic Map (approved in 2005) the goal of being perceived as a committed and responsible leader by society in general and its stakeholders in particular.

In order to achieve this aim, various initiatives and projects have been launched, channelled through the Strategic Axis of Corporate Identity and Communication. This is one of the five elements of the transformation programme "Forging ahead to gain leadership"

Both the Strategic Map and the Axes of Transformation have been communicated to over 90% of the managers that form part of Telefónica Group, who are in turn responsible for informing their teams about these goals.

Telefónica Group has defined two monitoring indicators to periodically measure the degree of fulfilment of this strategic goal.

- Firstly, the Group carries out a follow-up of the evaluations made by analysts and observers of corporate responsibility. This collective is considered to be expert in corporate social responsibility, and the criticisms they express with regard to responsible performance are deemed to constitute a faithful indicator of the issues the company must tackle.
- Secondly, public surveys are carried out with regard to society's perception of Telefónica. These surveys have been carried out on a quarterly basis since June 2005 in Argentina, Brazil, Chile, Spain, Mexico and Peru. The survey responders give their opinion of the Company on the basis of seven dimensions and 21 characteristics, in accordance with the RepTrack® model drafted by the Reputation Institute in collaboration with the Corporate Reputation Forum.

Telefónica understands corporate responsibility as a way of managing its business in relation to all its stakeholders. As far as the Telefónica Group is capable of generating a positive impact through its activity, it will be capable of guaranteeing its own sustainability and that of its relations with stakeholders.

For Telefónica, it is as important to achieve its goals and financial results as is the way in which we these results are achieved

Organisation of Corporate Responsibility in Telefónica

Organisational structure and reporting line

Corporate Responsibility management at Telefónica is the competency of the Subdirector General of Corporate Reputation, Brand and Social Responsibility. It is dependent, functionally and hierarchically, of the Directorate General of Corporate Communication.

For the supervision of corporate social responsibility issues, Telefónica S.A.'s Board of Directors has a Committee made up by four non-executive board members: the Human Resources and Corporate Reputation Committee, a supervisory and control body that is informed every two months of the most relevant aspects related to corporate reputation and its evolution, corporate responsibility and the behaviour of Telefónica with regard to the demands of its stakeholders.

In addition, the top management of the Telefónica Group is informed about the degree of development and fulfilment of the goals of the Corporate Responsibility projects through the Committees of Coordination of Strategic Axes.

Roles and competencies

The Corporate Responsibility Unit has a general coordination role similar to that of other units of the Corporate Centre, related to:

- Studies and analyses of expectations, interests and demands of the internal (employees) and external (clients, shareholders, society, suppliers...) stakeholders.

- Definition and development of the management tools and models, and of the plans of action adapted to the expectations of the stakeholders, and follow-up. The execution of the plans of action normally lies with the departments, to which the corporate unit lends its support before and during the processes.
- Establishment of indicators, consolidation of the information related to the previous points, communication and comparison of said information with stakeholder feedback.

To this aim, the unit has direct collaborators in:

- The main business lines of Telefónica Group (Telefónica de España, Telefónica Internacional, Telefónica Móviles, Telefónica I+D, t-gestiona, Atento, Telefónica Soluciones...)
- The countries where it publishes Corporate Responsibility Reports (Argentina, Brazil, Chile, Spain and Peru)
- The management departments most directly related to issues of corporate responsibility (Institutional Relations, Human Resources, Auditing, Investor Relations, Shareholders' Office, Secretariat General, Fundación Telefónica, Innovation, Security, Communication, Sales Development, Environment, Quality, Finance...).

Corporate Responsibility management should answer to a process of continuous improvement, by virtue of which a prior diagnosis is made both of the risks related to corporate responsibility and the expectations of the stakeholders.

On this basis, the company establishes policies and actions for improvement that adapt to the specifics of each line of business and country.

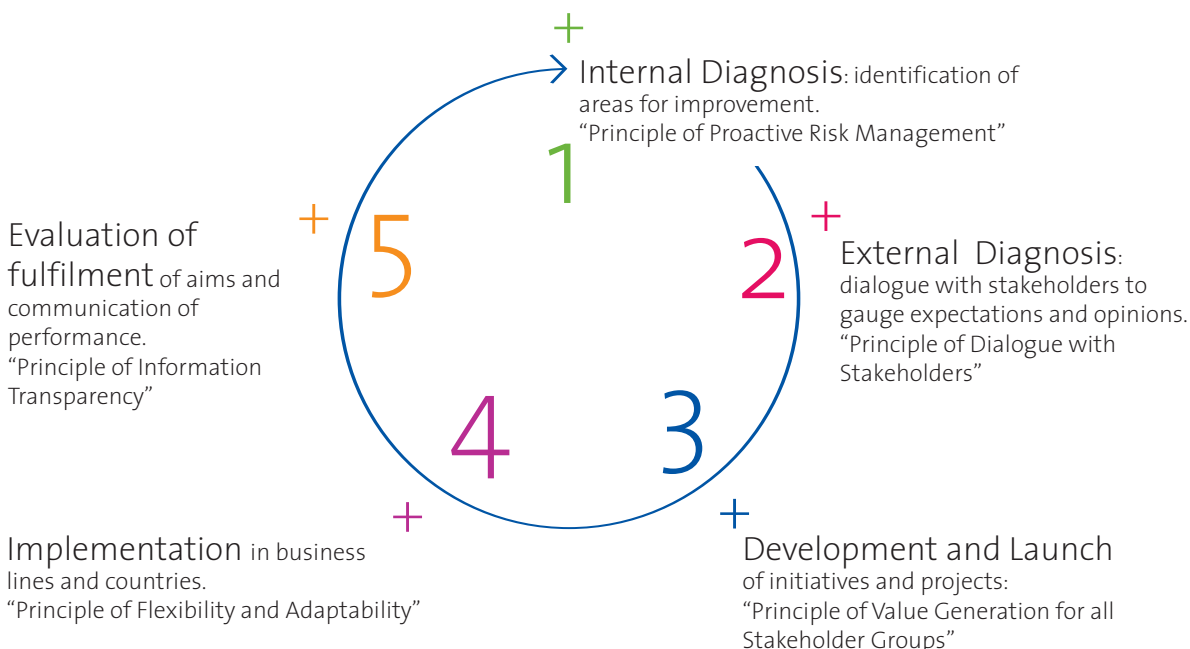
When evaluating the degree of fulfilment of aims and communicating it to the stakeholders, a new cycle is initiated in such a way that the entire process is repeated periodically over time.

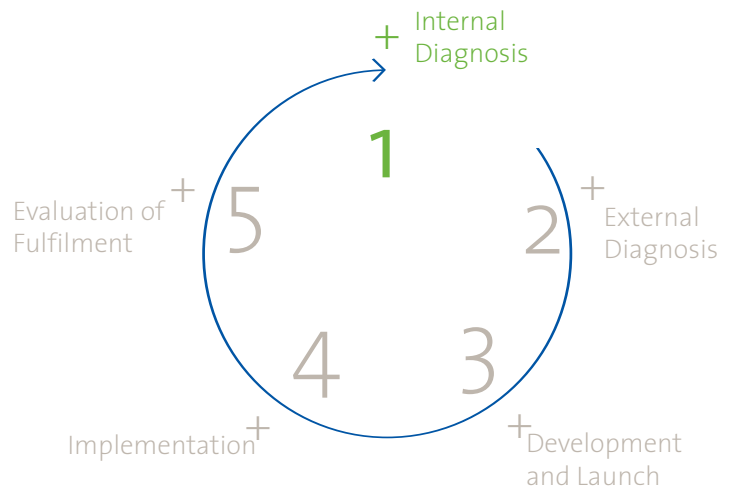
Management Model: The Corporate Responsibility Cycle in the Telefónica Group

The management of Corporate Responsibility at Telefónica is based on five principles structured in phases that, together, make up a management cycle geared to continuous improvement. This management model seeks a balance between the economic growth of the business and meeting the expectations of all its stakeholders.

For Telefónica, corporate responsibility management has the following characteristics:

- Multistakeholder Approach: as it takes into account the needs of all its stakeholders.
- Linked to the business: the main responsibility of a company is to “do well what it has to do”, that is, develop its business activity as well as possible.
- Responsibility for the impact of sustainable development: It is not about contributing resources to social causes (philanthropy), but about optimising the way in which operations are carried out, seeking lasting relationships with stakeholders.





Phase 1
Internal Diagnosis:
Identification of areas for improvement

“Principle of Proactive Risk Management”

Telefónica carries out systematic studies that allow it to identify the risks associated to corporate responsibility and corporate social responsibility. Periodically, it carries out:

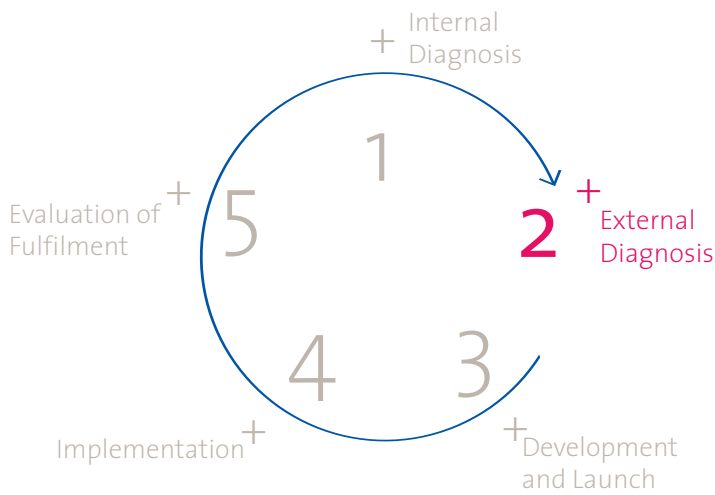
- **Analysis of Risks and Opportunities with regard to positioning** before all stakeholder groups, in the main countries with operation, To do this, an analysis is carried out of the situation of corporate responsibility in the country, paying special attention to customers, employees, society, suppliers and the environment.
 The aim of these analyses is to launch local corporate responsibility projects; as well to provide information for the regional programmes of positioning as a “committed and responsible leader”; and lastly, to act as a guide for the publication of the Country Corporate Responsibility Reports.
- **Corporate Risk Analysis: in a systematic manner**, the Auditing Department carries out an analysis of 50 corporate risks, in each of the companies of Telefónica Group; classified according to degree of importance and degree of control by the operations. Among the 50 different risks that make up the Corporate Map, there are aspects related to corporate responsibility, such as: customer satisfaction; possible failure to fulfil commitments; environmental risks;

work health and safety; corporate image and reputation; fraud; human resources; political and economic environment.

- **Specific Analysis of Reputational Risk Factors: in 2005**, Telefónica has carried out a new diagnosis of the ten main aspects that could compromise its corporate reputation. These aspects have been prioritised according to their impact on the reputation of the company and their potential impact on the financial results. This study has taken into account the opinion of stakeholders, comparative CSR studies by country and sector, analyses carried out by external analysts, investors and observers, trends of bodies that promote CSR, monitoring of the media and results of corporate reputation studies carried out in six countries.

Among the main potential risks identified are: lack of involvement in local development; health risks of infrastructures; failing to address stakeholders’ demands; failing to guarantee equal opportunities; relations between the company and its employees; potential abuse of dominating position; contents not desired by the customers, incoherence between actions and messages; lack of transparency; or bureaucracy in the relations with the stakeholders.

This type of analysis helps to identify adequate plans of action and common management policies that prevent these risks from materialising and allow the company to offer a homogeneous and responsible behaviour before its stakeholders.



Phase 2
External Diagnosis: contrast with stakeholders and gathering of expectations

“Principle of Dialogue with Stakeholders”

When it comes to defining projects within the framework of Corporate Responsibility, Telefónica seeks to know which are the interests and expectations of the stakeholders that interact with the Company. To this aim, before implementing the projects, Telefónica makes an active effort to listen and compare the expectations of its stakeholders through several methodologies: questionnaires, studies, surveys, focus groups... This way, the Company aims to achieve a double aim:

- That the customers, employees, citizens, shareholders, suppliers can influence the development of the business aims and projects undertaken by Telefónica, expressing their needs to the company, as well as their perception of management aspects of the Company that affect them directly.
- That the actions and projects put into practice by Telefónica are in line with the expectations of their stakeholders, are well guided, and generate value.

During 2005, a specific methodology for the dialogue with stakeholders has been established, geared towards achieving alliances and collaboration relations with stakeholders.

One of the main sources of information and knowledge for the implementation of a methodology of dialogue was its participation in the drafting of the “Good Practice Guide for Relations with Stakeholders”, developed by AccountAbility and Stakeholders Research Associated, with the collaboration of the United Nations Environment Programme. This is a tool for daily use by Corporate Social Responsibility professionals, both in companies and in civil society. In addition, the Guide was presented in Spanish, with the subtitle “De las palabras a la acción” (From words to action), adapted to the Spanish and Latin American context, with the collaboration of the Nóos Institute.

During 2005, Telefónica set up four pilot dialogue projects with different stakeholder groups. In addition, with the aim of extending this methodology to other areas of the company and of generating new dialogue processes, an internal workshop was organised, with 40 employees from different lines of business and management departments, in which the four processes mentioned above were presented, and attendants were shown how to apply these tools in practice.

In 2006, Telefónica will take this methodology to Latin America, through public presentations of the methodology, development of pilot dialogue processes and employee training.

Pilot Projects for Dialogue with Stakeholders

During 2005, Telefónica put into practice the methodology for dialogue with stakeholder groups through four pilot dialogue projects. These processes were geared towards listening and understanding the needs of the following four groups:

CASE STUDY

Former Telefónica de España Employees

This is a collective made up of almost 50,000 people and integrated mainly by people in retirement or early retirement.

The dialogue process was channelled through the two majority trade unions (UGT and CCOO) and the Association for Telefónica's Elderly. In-depth interviews and focus groups were carried out in order to find out their expectations with regard to the Company upon conclusion of their employment relationship with Telefónica.

A plan of action was designed involving setting up an online platform, mainly regarding: access to information related to the Company; access to commercial offers similar to those offered to current employees; social activities, the programme Voluntarios Telefónica (Telefónica Volunteers); tracing old colleagues; etc.

The dialogue process was carried out in collaboration with the Human Resources Department.

Plan of Action 2006 : Club Telefónica Senior as a goal for 2006.



Public Administrations as Customers

In this case it is an internal dialogue process, aimed at understanding the needs of the Public Administration as a customer.

A qualitative and quantitative analysis was carried out, and the internal information on customer satisfaction was analysed.

The proposed plan of action was especially focused on strengthening information and communication for Regional Managers, and on a plan of public presence of the Company.

The dialogue process was carried out in collaboration with the Corporate Relations Department.

Plan of action 2006: Company profiles by autonomous community



Associations and Opinion Leaders

A group of professional associations, federations, professional colleges and societies that make up a very specific type of customer.

In-depth interviews were carried out, as well as sessions with the directors of some of the associations and a study of satisfaction surveys.

The proposed plan of action focused mainly on information related to Telefónica Group's Social Responsibility, which can be of use to some groups of SMEs that show concern and interest in the subject but that often have no work methodology at their disposal.

The dialogue process was carried out in collaboration with the Department of Associations and Opinion Leaders.

Plan of action 2006: training initiatives in corporate responsibility for SMES.



Non-profit Organisations that act as observers of companies with regard to corporate responsibility

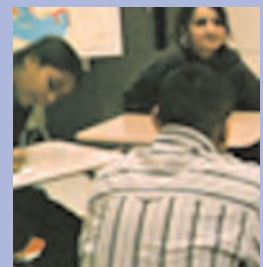
This is a group of civil society bodies that carry out report on and watch companies and their behaviour. One of the main lines of action is the study of information transparency with regard to corporate social responsibility.

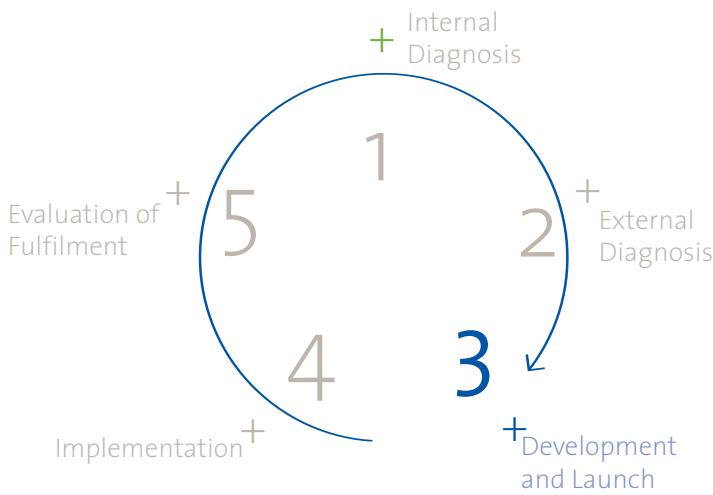
Several in-depth interviews were carried out, plus a specific session for joint analysis of the Corporate Responsibility Report 2004.

The proposed plan of action was to systematise the comparison of information in a format of dialogue panels.

The dialogue process was carried out from the Department of Corporate Responsibility.

Plan of action 2006: Dialogue panels with stakeholders on CR Reports





Phase 3 Development and launch of initiatives and projects

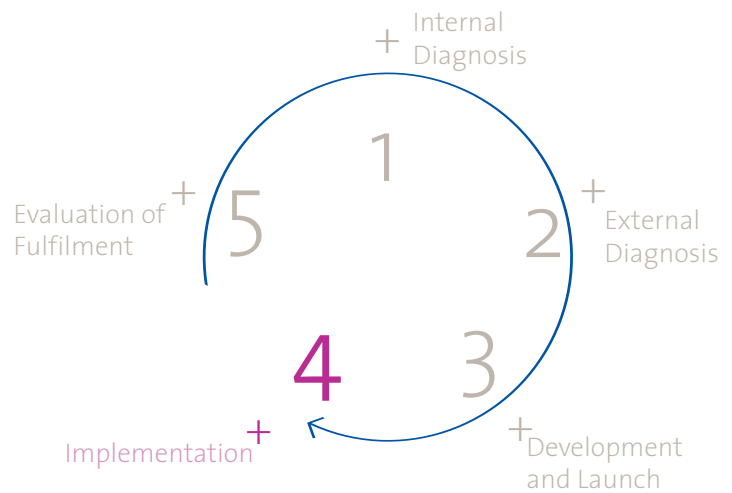
“Principle of Value Generation for all Stakeholders”

After analysing the risks, comparing the opinion of the stakeholders and identifying the aims and goals, the plans of action that make up the social responsibility strategy are defined and launched; these projects should be aligned with the strategic aim of being a committed and responsible leader, and are developed in collaboration with different departments or managers

At the same time, projects related to improved customer attention, professional development of Telefónica employees, innovation and excellence are promoted from their respective strategic transformation axes. Within the framework of corporate responsibility, in 2005, progress has been made on the coordination of teams that manage projects oriented to society in general, customers, suppliers and the environment.

- **Telefónica Accesible:** Telefónica’s answer to people with disabilities. It is an integral plan to support equal opportunities and full social integration of people with disabilities. All the lines of business and management areas of the Telefónica Group participate in Telefónica Accesible.

- **Digital Inclusion:** elimination of geographic, economic and educational barriers in order to take telecommunications services to everyone. Telefónica’s vision is to contribute through technology to an improved and higher social inclusion of people. Telefónica believes that this can be its best contribution to the achievement of the United Nations “Millennium Development Goals”.
- **Responsibility at the service of the customer:** including aspects such as adult content management or the establishment of policies regarding the acceptable use of Internet services.
- **Minimum Environmental Requirements** for the Telefónica Group, applicable in all lines of business and countries.
- **Responsible Purchasing:** establishment of CSR requirements for Telefónica suppliers, in collaboration with the Purchasing Department.
- **Supplier Satisfaction:** first supplier satisfaction survey of Telefónica Group.
- **Analysis of the Impact of Telecommunications on Sustainable Development.**
- **Positioning of Telefónica as a driving force** behind economic, technological and social development of the countries and regions where it operates.



Phase 4 Implementation in lines of business and countries

“Principle of Flexibility and Adaptability”

Telefónica carries out its activities in two continents (Europe and Latin America). The degrees of development of environmental, employment or product and service development regulations are very different in the two regions. Telefónica avoids the adoption of double standards in both regions by means of adopting Group corporate policies.

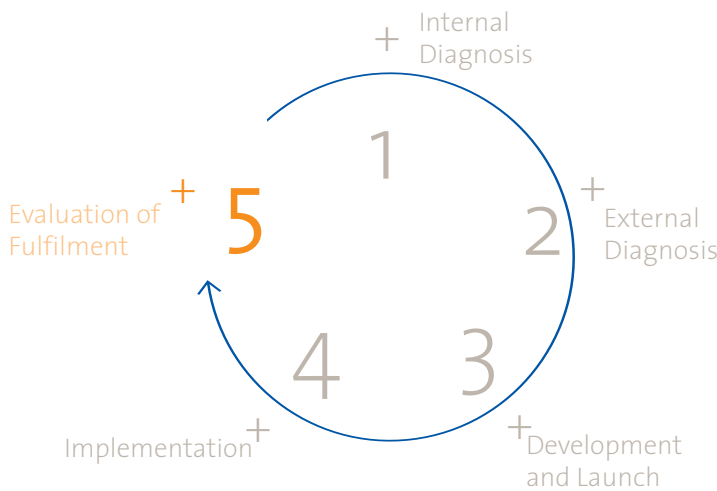
The corporate responsibility policies are presented, from their concept, as Group policies. The aim in this sense is to achieve a better cohesion and a stronger internal Group culture. However, the principle of flexibility and adaptability, seeks to respect the social, political and economic environment in each country where the Telefónica Group operates, as well as the specific nature of each business unit.

Flexibility and adaptability is also reflected in the order of priorities when it comes to implementing one or other plan of action, which can sometimes be altered by the social needs of a country, the risk maps of a line of business or the demands of stakeholders in each country.

In order to guarantee this principle, the internal regulations and policies have a period of time for their implementation by the lines of business. It is not about suddenly changing the way of carrying out activities, but rather of taking advantage of their redesigns and plans to gradually and softly introduce the principles and criteria established by the corporate responsibility policies in the business processes.

Follow-up of the degree of implementation of the different actions is a key element when it comes to ensuring compliance, thereby establishing a process of continuous improvement. To this aim, from 2006, actions will be carried out in collaboration with the Internal Auditing Department and with External Auditors, geared towards verifying the degree of compliance with the established goals. This will allow the Group to define the corresponding actions for improvement, as well as provide strategic follow-up indicators for Telefónica.

Among the policies to be implemented, is the approval of the Code of Ethics in the operations of Telefónica Group. In July 2005 the Board of Directors of Telefónica S.A. approved the extension of the Grupo Telefónica Móviles Code of Ethics to all companies of the Group. During 2006, one of the key goals is to consolidate the implementation of this Code of Ethics.



Phase 5 Evaluation of fulfilment of goals and communication of performance

“Principle of Information Transparency”

The annual report is undoubtedly the best presentation of the different Corporate Responsibility actions carried out by Telefónica and brings to light all the value of the company for its stakeholders. It is one of the most important communication channels with stakeholders and, therefore, should reflect their needs and expectations and the way in which the company is answering them. For this reason, the different lines of business and countries where Telefónica operates publish specific CSR reports, oriented to their respective stakeholder groups.

The chapter “About the 2005 Corporate Responsibility Report” explains the way in which Telefónica responds to its commitment of continuous improvement, sounds out the opinion of the stakeholders and the degree of acceptance of the Report; and presents and answers the suggestions, comments and even clarifications on the information included therein.

From an internal point of view, the reports are a tool for knowledge management, and for improvement of company performance in CSR, as they help to follow-up on the established goals, communicate achievements and management goals for future financial years. In addition, the verification of the reports gives credibility,

rigour and transparency, becoming a key tool for the detection of deficiencies in the management systems and policies, which will be improved in subsequent years.

From an external point of view, the best and most widespread use lies in making available to stakeholders information that they tend to demand from the Company: aspects related to human resources indicators, health risks of the antennae, handling of personal details, environmental impact, innovation, etc... It is on the basis of this information that the demands of socially responsible investors are answered. Lastly, the CR Reports are useful in the debate and dialogue with the stakeholder groups about the issues that most concern them.

Since December 2002, Telefónica has a section on its website devoted to corporate responsibility, which follows the same structure as the annual report, but allows updating of the information.

The corporate responsibility management model of Telefónica has generated a great number of queries and requests for information. It is the policy of the Department to answer, whenever possible, all the requests for information, queries or interviews. These are mainly related to: Socially Responsible Investment questionnaires, students, thesis and dissertation research, research projects, presentations at CSR forums and conferences

Corporate Responsibility Reports published by Telefónica

	1997	1998	1999	2000	2001	2002	2003	2004	2005
BY LINE OF BUSINESS									
Telefónica SA						●	●	●	●
Telefónica de España			●	●	●	●	●	●	●
Telefónica Móviles							●	●	●
Telefónica Móviles España			●	●	●	●	●	●	●
Telefónica I+D	●	●	●	●	●	●	●	●	●
TPI							●	●	●
BY COUNTRY									
Brazil								●	●
Argentina								●	●
Chile								●	●
Peru								●	●

● Environmental Report ● Sustainability Report ● CR: Corporate Responsibility Report

Note: The reports referring to 2005 may be in progress at the time of publication of this report

CASS STUDY

Telefónica’s Company Social Reports from the 80s.

Telefónica’s archives include the company social reports (“Balance Social”) from the 80s with a structure and content very similar to that of current best reporting practices. This model has been an inspiration for the Telefónica Reports in the 2000s, and twenty years later, the structure of the report based on stakeholder groups, is still used.

Contents

1. Employees
2. Customers
3. Shareholders
4. The Telecommunications Sector (suppliers, distributors, other operators...)
5. The Community
6. The Environment
7. Financial Statements



One of Telefónica's approaches to corporate responsibility is to actively participate in initiatives, forums, work groups and institutions that generate opinions regarding the activity of companies in this field.

With its participation in the debate on corporate responsibility, Telefónica seeks to meet various aims:

- To make public practices with other social interlocutors.
- To gain knowledge and learn about social responsibility methodology of other companies and organisations.
- To identify opportunities for collaboration.
- To generate points of convergence and dialogue with bodies representing the stakeholder groups.

Telefónica in the debate on Corporate Responsibility

United Nations (UN)

The company of Telefónica signed the Global Compact in March 2002, which has generated most of the lines of work in collaboration with the UN and other organisations within the UN. In 2005, the following collaborations are worthy of mention:

- Participation in the Non-Discrimination in Employment Work Group, within the framework of the Spanish Global Compact Association (ASEPAM).
- Presentation by Telefónica at the Learning Seminars of the Audit on Human Rights carried out at Telefónica (ASEPAM).
- 3rd Meeting of Local Networks, Barcelona, September 2005.
- Collaboration in the drafting of the Practical Handbook for Progress Reports.
- Participation in Seminar on Progress Reports, Geneva, June 2005.
- Conclusion and presentation of Manual de Compromiso con los Stakeholders (Handbook of Commitment to Stakeholders), linked to the UN Environment Programme and in collaboration with AccountAbility (London, October 2005);
- Conclusion and presentation of results of the Global Responsibility Initiative Project managed by the European Foundation for Management Development (EFMD). Launch of its second phase, with the aim of incorporating the business models of social responsibility and ethics in the

educational programme of academic bodies.

- Participation in the consulting process of businesses and human rights with the Special Representative named to this effect by the United Nations.

Global Reporting Initiative (GRI)

- Member of the GRI Stakeholder Council.
- Organizational Stakeholder since December, 2004.
- Participation in the organisation of the Sneak Peaks for the debate of the G3 drafts in Madrid, Barcelona, Sao Paulo, Rio de Janeiro, Santiago de Chile, Lima and Buenos Aires.

International Chamber of Commerce (ICC)

Telefónica takes part in the Social Responsibility and Anti-Corruption study groups since 2002. Follow-up of the activities of the International Standardization Organization (ISO), regarding international standardization of social responsibility.

Global e-Sustainability Initiative (GeSI)

An initiative that, promoted by the UNEP (United Nations Environment Programme) and the ITU (International Telecommunications Union), groups manufacturers and operators of the information technologies sector with the aim of promoting sustainable development.



Some of the lines of work for 2005 were:

- The development of standards and tools for collaboration in issues related to the supply chain.
- Development of dialogue panels with stakeholders regarding sustainability reporting in the ICT sector.

European Telecommunication Network Operators (ETNO)

ETNO groups telecommunications operators in Europe. Telefónica is present since 2002 in its Environment, Health and Safety groups.

In 2005 Telefónica:

- Collaborated in drafting the Regional Environmental Report 2005
- Participated in the work team on energy and optimisation of consumption.
- Collaborated in a report with WWF regarding the contribution of ICTs to sustainable development.

Hispanic-American Association of Research Centers & Telecommunication Companies (AHCIET)

Telefónica collaborates with AHCIET in the promotion of good practices in corporate responsibility issues in the Latin American telecommunications sector. In 2005 the department of Corporate Social Responsibility takes up the Presidency of the Commission of the Information Society.

Spanish Confederation of Business Organisations (CEOE)

Telefónica is a member of the CEOE's Commission for Social Responsibility. In 2005, the most significant collaborations were:

- The participation and monitoring of the activities of the Spanish Association for

Standardisation and Certification (AENOR) and the International Standardization Organization (ISO) with regard to social responsibility issues.

- Under the coordination of the CEOE, Telefónica takes an active part in the creation of a collaboration project between the ILO and the Spanish Government, which seeks to promote employment for the young in Latin America.

International Organisation of Employers (IOE)

Telefónica is a member of the IOE's CSR Work Group. In 2005, the following collaborations were carried out:

- International Symposium for Employers' Organisations– The Evolving Corporate Social Responsibility Debate: Issues for Employers and their Organisations. Geneva, October. 2005.
- Consulting Process of companies with John Ruggie, Special Representative of the United Nations Secretary General for Business and Human Rights. Geneva, September 2005.
- Special Session of the Council: How companies and employer organisations see their role in society. Geneva, June 2005.
- Seminar on Management of Corporate Social Responsibility for members of the IOE, Telefónica Headquarters, September 2005.

Spanish Association of Accounting and Business Administration (AECA)

Telefónica takes part in its Study Commission of Corporate Social Responsibility.

CASE STUDY

Other participations in initiatives in Latin America:

Argentina

Argentine Institute of Corporate Social Responsibility (IARSE)

Brazil

Instituto ETHOS de Empresas e Responsabilidade Social
 Fundação ABRINQ para os Direitos da Criança
 GIFE– Grupo de Institutos, Fundações e Empresas
 Instituto Akatu pelo Consumo Consciente
 CEATS- Centro de Empreendedorismo e Administração do Terceiro Setor da Fundação Instituto de Administração da Universidade de São Paulo (FIA-USP)

Colombia

Colombian Business Council for Sustainable Development (CECODES), Colombian chapter of WBCSD
 Colombian Centre for Corporate Responsibility (CRE)

Guatemala

CentraRSE; representative of WBCSD in Guatemala

Mexico

Mexican Centre for Philanthropy (CEMEFI), whose Decalogue for Socially Responsible Companies was signed by Telefónica Móviles México, obtaining the distinction "Socially Responsible Company".

Nicaragua

Nicaraguan Union of Corporate Social Responsibility (UniRSE)

Panama

IntegraRSE
 Corporate Ethics Agreement of Panama

Peru

Peru 2021

Awards and Recognition for Telefónica's Corporate Responsibility



Responsible Investment

Telefónica was included in the European and worldwide Dow Jones Sustainability Index (DJSI), which lists companies that lead their sector in terms of sustainability. Telefónica also ratified its presence in the FTSE4good index. The presence of Telefónica in those indices is recognition to its conviction that corporate responsibility should be regarded as a basic axis in a telecommunications operator's business strategy.



Telefónica Móviles was included in the FTSE4good index and the SAM evaluation passed the minimum criteria for being included in the DJSI. However, the company was not included in the indices due to its low free-float.

Lastly, it is of interest to note that O2, a company acquired in 2006 by Telefónica, was awarded the distinction "Best in class" for the mobile telephony sector.

Corporate Responsibility Reports

European Environment Award in the category of Communication for Sustainable Development: Awarded by the "Fundación Entorno", in collaboration with the Spanish Ministry of Industry and the Ministry of Environmental Affairs, it prizes companies that show a firm commitment to sustainable development. The prize was handed out by the Prince and Princess of Asturias.

Telefónica leads the social responsibility study in the annual reports of the Ibex 35 companies, carried out by the CSR Observatory. However, the qualification obtained by Telefónica (1.90 in a scale of 4 points) shows the company must continue in its efforts to improve its information transparency in the future.

Telefónica's website provides the best quality information. Telefónica's website has obtained the most points, according to the report "Social action in websites of large companies and savings banks" drafted by Empresa y Sociedad on the basis of a comparative analysis of 65 large companies and 10 savings banks. In the comparative analysis, Telefónica obtained 746 points, significantly above the second and third in the classification, with 495 and 465 points respectively. The analysis has six sections: general framework, products and services, human capital, employment, financing and advanced resources.

Recognition for corporate responsibility projects in Spain

Empresa y Sociedad Award to the Best International Social Action: During the awards ceremony, presided by the Prince and Princess of Asturias, the jury pointed out that Telefónica's social action gives priority to education as a social integration tool, in projects in Latin America, Morocco and Spain.

Telefónica, the best performer in terms of social action, according to experts who took part in a survey carried out by the Empresa y Sociedad Foundation. The survey included 275 experts from companies, savings banks, social organisations, universities, business schools, public administrations and media. Telefónica maintains its position as leader as in 2004 and is once again the only body present in the first ten positions in the four types of programmes (products and services, in collaboration with employees, employment, sponsorship and financing).

PRnoticias users choose Telefónica as the company with the best CSR project.

The theme portal on spinal cord injury of the National Paraplegics Hospital, www.infomedula.org, sponsored by Fundación Telefónica, has been awarded the "Infanta Cristina Comunicación 2004" IMSERSO Prize "for its accessible design and ambitious structure that makes it possible to develop and provide services to its users", according to the jury.

The Spanish Committee of Representatives of People with Disabilities (CERMI) has awarded the Special Award CERMI.es 2004 to the publication "Solidaridad Latinoamericana" (Latin American Solidarity) of Fundación Telefónica's International Solidarity Network.

Recognition for Corporate Responsibility projects in Latin America

Telefónica de Argentina was awarded the award to most significant social work 2005, awarded annually by the Spanish Chamber of Commerce of the Republic of Argentina for its corporate social responsibility activities. In the choice of the jury, attention was drawn to the work and commitment toward society, through educational projects and especially the Corporate Volunteer programme, which groups over seven hundred members of the Group's companies.

In Peru, Aulas Hospitalarias, received three awards, in recognition to the uniqueness of the project in terms of corporate responsibility (Creatividad Empresarial, Perú 2021 and Premio Anda).

In Chile, the Government recognises the commitment of Fundación Telefónica to people with disabilities. On the occasion of the launch of the publication "Discapacidad en Chile, pasos hacia un modelo integral del funcionamiento humano" (Disability in Chile, steps toward a global model of human performance) of the National Fund for Disabilities (Fonadis).

Fundación Codespa Award to Corporate Solidarity, for educational projects developed in Latin America by Telefónica and Fundación Telefónica.

The Proniño programme carried out by Telefónica Móviles and Fundación Telefónica received many recognitions and awards in Argentina, Guatemala and Ecuador.

Milestones and Challenges in Corporate Responsibility

Corporate Responsibility

Code of Ethics

Corporate Reputation

Brand

Inclusion of the aim to be a “committed and responsible leader” in Telefónica’s Strategic Map	Coordinate the CR strategy with O2
Publication of Reports on Country Corporate Responsibility (Argentina, Brazil, Chile, Peru)	Auditing of CR Report in accordance with norm AA1000/AS in the countries
Pilot projects for dialogue with stakeholders in Spain	Pilot projects for dialogue with stakeholders LATAM 2006
Studies regarding the impact of telecommunications on sustainable development	
Approval of Code of Ethics for the Telefónica Group	Implementation of the Code of Ethics in Telefónica Group
Implementation of the Code of Ethics in Telefónica Móviles	Alignment with O2’s Business Principles
Start up of RepTrack as a measurement tool	Improve perception of Telefónica in the weakest dimensions by 5% in Latin American countries
Identification of reputational risk factors	Implementation of Corporate Model of reputation risk management
Establishment of the Telefónica Brand Model	Alignment of Telefónica and O2 Brand Models
Global launch of movistar, brand of Mobile Telephony	Launch of a commercial brand for the digital home

Customers

Consistent customer satisfaction measurement systems for TdE, TISA and Telefónica Móviles España	Establishment of consistent customer satisfaction measurement systems for Telefónica Móviles LATAM
Projects for the improvement of assistance by solving the customer’s problem in the first contact	Customer Defence Service in Spain
Advances in ISO 9001 certification	Advances in ISO 9001 certification
Policy of Acceptable Use of Internet Service	Implement Policy of Acceptable Use of Internet Service
Adult Content Management Regulations	Implement Adult Content Management Regulations
Customer handbook explaining the basics of mobile telephony	Customer Handbook explaining the basics of mobile telephony for LATAM 2006 customers
	Regulations for Management of Games as contents

Milestone	Challenge 2006
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Employees

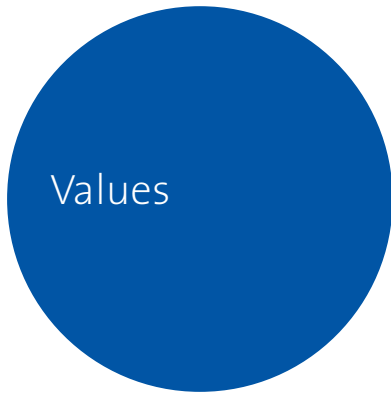
Increase employee satisfaction by over 5%	Increase employee satisfaction by over 5%
Worldwide publication of vacancies in Intranet in order to encourage professional development and internal rotation	Personalised development plan for all employees
Regulation for control of occupational risks in the contracting of works and services (as a preventive measure following the 2004 audit)	3rd and last phase of the labour audit of the Telefónica Group
	Homogenisation of management procedures for Health and Safety in the Group
Over 75% of employees evaluated by competencies	Development of model of Corporate University
	Homogenisation of the social benefits for the Group's Management
	New ways of working: dynamic office, mobile work; Policy for the Reconciliation between private and professional life.
	Corporate Policy for the Integration of People with Disabilities in accordance with the LISMI Law (Law for the Social Integration of People with Disabilities)
Launch of Internal Communication Plan Spain 2005	Launch of Internal Communication Plan LATAM 2006

Society

Environment

Suppliers

Strategic review of the working areas of Fundación Telefónica (educared, proniño, forum, volunteers)	Promotion of the Corporate Volunteer Projects
Telefónica Accesible Project (Spain 2005)	Telefónica Accesible Project (2 countries in LATAM in 2006)
	Promotion of "Digital Inclusion" Project in LATAM
Implementation of Norm "Minimum Environmental Requirements"	Implementation of the Norm "Minimum Environmental Requirements". A step in each company
	Improvement of waste management systems in LATAM
Programmes of paper consumption efficiency	Internal Regulations for environmental management and control
	Creation of Environment Committees per country
	Publication of an Environmental Policy for Telefónica Group
Supplier satisfaction survey	Responsible purchasing policy of the Telefónica Group
Increase of online contracting	Purchasing policy for social suppliers
Participation in the Supply Chain Group of the GeSI	Participation in the Supply Chain Group of the GeSI



Telefónica's goal is for its customers, employees, suppliers, shareholders and companies in the countries where it operates to place their trust in its ability to fulfil the commitments it makes.

Telefónica's values are the basis on which to build a committed and responsible company.

Telefónica knows that trust cannot simply be expected, but is rather earned on a daily basis, by making the right commitments and fulfilling them, demonstrating that it is capable of delivering the goals it sets itself. Telefónica seeks to achieve this through an attitude of understanding toward the needs of its stakeholders; through constantly improving everything it does; accepting the responsibilities that come with leadership, and through being committed to behaving with transparency, integrity and ethics. That is our aim. These are our values:

Customers

Quality: Telefónica's products and services (aptitude) and its relationship with customers (attitude) fulfil and, whenever possible, exceed customers' expectations in terms of experience and performance.

Fulfilment: we commit to fulfilling the aims we set ourselves and the promises we make to our customers.

Shareholders and investors

Transparency: Telefónica makes readily accessible to shareholders and investors all the information regarding the company which is of relevance to their interests.

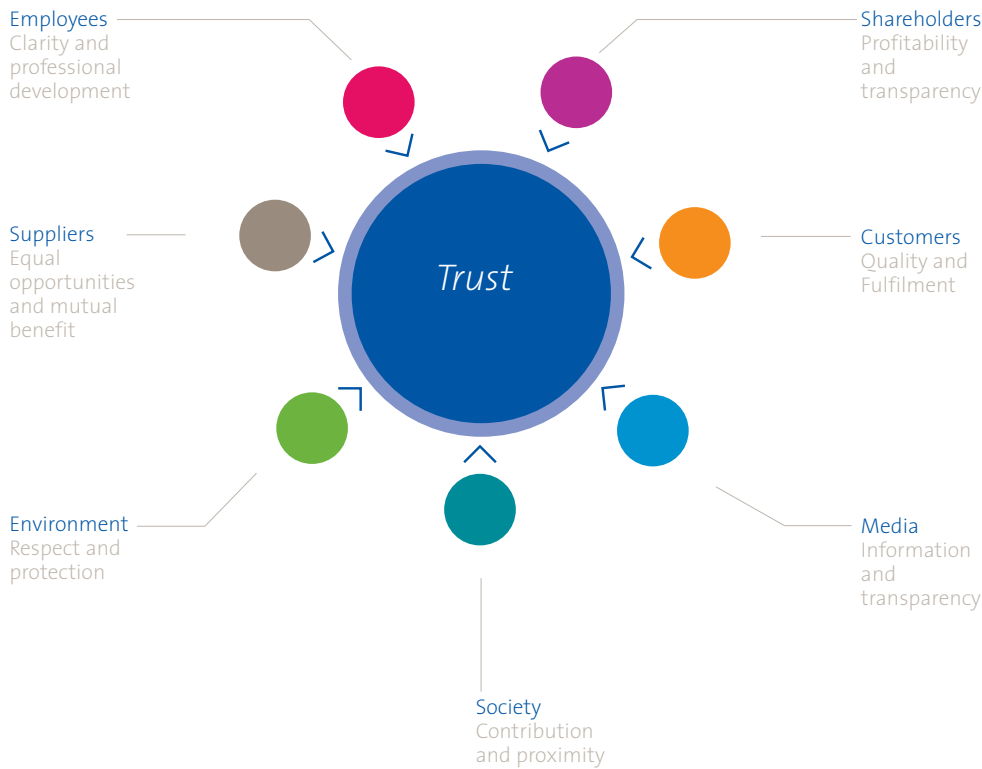
Profitability: Telefónica has a solid and future-oriented model that can generate profit in a sustained manner.

Employees

Clarity: Telefónica makes accessible to its employees any relevant information, both related to the evolution of the business and to aspects affecting them more directly.

Professional development: Telefónica provides its employees with opportunities to make progress in their professional career, and makes every effort for them to be able to fully develop their potential, in accordance with their interests as well as those of the company.

The values of the Telefonica Group



Society

Contribution: Telefónica has developed a relationship based on trust both by generating richness through developing the business and directly, by investing in social commitment.

Proximity: Telefónica is a global and multi-domestic company; it is multi-country and multi-business, and is understanding and aware of the needs and specific characteristics of the societies in which it operates.

Environment

Respect: Telefónica is committed to respecting the environment in all the activities it carries out.

Protection: the company collaborates in the protection of the environment through the extension to all members of society of services that are beneficial for the environment.

Suppliers

Equal opportunities: Telefónica guarantees a transparent and equal selection process for suppliers, based on objective grounds.

Mutual benefit: Telefónica has defined a constant improvement process in the supply chain and carries out a large volume of local purchases which translate into mutual profit for Telefónica, suppliers and the societies in which it operates.

Media

Information: Telefónica is aware of society's interest in the activities it carries out, and commits to providing information on these activities.

Transparency: Telefónica proactively provides the media with full, exact and true information regarding the aspects which are relevant at any given time.



Ethical Principles

Our Behaviour

Anti-corruption

Ethical Principles

Towards our shareholders

To keep, protect and efficiently use the company's assets and to develop a professional management geared to ensuring the creation of value for our shareholders.

Provide full, true, precise and clear information, guaranteeing that the investors' interests are satisfied and that the requirements of the market authorities in which the group or any of companies is listed are complied with.

Towards our customers

Make available to our customers quality products and services that are innovative, safe, and meet with the advertised description.

Respect the privacy of communications and protect our customers' data against any use which is not authorised by the law in force.

To not carry out illegal or misleading promotions or advertising in the marketing of our products and services.

Towards our employees

Establish work conditions that guarantee safety and protect the health of employees, in an environment free from any kind of threat or abuse.

Provide fair remuneration to our employees.

Guarantee equal opportunities and encourage the integral development of employees, both on a professional level and on a personal level.

Towards society

To contribute to the social and economic development of the countries in which the company operates.

To act in accordance with applicable national and international laws and regulations. Under no circumstance, resort to or tolerate bribes of third parties to the Company or its employees, or vice versa.

To respect the regulations that guarantee the free market, to compete legally in every market and to not sign agreements with other companies in order to reduce competition.

To respect human rights and public freedoms recognised in the Universal Declaration of Human Rights, to not exercise any form of discrimination and to not tolerate underage working or any type of work abuse, making this commitment apply to all our suppliers and collaborating companies.

To identify the environmental issues related to the development of the activity of the Company, with the aim of reducing their impact as much as possible.

To promote the development of services that encourage social inclusion and make it possible for people with disability to have an improved quality of life.

To guarantee the safety of our installations and minimise their impact on their surroundings, within the technological limitations and safeguarding the needs of the service. To favour the integration of local suppliers in our activities, providing all of them with equal opportunities.

In July, 2005 the Board of Directors of Telefónica S.A. approved a Code of Ethics that must be observed by the employees of the Telefónica Group in their daily activities.

Telefónica Móviles already had a Code of Ethics, on the same terms as that of the Code approved for the Group.

During 2006 one of the key aims of the Group is to consolidate the implementation of this code across the entire Telefónica Group, as well as to align O2's "Business Principles" and Telefónica's Code of Ethics.

Our Behaviour

Obligations of employees

Comply with regulations in force, and respect the internal policy and regulations of their companies.

Act with integrity towards customers, always providing clear and truthful information.

Act with integrity, not taking advantage of the position or contacts obtained as a result of the company's activities, for personal benefit.

Use the company's facilities, equipment or services exclusively for the functions which they have been assigned with.

Respect colleagues and safeguard the harmony in the work environment.

Reject and not offer bribes, including gifts which, due to their value, could result in subsequent obligations.

Safeguard the company's physical and intellectual property.

Protect and avoid the dissemination of information under their responsibility. All the strategic information of the Telefónica Group as well as any data regarding stakeholders must be considered confidential and therefore treated as such.

Use only IT equipment assigned for carrying out their functions. It is forbidden to transmit pornographic images, generate or transmit viruses, illegally copy software or distribute emails with political or commercial aims.

Inform the company of any conflict of interest derived from other professional activities or economic or family ties with competitors and suppliers.

Show respect for the workplace by dressing appropriately and not being under the influence of alcohol or drugs.

Obligations of the company

Respect its employees. Act unequivocally against any form of discrimination, be it for reasons of gender, race, age, nationality, disability, ideology or religion.

Help employees who have family or social problems. Provide help for employees with relatives under their care with disabilities or serious illnesses, as well as those with problems with alcohol or drug addiction.

Safeguard confidential information of the employees.

Establish fair and objective mechanisms of salary remuneration.

Ensure that the internal contracting and promotion policies are founded upon the criteria of professional skills and abilities.

Offer training and make available to employees the necessary tools to carry out their work.

Comply with all regulations in force regarding health and safety at work. The company will have a programme for preventive management of occupational risks as a general policy.

Respect freedom of association.

Respect the right to participate in any non-professional activity.

Establish the mechanisms for monitoring and control of the Code of Ethics. The Office of the Code of Ethics has been created for this purpose.

Anti-corruption

Telefónica has expressed institutionally, in its Code of Ethics approved by the Board of Directors, communicated to its employees and published for the knowledge of its different stakeholder groups, its firm commitment to “act in accordance with applicable national and international laws and regulations and, under no circumstance, resort to or tolerate bribes of third parties to the Company or its employees, or vice versa. Likewise, the Code includes the obligation of its employees to “reject and not offer bribes, including gifts which, due to their value, could result in subsequent obligations”.

Likewise, in the same text it restates the validity and commitment to the UN Global Compact, signed by Telefónica in March 2002 and which, in its Principle 10, indicates that “companies should work against corruption in all its forms, including extortion and bribery”.

From an organisational point of view, Telefónica is implementing the Office of the Code of Ethics for the study of queries, complaints or reports, dissemination and evaluation of compliance with the Code of Ethics; a subdirector general of Corporate Reputation and a Corporate Inspection Unit which acts for the preventively and reactively, verifying specific acts and situations.

The Group also has reporting channels that guarantee the confidentiality of the reporter and has established rules for his/her protection. In addition, the Group’s internal regulations establishes controls for the processes that link decision-making and fund releasing that provide reasonable certainty that no manager or employee may, unilaterally, make undue payments or, should payments of this sort be made, that they will be detected in time.

Among these controls are the following:

- Restrictions to decision-making capacities of line managers who have power of attorney, access profiles to the computer systems and the signature structure, especially those that are sent to banks for verification purposes.
- Control of the existence of prior and sufficient budget assignment for the purchase of any goods or services.
- Separation of functions between the person who makes the decision and orders the purchase of good and services and the person who assigns the purchase.
- Intervention units that verify financial transactions and, for payment of invoices, ensure that the details correspond with the previously agreed terms.
- Separation of functions of Treasury and Intervention and double signature for payment documents (the control signature verifies amount, currency and recipient).

CASE STUDY

Implementation of the Code of Ethics in Telefónica Móviles

Telefónica Móviles was Telefónica Group's first company to approve its Code of Ethics. 2005 was the first anniversary of the creation of its Ethics Committees. Including both the activities of the operators' Corporate Committee and Ethics Committees, the total number of cases dealt with during 2005 was 306.

Although the classification of the cases can sometimes be subjective, the cases related to behaviour, regarding the attitude of bosses or relationships between colleagues, favouritism and harassment were the most common issues dealt with by the Committees, representing 44.5% of the total.

Work related issues such as the review of sanctioning processes, selection processes and work conditions in general represented 24.7% and were the second most common category. In terms of work sanctions derived from these issues, it should be noted that the Committees have supervised the reasons for 12 layoffs, ensuring complete transparency in decisions related to these cases.

It is important to note that the communication related to these two types of issues, treatment of employees and work issues, have referred to situations caused by personal behaviour and specific situations. There have been no corporate policies or procedures that have been deemed to be in breach of the Code of Ethics. Conflicts of interest account for 19.24% of the issues dealt with. It is important to note that 89.2% of the issues were queries made by workers who were informing the company of a family link with suppliers or other companies that carried out activities for our companies. Only in one case was it necessary to negotiate severance due to conflict of interests.

This kind of issue has also been essential for unifying criteria regarding conflicts of interests arising from accepting gifts or attention, or hiring relatives.

The issues related to compliance, including possible irregular contract awards, incorrect sale assignment and undue handling of goods, accounted for 6% of the cases, which is proof of the contribution of the Channel of Ethics in detecting possible fraud or infractions regarding procedures. In these cases, the Ethics Committees informed the auditing departments, who were then put in charge of the relevant investigations.

In addition, five issues resulted in the review of the company's internal processes. In no case did any of the communications point to an infringement of the Code of Ethics, but rather to the existence of badly defined processes which were causing conflict and uncomfortable situations. This kind of issue has also proven that the activity of the Committees, together with the cooperation of employees, can also contribute to an improved management of the company.

To summarise, last year served to strengthen the mechanism which Telefónica Móviles put into practice to make explicit its commitment to company responsibility, creating a line of communication for employees with the company, at the highest level, which is proving to be useful, not only for channelling claims, but also as a discussion forum where employees can express their views regarding the organisation and the procedures established, in order to find the best way of complying with all the commitments established. The challenge for FY 2006 is to put into action this methodology across the Telefónica Group.

It should be noted that there are no conclusions in the Inspection reports prepared by the Group that suggests the existence of payments to political parties, bribes or payments to people or companies that could act as intermediaries to provide funds to political parties or candidates.

Telefónica, together with other companies and bodies, has informed the examining members of the OECD, at the request of the Spanish Ministry of Industry, of the means at its disposal for compliance with the Convention signed by our country for Combating Bribery of Foreign Public Officials in International Business Transactions.

Specifically, our company informed the OECD of the regulatory frameworks in place at the Telefónica Group (Code of Ethics, Company By-Laws, Internal Regulations, Auditing Committees, Internal Controls, specialised units, etc. and explained how any act of this type was contrary to these regulatory frameworks and thus not permissible and sanctionable





Telefónica considers corporate reputation, understood as the perception of a company by its stakeholders, is a key asset to guarantee the sustainability of its business.

CASE STUDY

MERCO: Spanish Monitor for Corporate Reputation 2005

In accordance with the results of the last edition of the Spanish Monitor for Corporate Reputation, presented in the first quarter of 2006, Telefónica occupies the second position among the 100 most reputable companies in Spain. With regard to the company leaders, the Chairman of Telefónica, César Alierta is in the fourth position in the list of the 100 most reputable Spanish leaders.

Corporate Reputation Model

In December 2001, Telefónica put into action the project of Corporate Reputation for the Telefónica Group, and from the beginning, it was established that in order to guarantee good reputation, it is necessary for companies to have a balance between the way they behave (what they do) and their messages (what they communicate). Telefónica was the first Spanish company to have a Board of Directors Committee in charge of supervising the management of reputation at Telefónica.

In order to have a good reputation, it is necessary (though not sufficient) to develop business activities in a responsible manner. This is why, at Telefónica, reputation and corporate responsibility issues are managed from the same department: the Directorate General of Corporate Communication.

The corporate reputation management model shares the same five stages described in the chapter on corporate responsibility:

- Internal Diagnosis and identification of areas for improvement
- External Diagnosis: dialogue with stakeholders to gauge expectations and opinions.
- Development and Launch of initiatives and projects
- Implementation in business lines and countries
- Evaluation of Fulfilment of aims and communication of performance

Monitoring Indicator

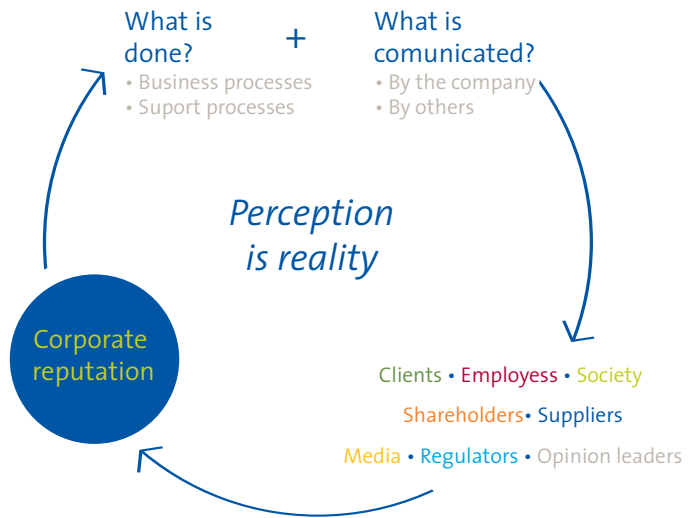
The main difficulty in applying these steps lies in the follow-up of corporate reputation that companies have in society. For this reason, Telefónica has taken part in the project of the Corporate Reputation Forum and the Reputation Institute, geared towards establishing a Corporate Reputation Model which can be monitored periodically.

The result of this is RepTrack, an indicator with 7 dimensions and 21 attributes, used to ask survey respondents about each of the companies included in the study. The main advantage brought by RepTrack is that it is capable of isolating the quality of a company's reputation, therefore achieving a better measurement of society's qualitative perception of a company.

The model shows that the "offer" dimension is the most significant for the perception of corporate reputation in every country. The dimensions of Leadership, Work and Citizenship have equal significance; followed by the dimensions of Governance and Innovation. The financial dimension of companies is that with the least importance regarding corporate reputation in society.

Since June 2005, the Telefónica Group has monitored its reputation, with quarterly surveys in Spain, Argentina, Brazil, Chile, Mexico and Peru. In each of these countries, over 3,300 people have been surveyed (the figure rises to 4,800 in Spain and Argentina). Some of the different attributes measured with RepTrack are used by managers in different company activities.

Corporate Reputation Management Model



Alliances

Despite Telefónica having a good reputation among professionals and country managers (2nd position in the Spanish Monitor of Corporate Reputation – MERCO 2005), the RepTrack results show areas for improvement in society’s perception of the company in all RepTrack dimensions and in all countries.

The total results present strengths in the dimensions of leadership, finances and innovation; at the same time as clear areas for improvement in the governance and citizenship. By countries, Spain is the country with best results compared to the average, and Argentina and Brazil are the countries where the Group’s reputation is weakest.

Throughout the different RepTrack measurements, improvements have been recorded regarding the company’s reputation in society in all countries except Brazil. Aware that there are many public myths about Telefónica, the company’s management has established RepTrack as one of the key indicators to monitor the compliance of the strategic aim of being a “committed and responsible leader”.

The report on corporate responsibility includes Telefónica’s results in the different RepTrack attributes.

Alliances for understanding how to manage Corporate Reputation

Corporate Reputation Forum

Founded in September 2002 by Aguas de Barcelona, BBVA, Repsol-YPF and Telefónica, the FRC (Spanish acronym for Corporate Reputation Forum) is an initiative by which companies share knowledge and experience in management of corporate reputation.

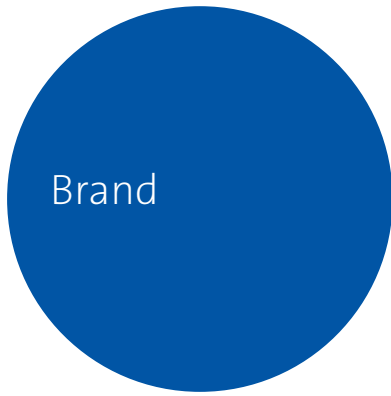
With the incorporation of Abertis, Ferrovial, Gas Natural, Iberdrola, Iberia, and Renfe in 2003, the FRC groups almost 50% of the IBEX 35. The FRC primarily aims to become a meeting place for the analysis and dissemination of trends, tools and models of corporate reputation in company management.



Reputation Institute

In 2004, el Reputation Institute (RI) and the Corporate Reputation Forum (FRC) signed an Alliance by means of which the FRC became the representative of RI in Spain and channels its activities. (see Corporate Reputation Forum above).

In 2005 the Reputation Institute held its Annual Conference in Madrid with the collaboration of the Corporate Reputation Forum.



During 2005, the Telefónica Group has reviewed its brand strategy and architecture model. The aim is to strengthen the commercial relation with customers and to transmit corporate values to the company's stakeholder groups.

Over 13,000 brand registrations

2,650 domain names

Strategy Model and Brand Architecture

This model defines the roles, criteria and hierarchies of the Group's brands, described through the principles of identity and a graphic coherence between brands. Some of its main features are:

Masterbrand

Telefónica, the Group's main brand, thanks to its institutional profile and the values associated to it, provides the backing and guarantee to the commercial offer associated with the commercial brands, providing them with prestige.

Commercial brands

They provide the commercial offer with closeness and freshness, differentiation and relevance, making it more approachable and believable. They also rejuvenate and refresh the "masterbrand".

Brand family system

The family system is strengthened by means of a solid and inseparable relationship. It does not involve co-branding or endorsements, but it is rather a system that favours mutual benefits between the Group's different brands. The graphic system defines colours, codes, formats, styles and typography that transmit a balanced and coherent vision of the Group.

Principles of Brand Strategy and Architecture

Telefónica manages its brand strategy and architecture by means of its identity principles and a graphic coherence between its brands:

Corporate Values are the Foundations of the Group

They are the starting point and establish the path along which the commitments acquired by Telefónica towards its stakeholders to gain their trust are provided with specific content.

Brand attributes

Telefónica builds its brands based on two main functional attributes: Leadership and Innovation, which take form in the Group's capacities; and two emotional attributes: Proximity and Commitment, which seek to provide the brand with personality and to make the relationship with customers closer.

Telefónica's Positioning

For Telefónica, understanding and satisfying the needs of the people it relates to are its ultimate aims. Only this way, the company will be able to transform its technological innovations into accessible communication solutions that make customers' life easier and better, and contribute to developing society.

Tone of Voice

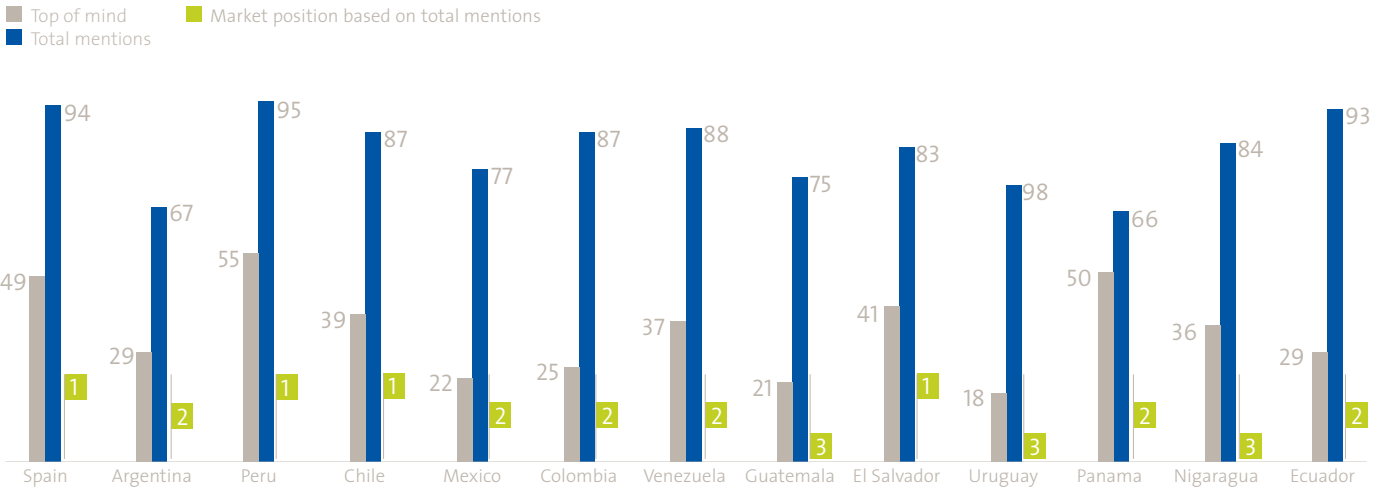
During 2005, Telefónica's voice perimeter and tone of communication has been implemented, as reflected in its "Brand Manifesto".

Telefónica Group's Brand Portfolio

As at December 31, 2005, the portfolio of brands and domain names of Telefónica, S.A. exceeded 13,000 brand registrations and 2,650 domain name registrations worldwide.

Mobile Telephony Brand Name Recognition

Data from Telefónica Móviles (Accumulated for year 2005). The brand Movistar was launched in 2005.



Source: Advertising Tracking and Brand Equity 2005, Millward Brown

Brand Committee

The Brand Committee has consolidated itself during 2005, and is a technical body reporting directly to the Management Committee, led by the General Director of Corporate Communication and comprised of the technical managers of the various business lines and country corporate centres, on occasions involving other corporate departments for specific issues. Its mission is to safeguard the correct execution of the Group's new Brand Strategy and Architecture Model.

To this aim, the committee has full competencies to:

- Catalyse the visions, objectives and needs of the lines of business and the countries, as a consulting body of Telefónica S.A.'s Management Committee
- Channel all the Group's initiatives related to brand (communication, advertising, sponsorships, fairs, events, etc.) with the aim of ensuring its correct alignment with the established Brand strategy and architecture model.
- Promote the process of implementation of the brand architecture system, developing regulations, processes, projects and initiatives in order to strengthen the system if necessary.

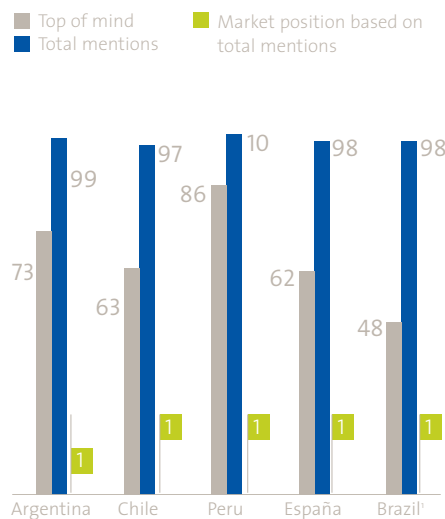
Tools for measuring brand strength

Telefónica has developed a set of common tools for information management and analysis for all lines of business and countries, with the aim of constantly and systematically monitoring recognition, image, satisfaction and suitability of its brands with regard to its different publics.

- In the category of fixed telephony, the Telefónica brand has high levels of recognition.
- In the category of mobile telephony, taking into account the launch of the new commercial brand in countries where it was not present, the Group's mobile telephony operations have achieved similar and in some cases higher recognition levels with regard to previous brands.

Fixed Telephony Brand Name Recognition

Source: Advertising Tracking and Brand Equity 2005.



¹Non-accumulated data corresponding to December, 2005

Main Principles of Telefónica Group's Brand Strategy and Architecture Model

Desde una única raíz, la personalidad de todos los negocios del Grupo surge en el actual ecosistema de marcas que, desde un principio, respaldan y promueven el desarrollo del negocio y el prestigio del conglomerado del Grupo.

Menos actividad puede ser un signo de la fuerza de Telefónica y sus negocios, siempre en el equilibrio y armonización de los valores que el Grupo y Telefónica respaldan y promueven. Por eso, Telefónica busca el equilibrio entre la unidad y la diversidad de los negocios del conglomerado de la corporación.

1 Telefónica es la masterbrand del Grupo

2 La marca Telefónica proporciona identidad y cultura común a todos los negocios del Grupo

Las marcas y valores comerciales de la marca Telefónica son el punto de partida para todos los negocios, servicios y comunicaciones del Grupo. Así, Telefónica respalda y promueve de forma conjunta y sin distinciones, aquellas marcas y valores comerciales que respaldan y promueven la cultura de Telefónica.

La marca Telefónica es el único interlocutor desde el punto de vista institucional.

3 Telefónica es el interlocutor único desde el punto de vista institucional

Telefónica se relaciona con los clientes de forma directa y sencilla. Se relaciona con los clientes comerciales, los clientes institucionales, los clientes de servicios de telecomunicaciones y los clientes de servicios de telecomunicaciones de forma directa y sencilla. Así, Telefónica respalda y promueve de forma conjunta y sin distinciones, aquellas marcas y valores comerciales que respaldan y promueven la cultura de Telefónica.

4 Telefónica se relaciona con sus clientes a través de sus marcas comerciales

Las marcas comerciales de Telefónica no compiten sino complementan a la masterbrand Telefónica. Así, Telefónica respalda y promueve de forma conjunta y sin distinciones, aquellas marcas y valores comerciales que respaldan y promueven la cultura de Telefónica.

5 Las marcas comerciales no compiten sino complementan a la masterbrand Telefónica

Las marcas comerciales refrescan a la marca Telefónica. Así, Telefónica respalda y promueve de forma conjunta y sin distinciones, aquellas marcas y valores comerciales que respaldan y promueven la cultura de Telefónica.

6 Las marcas comerciales refrescan a la marca Telefónica

Las marcas comerciales de Telefónica se comunican de forma simple y clara. Así, Telefónica respalda y promueve de forma conjunta y sin distinciones, aquellas marcas y valores comerciales que respaldan y promueven la cultura de Telefónica.

7 Las marcas comerciales se comunican de forma simple y clara

Los productos no son marcas comerciales. Así, Telefónica respalda y promueve de forma conjunta y sin distinciones, aquellas marcas y valores comerciales que respaldan y promueven la cultura de Telefónica.

8 Los productos no son marcas comerciales

Telefónica y sus marcas comerciales conviven a través de un sistema. Así, Telefónica respalda y promueve de forma conjunta y sin distinciones, aquellas marcas y valores comerciales que respaldan y promueven la cultura de Telefónica.

9 Telefónica y sus marcas comerciales conviven a través de un sistema

El sistema de convivencia asegura la coherencia de valores y mensajes entre las marcas comerciales y Telefónica. Así, Telefónica respalda y promueve de forma conjunta y sin distinciones, aquellas marcas y valores comerciales que respaldan y promueven la cultura de Telefónica.

10 El sistema de convivencia asegura la coherencia de valores y mensajes entre las marcas comerciales y Telefónica

¹ Telefónica is the Group masterbrand
² Telefónica



Nicaragua



Chile



Argentina



Uruguay



Colombia



Ecuador

CASE STUDY

World launch of “movistar”

movistar was the first commercial brand to adapt its identity to Telefónica Group’s new strategy and architecture. This new model can be seen through the co-existence of the Telefónica masterbrand and the commercial brand movistar on a blue band that acts as a visual link for both brands.

The brand was launched simultaneously in 13 countries. The first phase started on March 28, with the advertising campaign, whose aim was to create great expectation. On April 6 the Group’s brand Strategy and Architecture model and movistar’s new image, was unveiled to the world, entering into the life of 400 million people. The image campaign was complemented with attractive discount promotions and services, and brought about the brand image replacement in 25,000 movistar shops.

After the launch, we can say that the co-existence system between the Telefónica and movistar brands, has proved that this degree of linkage improves customer recognition of both brands.



Mexico



Peru



Spain



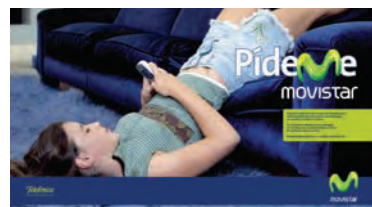
Guatemala



Venezuela



Panama



El Salvador



Telefónica wishes to communicate its presence and support to activities carried out in society, and to this aim it has a sponsorship portal (www.telefonica.es/patrocinos) which is the external window for the actions it promotes and carries out in all fields: sports, culture, society, etc...



Telefónica takes part in many activities in society through the sponsorship of sports, technology, culture and social events. In total, during 2005 819 sponsorships projects were carried out.

Culture sponsorships

Diccionario Panhispánico de Dudas (Pan-Hispanic Dictionary of Queries), which is the result of a collaboration agreement with the Real Academia Española de la Lengua (Royal Academy of Spanish Language). This significant work has been carried out with the participation of the 22 Spanish Language Academies, among which all Latin American countries are represented. With this project, Telefónica has intended to strengthen its interest in the dissemination and promotion of the Spanish language worldwide.

Monographic exhibition on artist Juan Gris at the Museo Nacional Centro de Arte Reina Sofía, which has received over 160,000 visitors.

4th Centenary of El Quijote: Telefónica has wanted to be present in this important homage through the development of a webpage aimed at schools, with interactive educational content which allows users to learn through games about important aspects of this novel and its historical context. Over 10,000 Spanish schools have taken part in this project through EducaRed, as well as people from different countries: 60% percent of the 194,000 visits made have been international, while 40% came from Spain.

Music

As in previous years, Telefónica Movistar has wanted to approach the younger public through music, and has sponsored concerts and tours in Latin America and Spain of artists such as Shakira or Carlinhos Brown.

Sports sponsorships

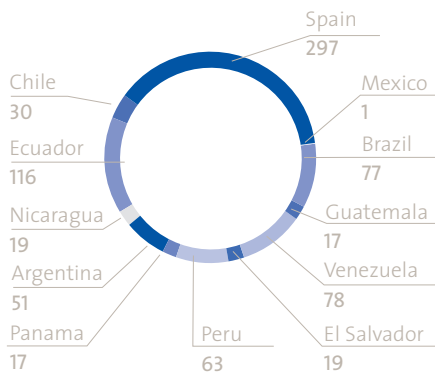
Telefónica Group has continued backing Spanish Formula 1 driver Fernando Alonso and the Renault F1 Team. 2005 has been an important year for them, with their Spanish pilot becoming the first ever Spanish Formula 1 World Champion, and the team itself winning the team World Champion title.

Telefónica continues to support football as the sponsor and exclusive supplier of telecommunications for the two main Spanish teams: Real Madrid C.F. and F.C. Barcelona, and has signed a support agreement for Expo Zaragoza 2008 through the Zaragoza S.A.D. football club. Likewise, it has started a social sponsorship programme for football that successfully promotes initiatives such as the Movistar Cup of Cultures and the Mundialito Solidario, both aimed at an important sector of the population: immigrants. With this programme, Telefónica wishes to use this popular sport as a tool for integration.

In addition to the initiatives mentioned above, Telefónica wishes to be closer to the societies in which it operates by supporting local activities of a cultural or sports nature. In this sense, in Spain Telefónica sponsored Madrid's Popular Marathon in 2005, which brought together 13,000 runners, whereas in Latin America it supported a large number of popular and cultural festivals such as the San Pedrito de Chimbote festivities in Peru or the Carnival in Rio de Janeiro in Brazil, among others. These are examples of these activities which all transmit an image of proximity, that of a global operator with a local focus.

Distribution of sponsorships by Countries

Data in number of sponsorships



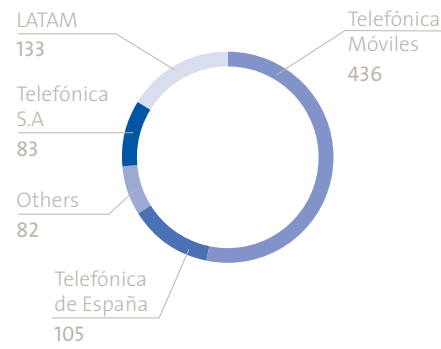
Social action

The Group's social action is mainly channelled through the Fundación Telefónica, whose strategy and activity programme is especially focused on the field of education, which accounts for most of the budget and is complemented with other volunteering activities and art and technology programmes.

Within the field of education, the following are some of the most important programmes: EducaRed, which is a network of 10,000 schools across Spain and Latin America connected via Internet for training and sharing resources, aimed at teachers and students (both children and adolescents), and the Proniño project, whose main aim is to eradicate child labour through training and support to children in Latin American countries.

Distribution of sponsorships by line of business

Data in number of sponsorships



Other sponsorships

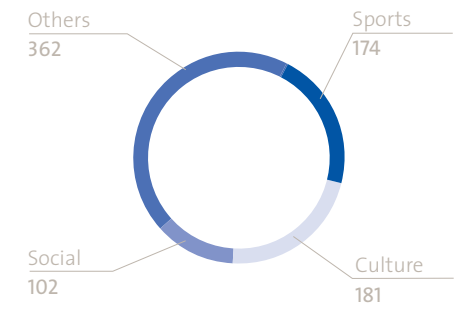
Telefónica also takes part in other types of sponsorships whose aim is to actively involve and commit the company to the promotion and development of the Information Society. To this aim, it works hand in hand with public and private bodies who share this aim, through the sponsorship of business forums, conferences and international symposiums that bring together the sector's main representatives, such as: Internet Global Congress 2005, Broadband World Forum Europe 2005, etc....

This strategic line is also reflected in the participation in Technical Institutes, Academies, University Chair Programmes, etc. It therefore involves collaborating with sources which generate knowledge in the field of Information Technologies.

In 2005, once again, Telefónica has provided technological support, by means of the installation of lines and telecommunications services, for the main meeting of internet users in Europe: Campus Party at Valencia.

Distribution of sponsorships by activity

Data in number of sponsorships



Other includes technological, academic, exhibition and forum sponsorships.

CASE STUDY

Management of Telefónica's Sponsorships

During 2005, 2,657 requests for sponsorships have been received from all over the world, which were processed internally by Telefónica. Of these requests, approximately 30% were approved.

The Sponsorship Office is the department that receives sponsorship requests from institutions and bodies presenting their sponsorship proposals. On a monthly basis, committees are held where all sponsorship projects are presented and discussed by Telefónica Group's lines of business. These sponsorships have previously been approved by the lines of business and their budget justified.

Credits

Departments that collaborated in the preparation of the report

Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
05 Shareholders	Shareholders' Office / Investor Relations / Secretariat General
06 Employees	Corporate Human Resources / Human Resources Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Communication / Health and Safety / Fundación Telefónica / ATAM / Fonditel
07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

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Driving economic development

Impact of Telefónica's activity

Distribution of income

Evolution of Rates

Impact of Telecommunications on Productivity

Impact of Telefónica's activity

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

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

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

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

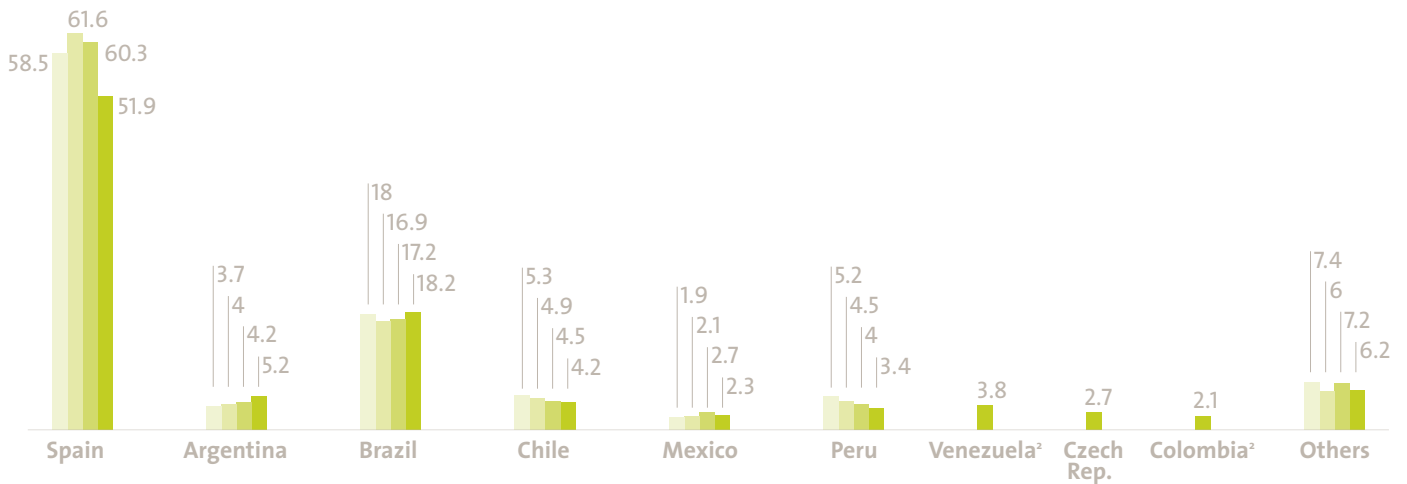
The number of suppliers awarded contracts with Telefónica Group worldwide exceeds 18,000. An average of 85% of the total sales volume is awarded to local suppliers. The company has paid over 7,200 million euros in taxes, including direct taxes, indirect taxes, tax withheld, local taxes and levies. This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

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

Distribution of revenue of Telefónica by country¹

In percentages

2002 2003 2004 2005



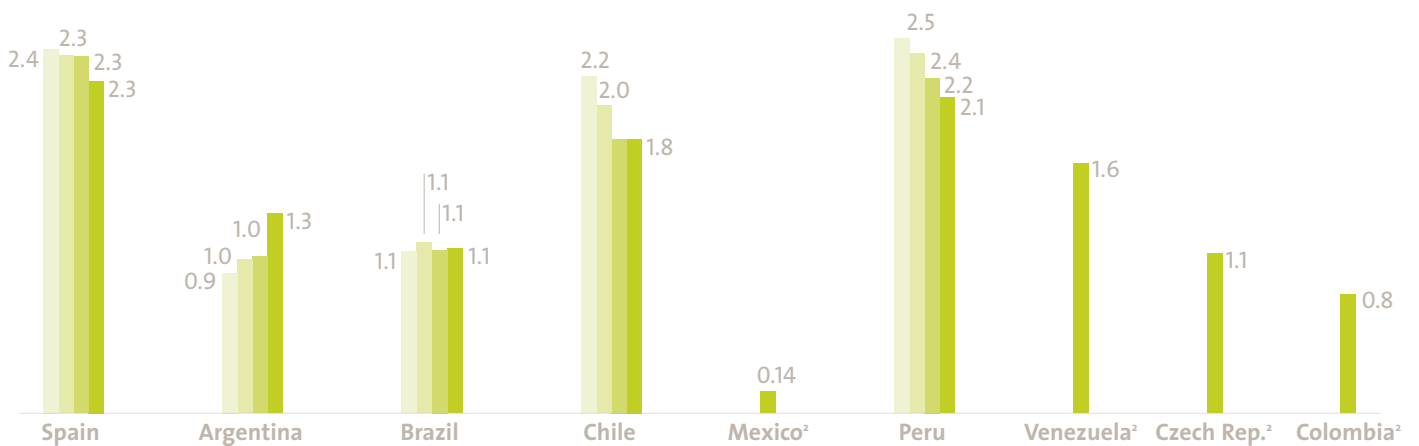
¹Taking into account the contribution of each country to Telefónica Group's consolidated revenue

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

Percentage of revenue of Telefónica with regard to GDP¹

In percentages

2002 2003 2004 2005



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

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

Impact of Telefónica's activities in the World

Present in **19** countries

Income of **37,882.1** million euros

>**1.5** million shareholders

54 million euros in social and cultural action

181 million accesses

18,000 suppliers

207,000 employees

2,900 million euros in innovation



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

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

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

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

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

Country

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

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

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

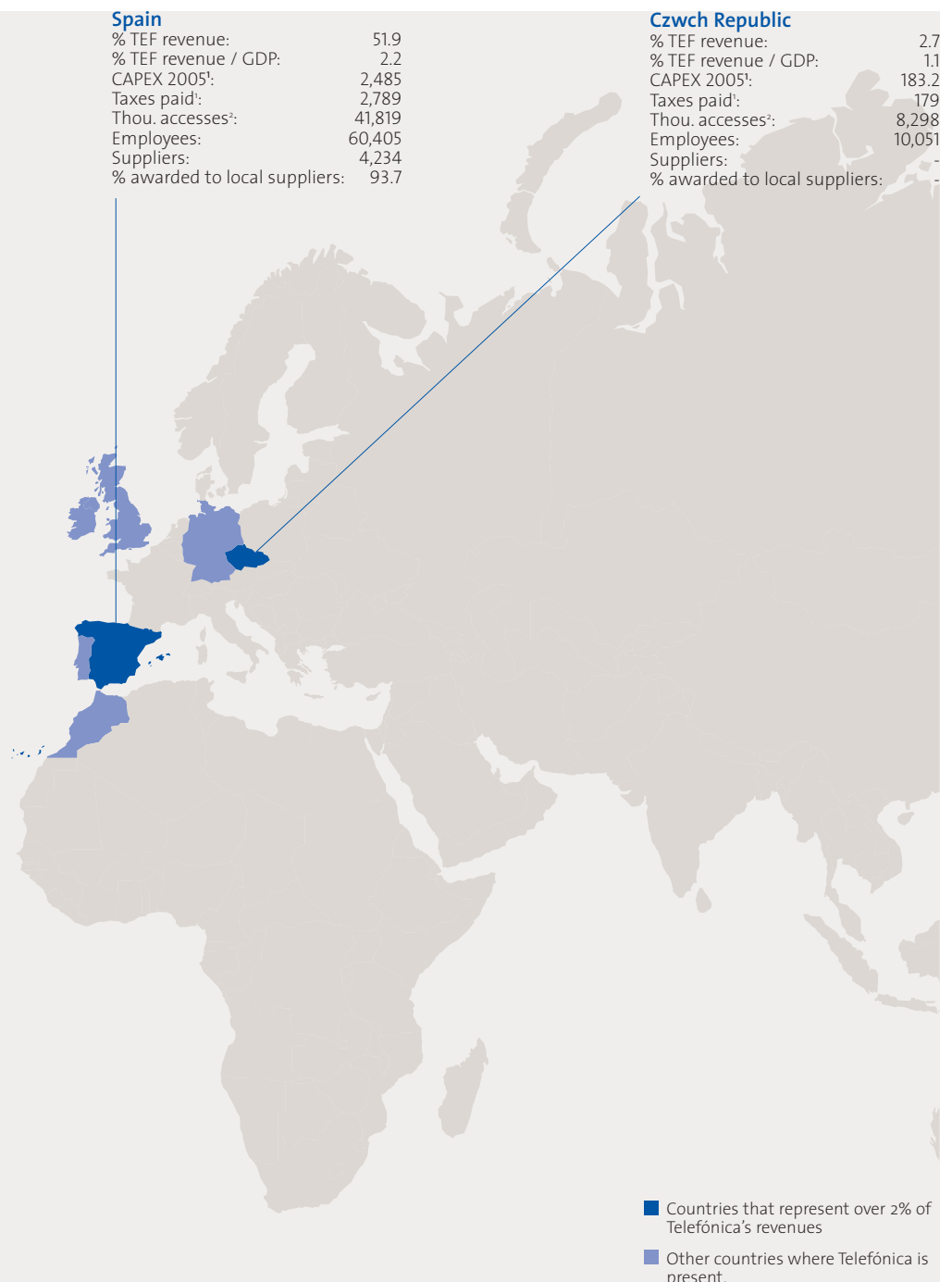
Taxes Paid: Taxed paid in the country during the financial year (millions of euros).

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

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

Suppliers: Suppliers awarded contracts in the country in 2005.

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



Distribution of income

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

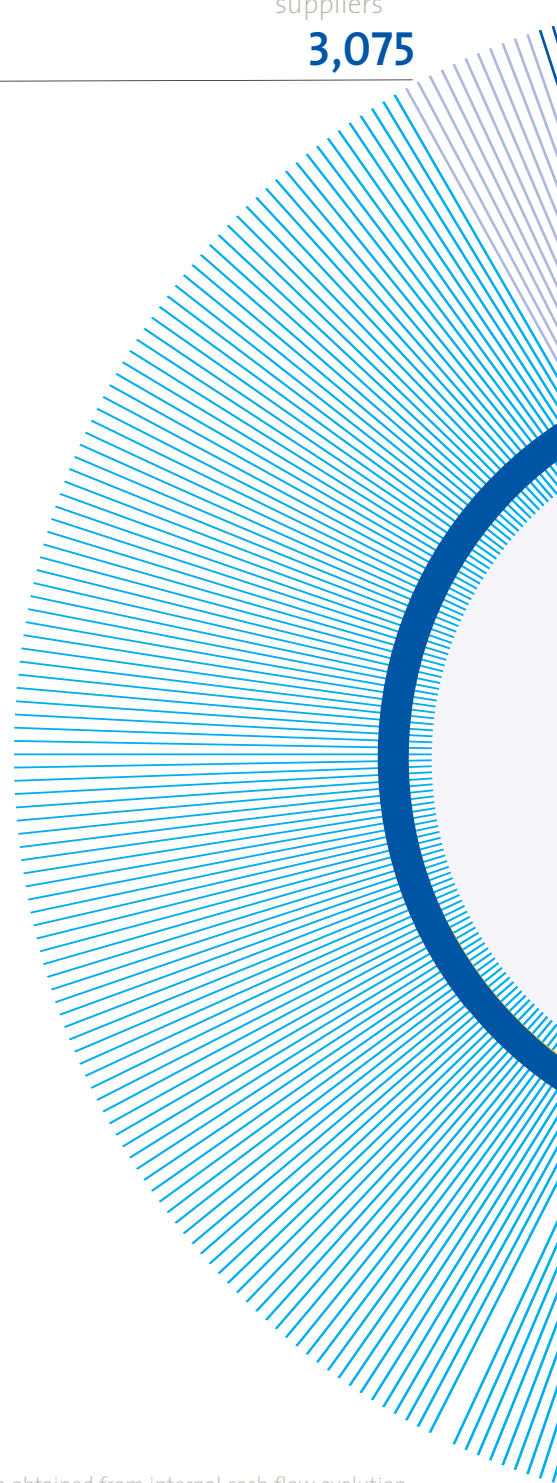
Credit institutions represent a source of funds for growth and development. In this sense, the Telefónica Group develops an intense financial activity, bringing dynamism to the sector in some of the countries where it operates

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

Customers
43,482

Financial suppliers
3,075

Other
905



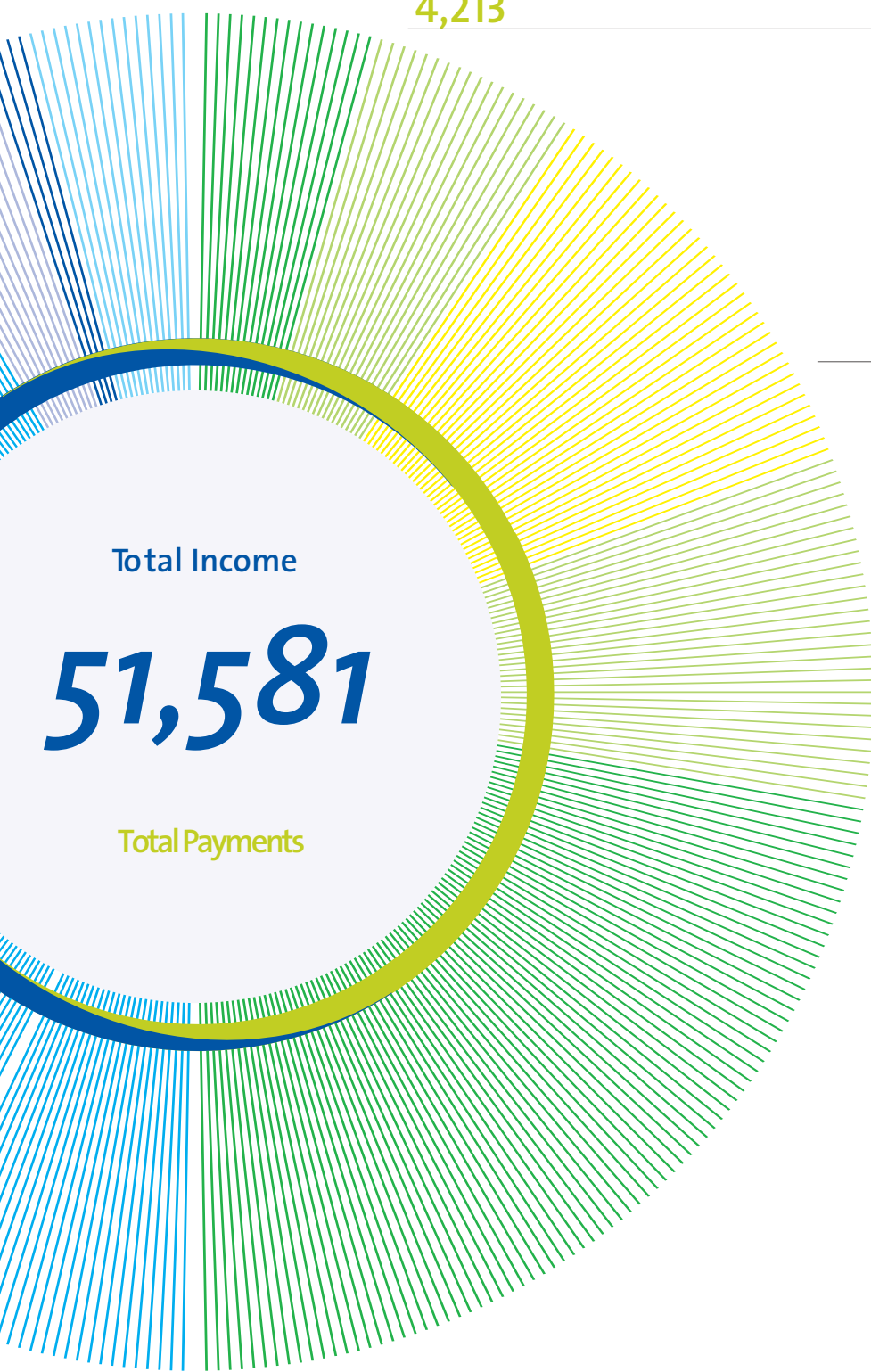
(1) Million euros (2) Fixed + mobile + DSL + TV
The information published on this page has been obtained from internal cash flow evolution sources of Telefónica Group, and verified by the auditor of this report. The mentioned data could be subject to variations as a result of subsequent events and evolutionary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

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

Divestiture
4,119

Shareholders
4,822

Employees
4,213



Total Income

51,581

Total Payments

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

Investment
10,524

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

Public Administrations
8,511

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

Suppliers
Commercial
19,087
CapEx
4,423

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

Evolution of Telefónica's basic rates

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

Evolution of Rates

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

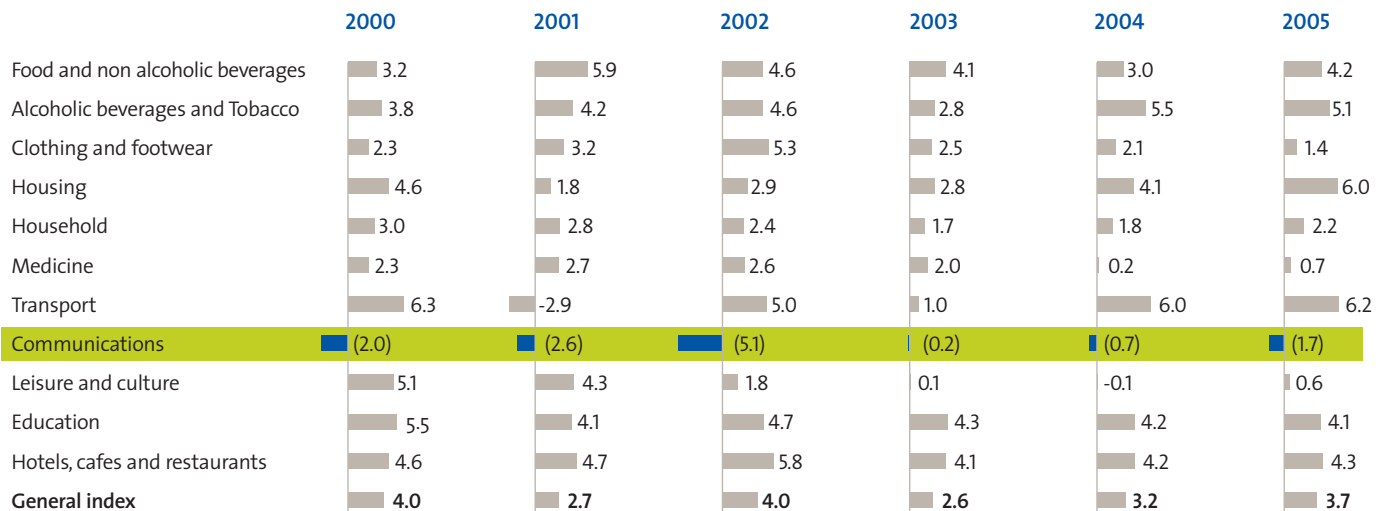
Telefónica de España has been applying constant reductions to their rates over recent years, which has contributed to improving customers' purchasing power and has made telecommunication services more accessible for society in general. Specifically, customers of Telefónica de España have witnessed an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

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

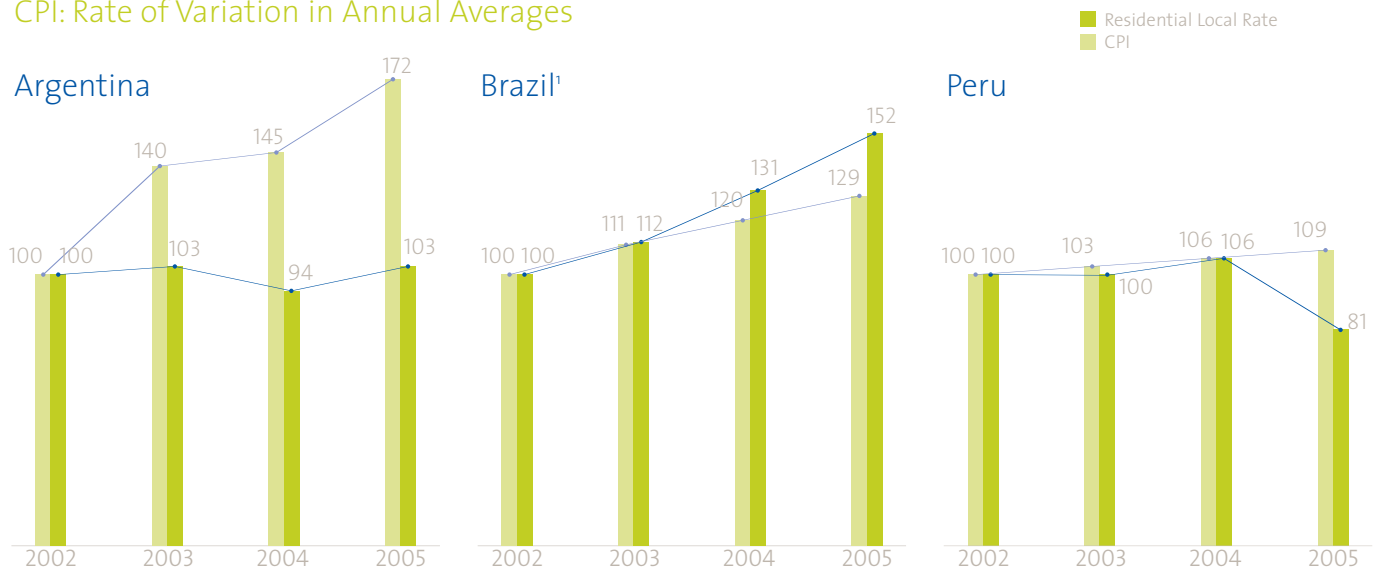
As a result, it is important to note that in Spain, communications are the only component of the consumption basket and the only sector within public utilities whose rates have constantly been going down since the year 2000.

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

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



CPI: Rate of Variation in Annual Averages



Source: Internal

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

CASE STUDY

Impact of rates on revenue per customer

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

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

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



Impact of telecommunications on productivity

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

Positive impact of ICTs on the productivity of companies

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

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

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

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

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

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

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

Implementation Difficulties

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

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

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

CASE STUDY

Effects of the investment of ICTs on productivity

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

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

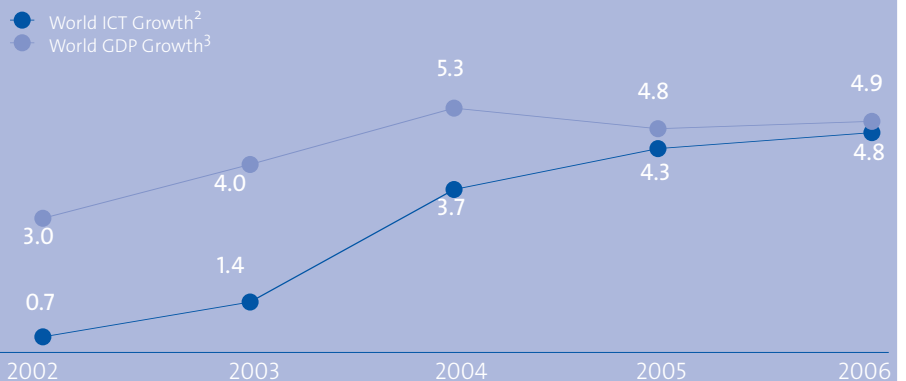
- Lastly, it is likely that the improvements in the organisation of the production linked to the use of ICTs have a positive effect on the total productivity of the factors.

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

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

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

World GDP Growth vs. World TIC¹ Growth



¹ Information and Communication Technologies

² Source: EITO 2005 European Information Technology Observatory 2005

³ Real GDP. Source: IMF (April '06)



Driving Technological Progress

Information Society

Innovation

Telefónica I+D

Collaboration with the University

Information Systems

Information Society Report

Institutional Collaboration

Information society

Home and Citizen Inclusion

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

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

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

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

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

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

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

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

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

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

Competitiveness and innovation

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

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

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

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

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

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

Education in the Digital Era

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

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

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

Public Digital Services

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

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

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

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

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

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

Digital Context

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

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

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

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

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

CASE STUDY

Autelsi awards Telefónica four prizes

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

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

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

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

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

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

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



Innovation

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

Technological Innovation Model

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

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

Diagram of Telefónica’s innovation process



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

CASE STUDY

A New Innovation Culture

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

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

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

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

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

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

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

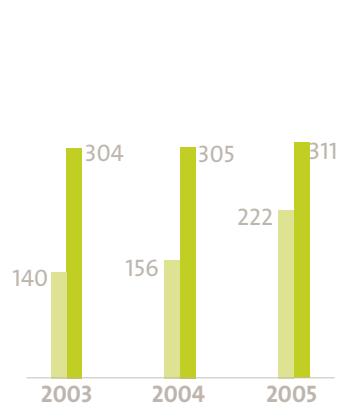
In addition, during 2005, Telefónica Móviles España has launched the second Patenta, Fábrica de Ideas, (Patenta, Factory of Ideas) competition, organised to recognise the best initiatives of employees related to the Improvement of Efficiency. This year, 95 proposals were presented.

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

R&D distribution by country

In millions of euros

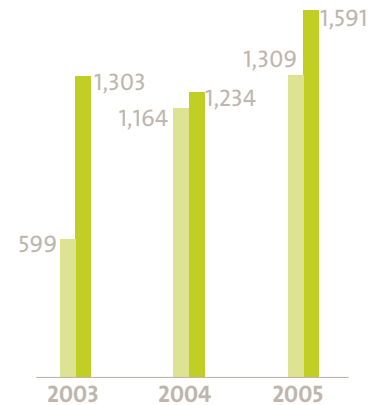
- R&D Spain
- R&D Other countries



Distribution of Innovation by country

In millions of euros

- Innovation Spain
- Innovation Other Countries



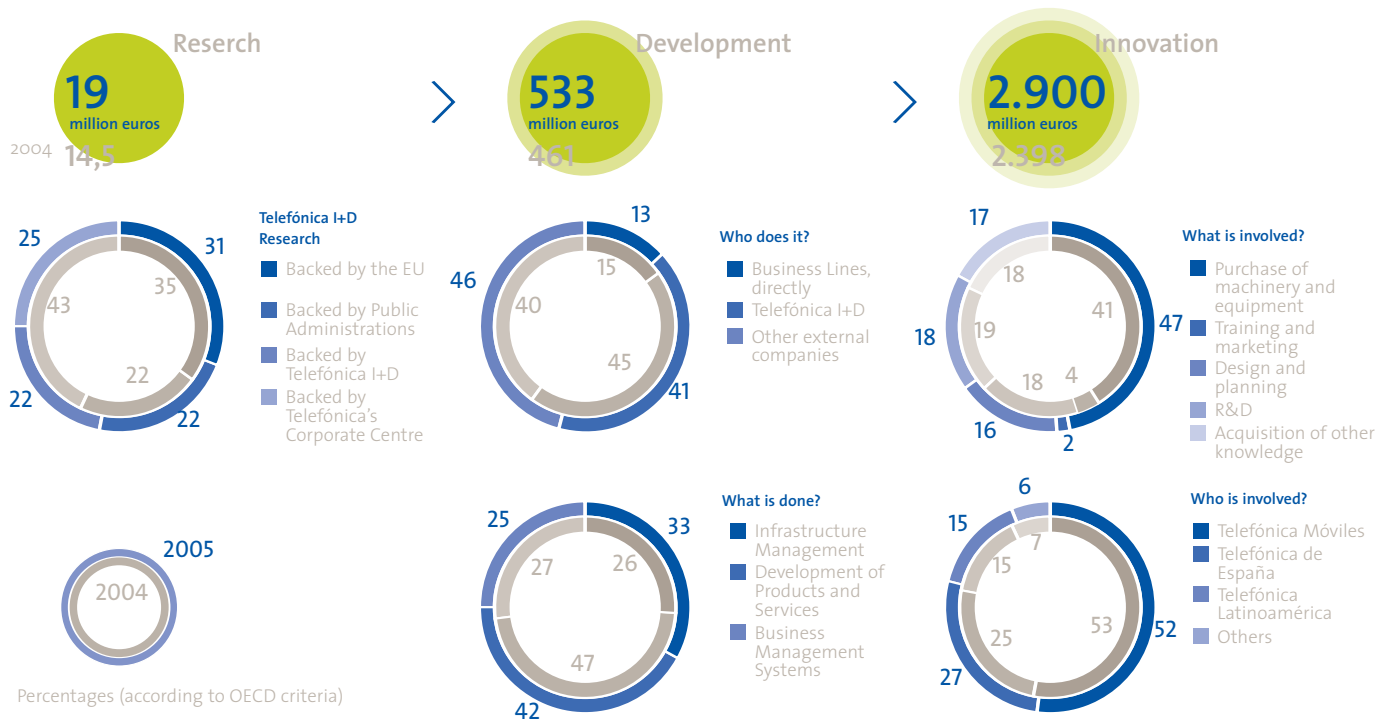
Technological Innovation in Telefónica Group in 2005

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

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

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

Technological innovation in Telefonica 2005



CASE STUDY

Measurement of innovation, following OECD criteria

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

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

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

planning activities, as well as new product commercialisation.

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

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

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

1,509 patents and utility models

1,546 protected intellectual property rights (software products)

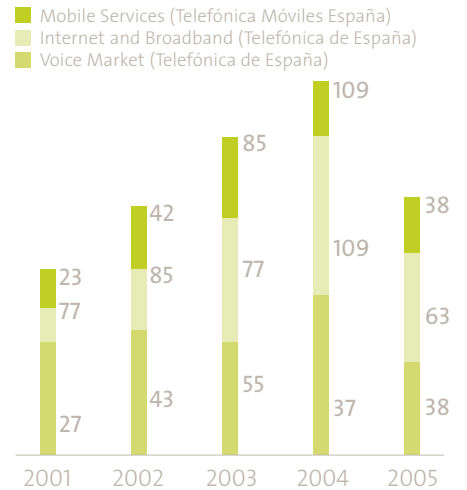
296 new products developed by Telefónica I+D in 2005

Technological Innovation

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

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

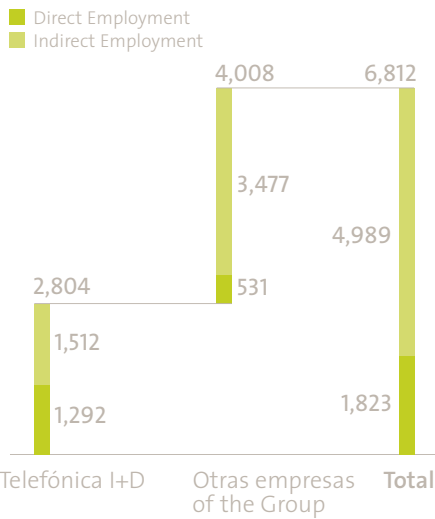
Number of new products of Telefónica Móviles España and Telefónica de España



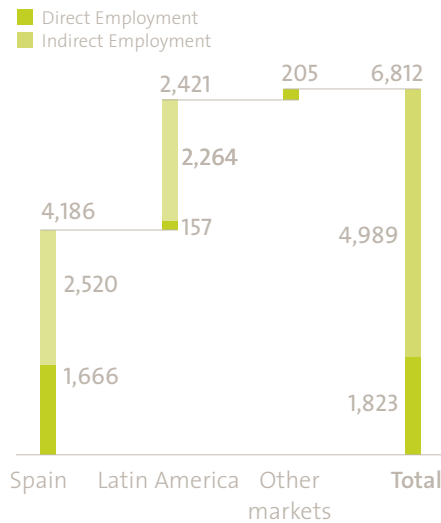
- During 2005, TPI launched the search engine Noxtrum, one of whose main features is that it combines access to all information available on the Internet with information about companies, shops and businesses (Yellow Pages), commercial information, telephone books, (White Pages), images, news, etc.
-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

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

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



By Country



Management and Process Innovation

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

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

CASE STUDY

MovilForum: a joint innovation effort

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

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

Telefónica Innovation timeline



Innovation for our clients

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

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

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

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

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

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

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

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

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

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

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

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

Innovation in collaboration

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

Telefónica Móviles México opens its **demonstration centre**

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

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

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

Movistar launches **first pocket computer with videoconferencing**

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

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

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

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

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

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

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

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

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

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

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

Telefónica and NTT Docomo analyse ways of strengthening their strategic alliance

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

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

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

Location of Telefónica I+D Centres

Mexico City

São Paulo

Telefónica I+D (Research & Development)

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

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

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

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

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

Valladolid | Madrid | Granada | Huesca | Barcelona

Applied Research

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

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

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

CASO PRÁCTICO

Telefónica I+D's Scientific Advisory Council

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

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

Chairman:

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

Members:

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

Secretary:

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

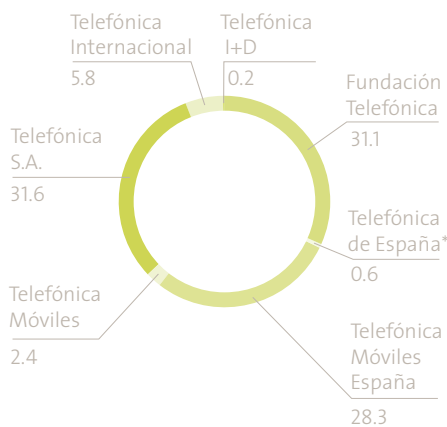
Telefónica is aware of the importance of the need to be in contact with all the players that take part in the process. That is why the promotion of the relationship between Universities and Businesses is a priority goal for Telefónica.

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

Collaboration with the University Sector

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

In percentages



* Includes Telefónica Empresas and Telefónica Soluciones

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

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

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

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

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

Telefónica Chairs

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

Telefónica Chairs

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

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

CASESTUDY

Criteria for assessing the activity of the Telefónica Chairs

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

59 technological innovation projects (41 in 2004)

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

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

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

35 courses taught (26 in 2004)

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

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

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

91 grants related to the Chairs (91 in 2004)

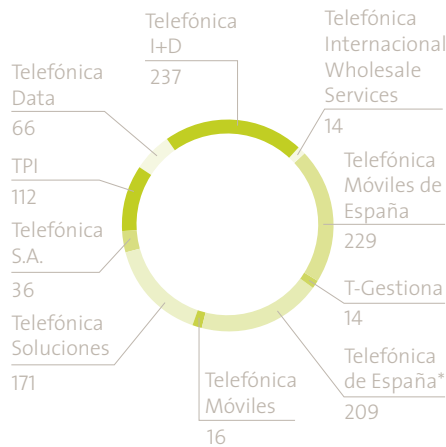
Its projection and visibility, assessing the repercussion of the Chair in the field, the quantity and quality of the relationships established and, generally-speaking, the visibility of the Chair in the Autonomous Community.

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

37 publications (26 in 2004)

Almost all Chairs have their own website

Distribution of grants by business line



Grants

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

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

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

CampusRed

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

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

R&D Prizes to Innovation

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

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

Other collaborations with the University Sector

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

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

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

Telefónica de España / Telefónica Empresas España

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

Telefónica Móviles SA / Telefónica Móviles España

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

Collaboration agreement. Universidad de Sevilla.

Collaboration agreement. Universidad de Córdoba.

Collaboration agreement. Universidad de Extremadura.

Collaboration with the Gamelab department. Universidad de Oviedo

Summer courses. Universidad Europea de Madrid

Telefónica I+D

Science Week of the Autonomous Community of Madrid

Universidad Politécnica de Madrid, participation in the SATELEC seminars.

Universidad Alfonso X el Sabio: company presentation.

Participation in several Technology and Employment Forums: U. Carlos III de Madrid (Forempleo-05), U. de Valladolid

(Presentation at Technical Employment Forum), U. Alcalá de

Henares (Alcajob-05), U. Complutense de Madrid (Presentation at Employment Days and Computecno), U. de Salamanca

(Employment Forum).

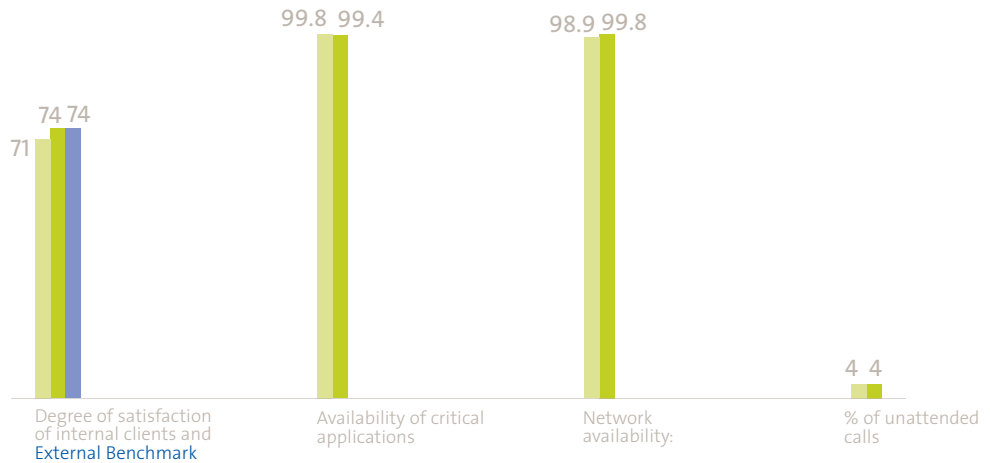
U. Politécnica de Cataluña participation in the Telecommunications and Electronics Forum.

U. Pompeu Fabra sponsorship of the Forum U-Feina 05.

Indicators of information system performance in Telefónica Group

In percentages

■ 2004
■ 2005



Information Systems

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

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

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

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

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

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

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

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

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

“Information Society” Report

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

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

CASE STUDY

Information Society Portal

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

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

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

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

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



Institutional Collaboration

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

International Associations and Bodies

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

Spanish Associations and Bodies

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

Argentine Associations and Bodies

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

Brazilian Associations and Bodies

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

Chilean Associations and Bodies

- SOFOFA, Chilean Federation of Industry

Associations and Bodies from Colombia

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

Associations and Bodies from Ecuador

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

Associations and Bodies from Guatemala

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

Associations and Bodies from Nicaragua

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

Associations and Bodies from Panama

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

Peruvian Associations and Bodies

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



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

Driving social development

Use of **energy** in the Digital society



Positive Aspects

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



Implementation Barriers

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

Digital **home**

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

- Power consumption
- Cost to citizens

Electronic **Administration**

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

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

Telecommunications at the service of **emergencies**

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

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

Telecommunications and inclusion of people with **disabilities**

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

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

Distance Learning



Positive Aspects

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



Implementation Barriers

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

Use of paper in the digital society

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

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

Electronic Commerce Applied to Tourism

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

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

New technologies at the service of health

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

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

Credits

Departments that collaborated in the preparation of the report

Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
05 Shareholders	Shareholders' Office / Investor Relations / Secretariat General
06 Employees	Corporate Human Resources / Human Resources Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Communication / Health and Safety / Fundación Telefónica / ATAM / Fonditel
07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

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Customer relationship cycle

Satisfaction studies

Dialogue with Consumer Associations

Customer relationship cycle

Performance of quality studies with customers; in order to know their opinion on the service, their concerns and what they ask of a company like Telefónica.

Certification of the customer offer processes through the standard established by ISO 9001 customers.

These certificates, maintained in time, are a reflection of the will and interest by the Company to assure that all of its operations comply with the strictest quality requirements.



B Determination of the critical processes for customer satisfaction
The results of the qualitative studies serve to determine and prioritise the most critical processes from the perspective of the customers. In the case of fixed telephony, these processes are commercialisation, supply, operation, billing, attention and technical support.

C Measurement of the satisfaction of customers with the service offered by Telefónica.
In drawing up these studies, the result may be classified in terms of the type of service, the process evaluated and the company's situation with regard to the competition.

E Introduction of the projects for improving the quality of the service
The aim is to achieve significant improvements in the customers' perception of the quality offered in the different processes of the Company's action towards customers.

D Prioritisation of the critical points for improvement, based on the relative importance afforded to each process by customers and Telefónica's classification with regard to the competition. The commercialisation and customer attention processes are those in which Telefónica traditionally has the greatest potential for improvement.

Telefónica aims to optimise its customers' satisfaction. To do this, it has established a model for managing the relationship with its customers, which includes six stages:

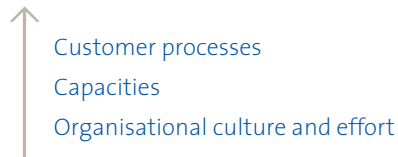
Profitable, sustained growth

Coherence > Confidence > Deep knowledge

in the business management from indicators focused on the customer

in the customer service from an effective, flexible, responsible performance

of the customer and desing of a value proposal adapted to their needs



CASE STUDY

Customer commitment

In 2004, Telefónica Latinoamérica turned the company strategy towards the customer, which it considered the keystone to growth. The strategy was drawn up under the motto of Customer Commitment, the objective of which is to assure the profitable, sustainable growth of the operators. Its introduction has meant the inclusion of commercial and customer satisfaction with the critical processes for the consumer.

The greater commercial orientation of Telefónica Latinoamérica will allow use to be made of the new opportunities that are arising as a result of the structural change being caused in the telecommunications sector. This plan, lasting 1,000 days, continued developing throughout 2005.

The programme is based on three fundamental pillars: Awareness, Trustworthiness and Coherence.

Based on these pillars, a series of 23 regional projects were defined for the three customer segments: residential, SMES and companies.

The main developments led by the Customer Commitment initiative in 2005 were:

- The definition of a regional methodology for prioritising improvement plans depending on the results of the satisfaction surveys.
- The creation of an independent committee for Claims.
- The development of a total 98 improvement projects based on Six Sigma methodology.

Among the actions aimed at the residential segment we highlight those related to optimising attention in the customer attention centres and the greater commercial focus of the promotional activities and product launch.

Of particular note is the development of strategies aimed at popularising broad band and the renewal of traditional business. Latin American SMES have a new valuable proposal from Telefónica.

What makes them different is their own commercial attention structure for the segment, independent of the existing one for the residential segment. With respect to the business sector, the Global Customer Attention Model has been developed, the introduction has been agreed of 224 improvement plans aimed at excellence in service, and innovation continues in projects related to IP Telephony and fixed-mobile convergence.

Commercial employees on the whole payroll of Telefónica Latinoamérica

(In percentage)

2003	29
2004	33
Commitment 2003–2006	~ 38

Note: Not including data on Telefónica Empresas América nor TIWS
Source: Internal



CASE STUDY

The voice of the customer present in improvement actions in Telefónica Latinoamérica

A system has been established as a methodology to identify improvement actions, based on the results of the customer satisfaction surveys. Having obtained the results of the surveys for the six critical processes (commercialisation, provision, operation, billing, technical support and attention), the areas responsible for them identify and prioritise improvement actions in terms of the importance that the customer gives to the attributes associated with the process, the satisfaction expressed and the difference with respect to the competition. This led to the identification of more than 300 improvement actions in 2005 in the region, of which the focus was placed for pursuing and introducing the TOP 10 in each country.

Satisfaction surveys

Customer satisfaction is the priority objective of the Telefónica Group and the central axis of its whole strategy. In order to know the evolution of this satisfaction and to check the effects of the different measures adopted by Telefónica, the companies of the Group perform periodical follow-ups of the levels of satisfaction through surveys. The methodology used by Telefónica Internacional and by Telefónica de España is the same, and its use is to be extended to Telefónica Móviles from 2006.

The objectives of the measurement are:

- To measure the overall satisfaction and establish the improvement strategies to increase satisfaction among current customers.
- To measure customers' future behaviour.
- To analyse the evolution of perceptions in time, both of their own customers and those of the competition to find the keys in the market evolution.

Furthermore, in 2006, the commitment was assumed to evolve this model in a standardised manner for the whole Telefónica Group in order to:

- Measure the perceived quality and establish its impact on general satisfaction.
- Obtain a measurement methodology in line with the main international bodies that are referents in measuring customer satisfaction (ACSI, ECSI).
- Relate the qualitative perception with the future behaviour of customers.

Studies and surveys are outsourced to companies that are shown the objectives to be known by Telefónica. The samples are determined at random, guaranteeing at the same time that it is representative of the universe of customers to minimise the margin of error. Telefónica de España took more than 500,000 samples in its satisfaction surveys of 2005. In the last sample in the year (November – December) in Latin America interviews were made on 4,789 customers of the basic telephone service, 3,624 SMES, 1,079 companies and 3,499 customers of the Speedy broadband. The number of interviewees in Telefónica Móviles España studies was 27,000, 14.5% up on the previous year; reaching in 2005 a satisfaction rate of 85.6%.

The customers answering the survey are generally those responsible for paying for the service (residential segment) or those responsible for contracting it (company segment). The questionnaires are drawn up from general questions on satisfaction with Telefónica to more specific questions on satisfaction with the processes. The socio-economic class of the person interviewed and the breakdown of the contracted services are also important.

¹ Calculated with regard to number of clients in each country: in Mexico and Uruguay are not included, due to the lockof that sort of studies with uniform methodology.

Fixed telephony: Satisfaction of the residential segment

Data in percentage

	Year	Satisfied	Neutral	Dissatisfied
Spain	2005	84	7	9
	2004	81	7	12
Argentina	2005	73	16	11
	2004	68	17	15
Brazil	2005	55	25	21
	2004	51	24	25
Chile	2005	66	17	17
	2004	61	21	19
Peru	2005	63	24	14
	2004	58	27	16

Fixed telephony: Satisfaction of the business segment 2005

Data in percentage

	Satisfied	Neutral	Dissatisfied
Spain	79	8	13
Argentina	83	12	5
Brazil	77	16	7
Chile	82	12	16
Peru	59	30	11
Colombia	81	10	8
Usa	83	10	7

Mobile Telephony: Customer satisfaction

Data in percentage

	Servicio	Atención y postventa
Spain	86	-
Contrat Latam ¹	70	69
Prepaid Latam ¹	78	75

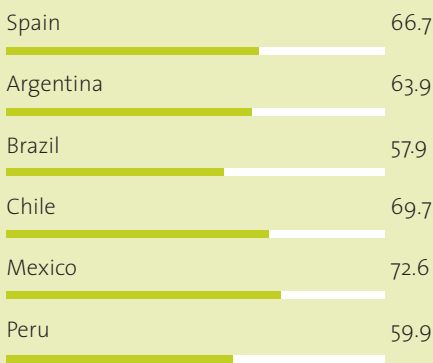
¹ Calculated on a weighted basis with regard to number of customers per country. Data for Mexico and Uruguay has not been included, as no studies of these characteristics and methodology were available

OPINION

What do our stakeholders think?

In the RepTrak study, we asked society about their perception of whether “Telefónica satisfies the needs of its customers”. Society’s opinion as a consumer is highly significant, as the samples wholly identified those interviewed with customers of the Telefónica Group.

The results obtained in December 2005 were as follows



Dialogue with Consumer Associations

Spain

Telefónica has a fluid dialogue with a large number of consumer and user associations, some specialised in ICT. The Company has established a single channel of information that deals with transferring the questions that the associations ask Telefónica to the different companies and business lines of the Group. In the case of Spain, Telefónica currently actively collaborates with a total 16 associations, 12 national and 4 autonomic.

Of these, due to the volume of activity developed alongside them, we must highlight the Internaut Association (AI), the Association of Internet Users (AUI), the Organisation of Consumers and Users (OCU), the Andalusian Federation of Consumers and Users in Action (FACUA), the Union of Spanish Consumers (UCE), the Association of Users of Communications (AUC) and the Spanish Confederation of Consumers and Users (CECU).

For Telefónica this relationship is of great importance, as it allows us to transfer the many suggestions we receive from these associations to our customers in the form of improvements to the products and services we offer them. The main subjects we dealt with with them in 2005 were the irregular pre-assignments, the rounding off of prices in telephony, the quality of the internet access and the new ADSL offers and packages, amongst others.

Latin America

In Brazil, Telefónica has permanent channels of dialogue with the different consumer associations. The company relates to public bodies in defence of consumers, called PROCON (there are 181 PROCONs active only in the State of Sao Paulo), and non governmental organisations in defence of consumers, and is represented in IDEC (Brazilian Institute of Defence of Consumers) and PROTESTE.

TeleSP managed to receive the number of Procon claims in the city of Sao Paulo by 51.7% (503 claims in 2005 over 1,042 claims in 2004). With 95.8% of the claims attended, Telefónica is the company of the public service providers that best attends the complaints brought before Procon in the city of Sao Paulo, which includes other fixed and mobile telephony operators that offer a service in the capital.

Periodical meetings were held in Argentina with the “Defensoria del pueblo” and different associations in the country (Adelco - Proconsumer - Adecua - Procurar - Prodelco - Consumidores Argentinos - Deuco - Unión de Usuarios y Consumidores). Likewise, Telefónica Móviles Argentina, along with CICOMRA carried out an informative meeting with the Union of Argentine Customers (UCA).

Telefónica Móviles Colombia is an institutional member and forms part of the Corporate Board affiliated with the Association of Communications Users, ASUCOM. Work is under way from this association to improve dialogue and communication between customers and clients.

CASE STUDY

Managing the customer relationship

Within this effort towards greater customer orientation, the motivation and conviction of the professionals and collaborators of the Company is essential. This is the aim of the “Customer Commitment” programme of Telefónica Latinoamérica and “meta:cliente” of Telefónica de España.

In 2005, Telefónica de España’s commercial development programme made a survey among its professionals with the following results:

- More than 81% of those surveyed are aware of the objectives of the Commercial Development Module.
- 96% think that commercial transformation is necessary.
- More than 75% believe that Telefónica is more and more concerned for customers.

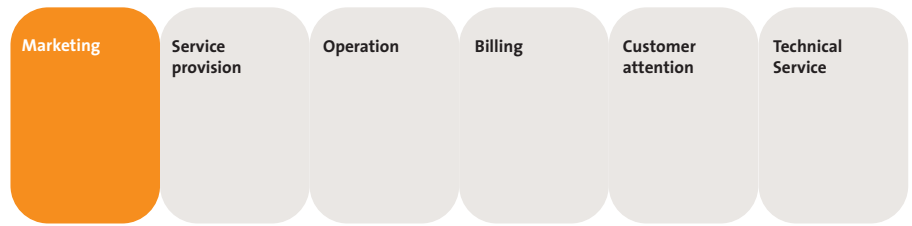
CASE STUDY

Proyecto Espejo in Telefónica de España

The Proyecto Espejo by Telefónica de España consists of the operations area of the Company calling customers to find out their satisfaction with the action of the Company.

Given the impact of this measure on customer satisfaction, in 2005 it was decided to extend the calls to 100% of customers requesting any action by Telefónica de España in supply or maintenance, thus guaranteeing contact with customers.

Among the measures implemented by the company as a result of listening to the customers’ needs, is the “Customer Communication” initiative, the aim of which is to contact all customers when it is not possible to meet the times agreed with them. In the calls, Telefónica will explain the reasons for the delay and will set a new commitment date with the customers.



Marketing

Products adapted to the demands of customers

In 2005, Telefónica developed a series of measures aimed at enhancing the development of broadband and the society of information through the commercialisation of products adapted to customer needs.

The free doubling of the speed of the ADSL service, the Dúo and Trío combined offers (ADSL, calls and Imagenio digital television), the new modes of ADSL by time or volume, the ADSL solutions for smes or the joint offers of ADSL and personal computers are some of the commercial proposals developed by Telefónica de España in 2005. In the case of Telefónica Latinoamérica, similar initiatives have been made associated with the Speedy service, and particularly:

- Free duplication of the speed in Argentina, Brazil and Chile.
- 1,500 WiFi Hot Spots in the region to give broadband mobility.
- Combination of Speedy with satellite TV such as, for instance, Speedy Skye in Brazil or Speedy TV Satelital in Chile.
- Bundling of products such as: Mobile Telephone and ADSL in Argentina and Fixed Telephone and ADSL in Chile.
- 24 Hour assistance service for PC, Doctor Speedy, complementing the offer of broadband solutions in Peru.

In the case of Telefónica Móviles España, a great effort has been made to provide customers with the terminals and applications that can made best use of the potential and band width of the new 3G networks. Particular mention of the UMTS cards for laptops, the multimedia messaging service and online electronic mail, the applications of audio-visual contents or accessories for terminals. All of these initiatives have been combined with great activity in reducing rates and bill simplification through service packages.

CASE STUDY

Imagenio, an innovative service recognised by the consumers

The Spanish Union of Consumers (UCE) in September 2005 published a report highlighting the advantages that Imagenio offers consumers and users over cable television.

The UCE stresses the importance of the development of ADSL broadband over cable to achieve convergence between voice, data and television services in the digital household, and makes a comparative study between the Imagenio services and cable television, to highlight the following advantages of Imagenio:

- Imagenio can give its offers to virtually all homes.
- Simpler installation.
- The Video on Demand (VoD) enables the users themselves to decide what they want to see and the best time to do so.
- Allows IP voice services
- Internet and interactive services from the television.
- Compatibility with Terrestrial Digital Television (TDT).

CASE STUDY

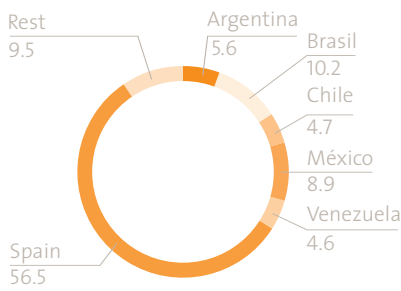
Savings products offered by Telefónica Móviles España

Among the savings products offered by Telefónica Móviles España in 2005:

- Mis Cinco: reduced prices and single rate for calls, text messages, multimedia messages and video-calls to five numbers selected by the customer.
- Mi Familia: a rate reducing to 0.03 €/min. the cost of the calls between a maximum five movistar contract and/or movistar card held by the same customer.
- Mi Favorito: low, single rate for calls, text messages, multimedia messages and video-calls to the movistar number selected by the customer.
- Sub-26: enhances communication between movistar contract and prepaid customers under 26 years of age, with a reduction of 33% both on call minutes and on SMS.
- Contrato Club: enhances the use of the calls customers make in their habitual circles without any need to be concerned about time bands. Savings of up to 50% on the price of other movistar contract in normal or commercial hours.
- Contrato Tu Tiempo: this contract favours calls between movistar customers with a rate of 0.07 € a minute in low rate time band, with the calls billed by seconds from the first second of conversation
- Tarifa Mundial Activa, a single rate for communications in roaming, regardless of the operator connecting, the time of the communication and only depending on the international area to which the country belongs from which the traffic is sent
- Anticipame Saldo, a service aimed at controlling expenditure, which allows pay-as-you-phone customers meeting certain requirements to ask for their balance to be reloaded for a set amount at any time.
- Combi 250 combines different services, including some Third Generation (3G), in exchange for a single, invariable monthly quota for customers. It includes 250 minutes of voice, 250 minutes of video-calls, 250 short messages (SMS) and a further 250 multimedia messages (MMS), free navigation in emotion and 50 MB of data (internet).

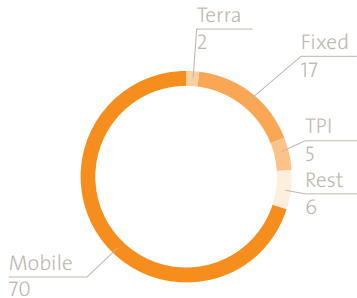
Advertising investment of the Telefónica Group by country (2005)

Data in percentage



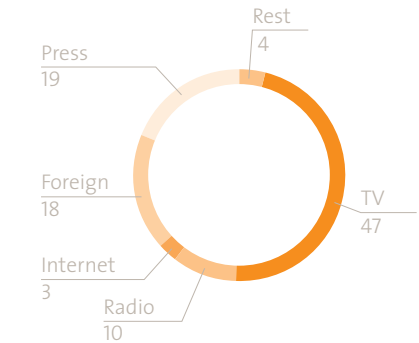
Advertising investment of the Telefónica Group by business line (2005)

Data in percentage



Advertising investment of the Telefónica Group in media (2005)

Data in percentage



Advertising

Advertising is the main means of informing customers on new products and services offered by the company. In business lines, mobile telephony is the most active in the field of advertising, followed by the fixed and long distance telephony businesses. As for the means used in support of this investment, the main ones mentioned are television, newspapers, radio and street boards, which concentrate 93% of the advertising investment.

In all the countries where it operates, the Telefónica Group maintains its commitment to develop a clear, respectful advertising policy. All the advertising carried out by Telefónica goes through a double approval process before it is finally issued. On the one hand, the companies have the approval of the legal advisors in each of the companies, with a view to ensuring respect for the regulation and the competitors. On the other, the campaigns have a pre-test phase with a small group of people, to make sure that the customers clearly understand the messages and promotions given, and that they do not contain messages that are offensive for any particular group.

In Spain, the Telefónica Group is a member of Autocontrol (Association for the Self-control of Commercial Communication), made up of advertisers, agencies, media and other commercial communication service companies, which as a whole represent more than 80% of the Spanish advertising investment. In turn, Autocontrol is a member of EJNetwork and the European Advertising Standards Alliance (EASA). Its aim is to prevent and resolve any possible advertising

controversy, by establishing an ethical framework where a responsible, true commercial communication is developed.

The Telefónica Group is a member of the Spanish Association of Advertisers, where it forms part of the board of management and actively participates in the media commissions.

In other countries, the operators of the Grupo Telefónica Móviles take part in similar groups:

- Argentina: Cámara Argentina de Anunciantes
- El Salvador: Asociación de anunciantes de El Salvado
- Guatemala: Asociación de anunciantes de Guatemala
- Peru: Asociación Nacional de Anunciantes
- Uruguay: Cámara de Anunciante de Uruguay
- Venezuela: Asociación Nacional de Anunciantes

Six claims were brought against the Grupo Telefónica Móviles for deceitful advertising in Chile (consisting of divergences with respect to the terms and conditions applicable to the promoted plans), nine in Panama (in the same promotional campaign), three in Peru (from competitors) and two in Uruguay.

Shops and distributors

In Spain, Telefónica de España has 104 shops of its own (Tiendas Telefónica) where customers can carry out all kinds of processes, see the Telefónica services and check out their terminals. There are also 2,572 indirect sales points through distribution agreements with other companies, which supposed an increase in the network of more than 600 sales points in 2005.

TeleSP has 124 establishments of its own and 552 attention points in Post Office shops. There are also 120 companies indirectly distributing its products and services.

Telefónica de Argentina has 51 establishments of its own, 55 attention agents and 57 indirect sales points.

Throughout the world, Telefónica Móviles has more than 30,000 shops of its own, distributors and commercial centres in the different companies where it operates. The Company has made a noteworthy effort to unify and extend its direct commercial attention channels in 2005 after taking control of the operations of the ten operators purchased in the previous year.

Given the large proportion of customers with prepaid services, Telefónica Móviles strives to facilitate and simplify the reloading of the balance in the terminal, either through electronic reloading services or by extending their reloading commercialisation network (Argentina, Ecuador, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay, Venezuela)

Loyalty plans

We must stress the efforts made by Telefónica (and particularly Telefónica Móviles España) in loyalty activities, launching campaigns to reward long times as customers by offering favourable conditions for terminal renewal and encouraging greater commitment from customers at the same time. Therefore, in 2005, there were more than 4.5 million changes (+23.2% over 2004) in the Movistar points programme, which in 2005 had been running for five years.

Online channel

Telefónica is presented on Internet as an integrated provider of telecommunications services in each of the countries where it operates. The “telefonica.pais” model seeks to establish a single Internet access point in each country that allows customers to transparently access all the commercial and institutional information of the Company. To achieve this, since 2003 more than 200 projects have been developed in 13 countries, involving more than 500 people.

The final result is a product and service offer in accordance with the needs of the customers; offering specific solutions for individuals, professionals and companies. The other interest groups of the Company (stakeholders, investors, suppliers, partners, employees, media and citizens) also have specific sections in each of the “telefonica.pais” websites.

Telefónica’s Internet introduction is transparent to organisation and technology to achieve great flexibility and speed to meet market demands. The transparency in the organisation allows us to adapt to the changing commercial models and maintain the operative independence of the businesses without altering the model.

In 2005, the “telefonica.pais” websites also carried out a series of technical actions to improve the accessibility of their pages and achieve a better overall position on Internet. The number of visits received in 2005 in all of the “telefonica.pais” portals in Latin America exceeded sixty million, with more than 400,000 users individually registered. The “telefonica.es” portal ended 2005 with over three million visits a month.

Telefónica on Internet

Germany	http://www.telefonica.de
Argentina	http://www.telefonica.com.ar
Brazil	http://www.telefonica.com.br
Chile	http://www.telefonicactcchile.cl
Colombia	http://www.telefonica.com.co
El Salvador	http://www.telefonica.com.sv
Spain	http://www.telefonica.es
USA	http://www.us.telefonica.com
Guatemala	http://www.telefonica.com.gt
Morocco	http://www.telefonica.ma
Mexico	http://www.telefonica.com.mx
Peru	http://www.telefonica.com.pe
Puerto Rico	http://www.telefonica.pr/empresas

CASE STUDY

www.telefonica.es

The www.telefonica.es website is the Telefónica Internet access for all people who wish to find commercial or institutional information on the Company in Spain. This portal has increased its visits by 100% over early 2005, and was receiving three million visits a month by the end of the year.

The www.telefonica.es has seen how some of its dependent portals, such as “Para casa”, “Telefonía fija”, “Para las Pymes” and “Guías” increased the number of visits from January to December 2005 by 50%, 197%, 18% and 423% respectively.

Moreover, it is seen that many users that in the first instance access the www.telefonica.es website to use a specific service or tool remain browsing in telefonica.es after using it. This is the case of the visits to the White Pages, with 18% staying there after making their queries, the speed test with 20%, and electronic mail consultation with 12%.

www.telefonicaonline.com

The Telefónica de España commercial channel on Internet is called www.telefonicaonline.com and offers interactive attention to customers seeking information, the opportunity to contract products and services, to contact customer attention or to access their bills online. It is aimed to cover the needs of all customer segments (residential, smes and large companies or corporations), to offer all Telefónica products and to attend all incidents in the phases of the commercial cycle (pre-sales, sales, post-sales and e-marketing).

The contents are intended both for registered users recurrently accessing the web and those seeking information occasionally on some product or service. They are available in Spanish and Catalan.

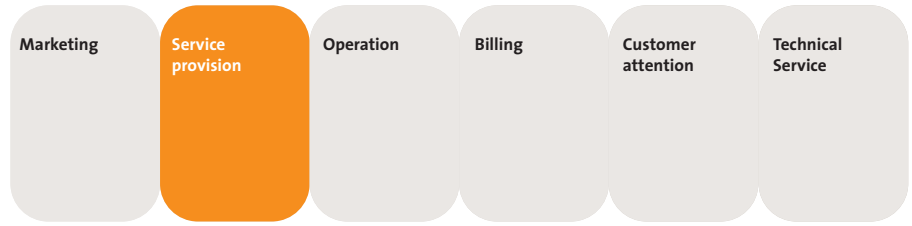
At the close of 2005, the figures for www.telefonicaonline.com were as follows:

- 2,525,743 million registered users (growth of 621,988 over 2004), of which 329,034 were active users at the end of 2005.
- More than 27 million visits to complement over 520,000 sales.
- 148,850 eFactura customers, with an increase of almost 31,000 over 2004

Telefónica Móviles España Customer Channel

In 2005, Telefónica Móviles España set up the customer channel www.canalcliente.movistar.es which enables certain processes to be done by Internet. These include the possibility of seeing the breakdown of their calls, reloading their card, seeing the catalogue of points and exchanging them, modifying their personal data, changing the contract or card form, consulting and managing movistar services or contracting savings options.

In the first eight months in which the Telefónica Móviles España customer channel was up and running, it already had nearly a million users.



Service provision

Fixed telephony

In 2005, Telefónica de España installed more than 1,100,000 telephone lines and met the installation commitment established by the customers in 99.17% of cases. Although the average time for installing a line is under 10 days (9.68 days), the Company is working to reduce the installation times for the lines that most fail to meet the expected time (percentile 95 of the installation time at 23.9 days)

In Latin America, Telefónica is striving to install lines in the shortest possible time, with an average 5.67 days in 2005 (6.84 in 2004). In this sense, the line installation target times are set in accordance with the respective regulators, and an indicator is established associated with the percentage of lines installed in under 5 days, which for the whole of Telefónica Internacional was 80.84% in 2005 (66.4% in 2004). The results are different in the case of Argentina, as in this case, customers are required to pay for the cost of installing the line before the installation is actually done.

In giving the service, it is not only important to do the work fast, but also to do it precisely. Telefónica Internacional has therefore established an indicator associated with the supply fault percentage. At the end of 2005, this indicator achieved a result of 11.62%, with an improvement of the value of 13.5% for 2004.

ADSL

ADSL is one of the services most demanded by Telefónica customers. It is therefore fundamental to guarantee the utmost quality both in the installation phase and in resolving faults. In Spain, in 2005 Telefónica de España installed more than a million lines with an average installation time of 11.53 days (9.8 in 2004). The longest waits by customers were under a month (percentile 95 installation time = 29.9 days)

In addition, Telefónica de España acquires a commitment with the customer for an installation date in practically all ADSL installations (99.998%), a date met in 91.18% of cases.

In Latin America, the average time for the installation of the Speedy service in December reached 5.53 days (4.8 in 2004). This means that 58.26% of the ADSL lines installed in 2005 were made available to customers in under 5 days. This percentage is worse than that achieved in December 2004, basically due to the spectacular increase in the number of lines installed by Telefónica in the region, specially in Brazil. Against this, the percentage of faults associated with the provision of the service

fell to 22.2% from 27.6% in the previous year. It must be said that in the case of the only country that failed to achieve the set targets, Argentina, work is being done directly with the collaborating companies to improve the indicator.

Data circuits of largest band width

The data circuits with the largest capacity are installed much more sporadically than the basic telephony lines or ADSL lines. Furthermore, each customer demands different characteristics, which means that the service supply times are usually longer.

In Spain, the average time for the initial supply in 2005 was 28.08 days. In 62.4% of installations, Telefónica acquired an installation commitment date with its customers, which was met in 85.6% of cases.

Percentage of basic telephone lines for the residential segment installed in under 5 days

	Argentina	Brazil	Chile	Peru
Dec 2005	17.6%	90.9 %	83.3 %	66.9 %
Target 2005	14.9%	82.4%	92.0%	50%
Dec 2004	11.8%	75.9%	75.8%	41.2%

Note: The residential segment is chosen as it is the one where the Telefónica compliance percentages are poorest.

Faults associated with the provision of the basic telephony service

	Argentina	Brazil	Chile	Peru
Dec 2005	13.1%	12.3%	8.1%	8.7%
Target 2005	18%	13.4%	6%	6%
Dec 2004	13.4%	15.4%	8.1%	6.8%

Note: number of faults in the 30 natural days following supply with respect to all lines installed
 Note: The residential segment is chosen as it is the one where the Telefónica compliance percentages are poorest.

Percentage ADSL for the residential segment installed in under 5 days

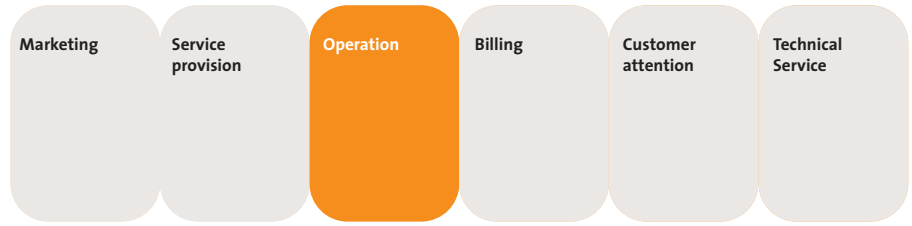
	Argentina	Brazil	Chile	Peru *
Dec 2005	33.1 %	56.3 %	78.2 %	88.5 %
Target 2005	35.2%	30%	95%	ND
Dec 2004	35.7%	63.9%	90.8%	ND

Note: The segment is shown because it is the one where Telefónica has greater comparability between countries
 Peru: the measurement of the indicator started in 2005, so the objective and the historical value are not available

Faults associated with the provision of the ADSL service

	Argentina	Brazil	Chile	Peru
Dec 2005	6.1 %	28.6 %	4.0%	ND
Target 2005	3%	31.2%	8%	ND
Dec 2004	3.4%	31.5%	9.1%	ND

Note: number of faults in the 30 natural days following supply with respect to all lines installed
 Note: The residential segment is chosen as it is the one where Telefónica has the greatest comparability between countries.



Operation

Operation of the mobile telephony networks

All of the companies of the Telefónica Móviles Group keep constant quality control through a series of indicators that allow them to periodically check the state of the networks and services. These indicators also serve to set targets and validate the results of the improvement projects or network extensions. The weighted average of the effectiveness of the CDMA and GSM networks of the Telefónica Móviles operators lies at 92%, including the operators that were brought into the Group in 2005.

One of the best factors most appreciated by mobile telephony customers is the possibility of going to other places and keeping their telephone number as a point of contact. In this sense, Movistar customers in Spain can use their mobile phones in more than 200 destinations thanks to the 419 roaming agreements established by Telefónica Móviles España with other operators. This mobility requires an obvious effort in synchronising the customer location systems, directing calls and billing.

Operation of the fixed telephony networks

In 2005, the average number of faults per 100 lines of basic telephony was 2.18 for Telefónica de España (2.07 in 2004). The average availability of the fixed networks in Spain was 99.95%.

Telefónica Latinoamérica continues to work on the directives established in the Regional Quality Plan launched in 2003. The result of this initiative was the definition of the Strategic Quality Indicators, a series of common, similar parameters to allow objective quality to be pursued (operative parameters) and with a direct bearing on the perceived quality (satisfaction surveys and claims). On the regional level, the average percentage of faults in basic telephone in Latin America in December 2005 reached 4.17% as opposed to the 4.49% of the previous year.

One of the aspects identified as one of the main concerns of our customers is repeated faults. Telefónica has therefore established indicators intended to measure the percentage of repeated faults with respect to the total faults in the region. In December 2005 this reached 19.43% (23.11% in the same month in 2004).

This improvement in the indicators is accompanied by growth in satisfaction with the operation process of 4.3pp over December 2004 for the residential segment.

Operation of the ADSL / Speedy service

ADSL is one of the services that requires greatest reliability, as very often customers do not have alternative means to access Internet with broadband. The average availability of the service in Spain in 2005 was 99.97% (99.98% in 2004), measured as the percentage of attempted calls completed with success. Furthermore, the

average number of faults per 100 ADSL lines was 1.39 (1.13 in 2004).

These service quality levels were achieved in a year when Telefónica de España doubled the speed of its ADSL for its customers free of charge. This measure, which had already been taken once in 2004, places the basic mode ADSL at 1 Mbps.

In June 2005, the Internaut Association made its third study of the speed of the Internet access and held Telefónica's ADSL service as the fastest and most regular amongst all ADSL and cable operators, with a speed exceeding the other alternatives by up to 32%. This study was based on more than 215,000 samples collected over five months. In addition to this, in September, the Union of Spanish Consumers published a report highlighting the advantages of Magenio over cable television.

In Latin America, the percentage of faults per ADSL line for the residential segment in December 2005 was 4.99% (7.02% in December 2004). As in the case of the basic telephone line, special attention is paid to the indicators of repeated faults, which on the regional level amounted to 19.36% at the end of 2005 (19.2% in 2004). Satisfaction with the process, comparing December 2004 with December 2005, rose in the region by 1.5pp.

All of these data are highly significant if we bear in mind that the ADSL plant rose in the region to 2,165,000 lines, as opposed to the almost 1.5 million lines in December 2004.

In the case of Brazil, where Speedy has more than a million users, the readers of the Info magazine chose the Telefónica service as the best broadband on the market.

Data circuits of larger bandwidth (> 2 Mbps)

The availability of data services with a bandwidth of over 2 Mbps was over 99.95% in Spain in 2005. This availability is a critical factor for customers contracting these kinds of services, as on many occasions they can not risk having any problem. The number of fault reports per 100 lines in this type was 3.98 in 2005.

Public telephony

In Latin America the public telephony services are an essential alternative for users who do not have telephones in their homes, which is why the availability of this service is a need for society. Telefónica Latinoamérica broadly exceeded the established target of 85% service availability, achieving an average availability of 99.4%.

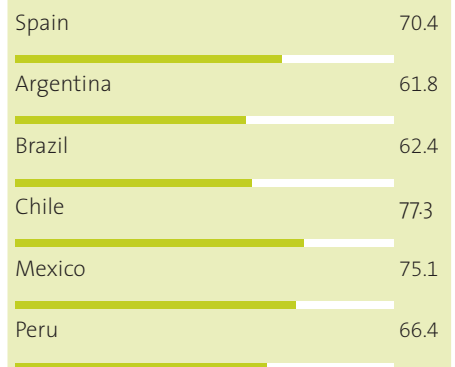
This availability is particularly important if it is contemplated from the double perspective of the fact that Telefónica has more than 600,000 terminals for public use in the region and that this equipment is often the victim of vandalism or sabotage.

OPINION

What do our stakeholders think?

In the RepTrak study, we asked the company about its perception of whether "Telefónica offers high quality products and services". The opinion of the company as a consumer is highly significant, as the sample identified all of the interviewees with customers of the services of the Telefónica Group.

The results obtained in December 2005 were the following



Effectiveness of mobile telephony networks.

	% Calls	% calls not completed	% Effectiveness network interruptions
Argentina			
CDMA	2.91	1.01	96.11
GSM	1.27	1.85	96.90
Chile			
TDMA	1.7	1.3	97
GSM	3.1	1.9	95
CDMA	1.5	0.8	97.7
Colombia			
TDMA	1.42	0.22	98.36
CDMA	1.69	0.09	98.22
GSM	0.74	0.13	99.13
Ecuador			
TDMA	0.66	1.14	98.2
CDMA	2.83	1.09	96.08
GSM	1.08	0.93	97.99
El Salvador			
CDMA	6.26	2.11	91.63
GSM	1.47	1.6	96.93
Spain			
GSM	0.33	0.77	98.9
Guatemala			
CDMA	5.49	2.49	92.02
GSM	4.31	1.67	94.02
Mexico			
GSM	0.8	1.52	97.68
Nicaragua			
CDMA	1.17	1.69	97.14
Panama			
GSM	1.13	1.1	97.77
CDMA	1.57	0.99	97.44
Peru			
CDMA	0.2	0.5	99.30
Uruguay			
CDMA	2.52	2.19	95.29
Venezuela			
CDMA	4.7	1.1	94.2

Repeated faults associated with the basic telephony service

	Argentina	Brazil	Chile	Peru
Dec 2005	16.06%	22.15%	9.37 %	14.62%
Target 2005	17%	25.1%	6.5%	10%
Dec 2004	24.7%	24.4%	7.7%	10.1%

Note: number of repeated faults with respect to the total number of faults
 Note: The residential segment is chosen as the one in which the Telefónica compliance percentages are worse.

Repeated faults associated with the ADSL service

Data as of end Fiscal Year

	Argentina	Brazil	Chile	Peru
2005	7.9%	20.13%	6.95%	22.8%
Target 2005	8.2%	18,2%	9%	22%
2004	7.6%	21.2%	10.8%	16.7%

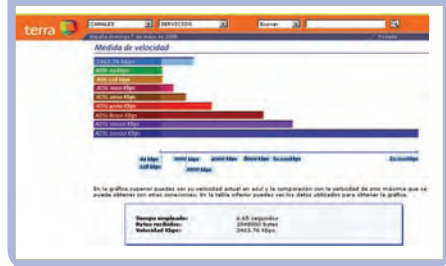
Note: number of repeated faults with respect to the total number of faults
 Note: The residential segment is chosen as the one in which the Telefónica compliance percentages are worse.

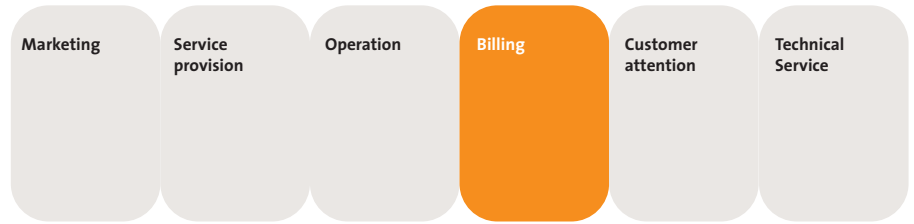
CASE STUDY

Speed test

One of the applications most widely used on the Telefónica website is the “speed test”, which may be used by all people who wish to measure the true speed of their broad band connection.

The service is available at www.telefonica.es and in 2005 was used 4.8 million times.





Billing

As the telephone bill is of great importance for customers and a means of permanent contact to build confidence, the companies of the Group work to offer clarity and precision in communications of this kind with their customers, and offer complementary information that might be of interest to them. Specifically, Telefónica de España and Telefónica Latinoamérica have completed the processes of introducing their respective billing systems (FAST and ATIS). The modification of the billing systems and the bill formats caused a short term increase in the complaints received from customers.

The proportion of complaints about Telefónica de España bills in Q4 2005 reached 3.48 per thousand, with the objective value established by the regulator being 5 per thousand. This calculation was made for more than 28 million bills issued in the quarter.

In 2005, Telefónica de España made a diagnosis of the reasons for complaints in the bills of the residential and SME, business and professional segments. The root causes identified are mainly associated with functional shortcomings and incidents in the billing systems, difficulties in understanding the bill, the application of commercial bonuses through claims, complexity in commercialising new products and discrepancies with the customer in billing the after-sales services. To reduce these sources of claims, Telefónica de España set up a plan of action with 21 initiatives to be developed in 2005 and 2006. The first completed initiatives managed to reduce

the number of billing complaints from residential customers by 42% in September, and by 31% among SMES, thus achieving the established target of 40% and matching the level of complaints in 2004.

With respect to large customers, Telefónica has the objective of establishing a single bill in 2006 to bring together the billing of all voice and data services referring to the same date of close and in a single file. To complement this measure, clarity is improved in the bill concepts concerning charges for sales of equipment and material, and with respect to the complaints. Telefónica thus replies to one of the greatest dissatisfactions perceived by these customers, who had been receiving up to three bills a month referring to different closing dates, which made it considerably difficult to understand and supervise them.

In addition, since 2005 Telefónica de España has offered its customers the opportunity to receive notification by electronic mail of the bills pending payment a few days before they fall due. In this way, any possible non-payment due to reasons beyond the control of the customer is avoided. In the last month of 2005, Telefónica Latinoamérica achieved a percentage of complaints on basic telephony bills of 1.28% (1.59% in 2004). If we determine the percentage of these complaints resulting in adjustments in favour of the customer, this value was 65.47% for the region in the residential segment. In the case of the ADSL service, this value amounts to 2.67% of complaints on all bills in the region,

2005

Movistar	1° Q	2° Q	3° Q	4° Q
Number of billing complaints 1,000 service invoices	1,134	1,430	1,588	1,655

Data provided to telecommunication state secretariat.

which supposes a significant fall from 8.08% the previous year.

In the line of improving the Billing process and the treatment of the associated complaints, different certificates have been achieved in the region, such as: certification of Billing processes in Argentina for the residential and sme segments; certification of the process of collecting information, price setting and billing in Brazil.

Telefónica Móviles is also developing its billing system for its almost 100 million customers around the world:

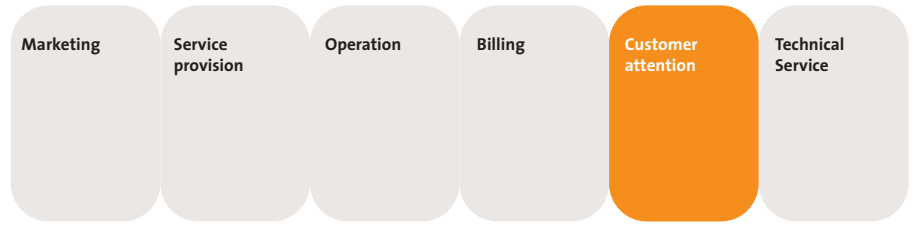
- In Argentina, Telefónica Móviles has updated the bill model by unifying the description of the services in the systems and with a new conceptual and graphic design.
- Telefónica Móviles Chile, redesigned its bill, which helped to improve the perception of our customers. The use of Internet as an alternative means of making queries and delivering the bill has also been enhanced, and there are now 100,000 customers receiving their bills only in this way.
- In Colombia the introduction began of the new system for billing and managing customers, by adopting new definitions and formats for the bill to be clearer and more transparent.
- Telefónica Móviles El Salvador started the process of developing the on line bill project, which will be included in a project of Web processes, through which it will be possible to consult details of calls, balances and to cancel the service.
- In Mexico development began on a new bill based on the results of market studies and the communications of the customers with the call-centre; and also focus groups in which the bills of different companies were analysed.
- Telefónica Móviles España launched the “efactura” electronic bill service in 2005.
- In Peru, the formats and contents of the bills have been improved

CASE STUDY

Telefónica bill in Telefónica de Argentina

Telefónica has not only modified its bill format, but also tries to explain the different elements of the bill to its customers. The example described in the following presents the explanation of the Telefónica de Argentina bill presented at <http://www.telefonica.com.ar/micuenta/>





Customer attention

Calls attended in the telephone attention centres

Data in millions

	Nº calls attends 2005	Nº calls attends 2004
Telefónica Móviles¹		
Argentina	51.4	13.7
Chile	23.1	18.5
Colombia	23.0	14.9
Ecuador	6.6	10.6
El Salvador	1.3	1.5
Spain ²	81.0	42.0
Guatemala	2.7	1.1
Mexico	16.0	21.2
Nicaragua	2.4	0.9
Panama	3.8	2.0
Peru	7.1	7.6
Uruguay	1.0	0.6
Venezuela	35.3	16.1
Telefónica de España		
Spain	84.3	69.8
Telefónica Latinoamérica³		
Argentina	13.6	19.9
Brazil	205.4	189.8
Chile	14.8	12.2
Peru	9	7.2

¹ At times, greater activity obeys an increase in the number of customers associated with the merger of several operators in the country or several promotional campaigns associated with the launch of the new brand.

² Information provided by Telefónica Móviles España to the SETSI for Q4 2005.

³ Calls attended in STB and ADSL included for all segments. The 2004 data are calls attended before 10s. The data for 2005 concern all calls attended.

In the case of Argentina, in 2004 all the calls were considered, whereas in 2005 only the commercial calls to bring it into line with the TISA criteria.

The telephone is the means most widely used by Telefónica customers to communicate with the Company and send it their queries, requests and complaints. The calls to customer attention centres are free in most countries (except for El Salvador and Guatemala). Attention is also given in several languages in the case of Argentina, Brazil, Chile, El Salvador, Spain, Guatemala, Panama and Uruguay (depending on customer demand).

Satisfaction of customers with the attention received

In 2005, Telefónica modified the methodology used in measuring customer satisfaction with the attention offered by asking them whether the reason for their call had been settled, just before the end of the conversation. This change in methodology means that the 2005 figures are not comparable with those calculated in 2004, but this absence of past references is compensated by greater objectivity in the measurement.

In 2005, Telefónica de España attended more than 84 calls from its customers, 77% of which were attended in under 20 seconds (87% in 2004). The score given by customers to the service offered by Telefónica reached a value of 6.77 on a scale of ten points.

Attention through the website or SMS for customers of Telefónica Móviles

	Argentina	Chile	Colombia	Ecuador	El Salvador	Spain	Guatemala	Mexico	Nicaragua	Panama	Peru	Uruguay	Venezuela
Through the website													
Services and price information	●	●	●	●	●	●	●	●	●	●	●	●	●
Queries and complaints mailbox	●	●	●	●	●	●	●	●	●	●	●	●	●
In prepaid: card reloading	●	●		●	●	●	●	●				●	●
In contract: online bill	●	●	●	●		●	●	●	●		●	●	●
In prepaid: consultation of balance and list of calls made.	●	●		●	●	●	●						
Change of price plan	●			●		●							
Service activation	●	●	●	●		●					●		
Chat 24 hours	●		●			●			●				
Account payment	●	●				●							
Through SMS													
Balance query	●	●	●	●	●	●		●		●	●		
Change of price plan					●	●							

For its part, in 2005 Telefónica Latinoamérica received more than 245 million calls from customers, 84.1% of which were attended in under 10 seconds (77.3% in 2004). Only 6.9% of the calls entering the telephone attention centres of the company for this segment were unattended. The improvements made throughout the year, such as Atento al Cliente, which is based on resolving customer requirements on the first contact, obtained the recognition of the customers as satisfaction with the process rose 3.4 percent over December 2004.

There is still no standard methodology in the Telefónica Group to classify the type of calls received in the call centres, which is why it is impossible to offer an overall scale of the reasons why customers call, although it is clear that most calls involve queries and requests for information.

Automatic customer attention systems

To reduce the time for customer attention, automatic systems are alternated for the simpler questions or to direct calls to more specialised operators for the more complex. By way of example, Telefónica Móviles España attended 75% of the 81 million calls it received from its customers in under 10 seconds; of these 51.7% were attended by operators and 48.3% by automatic systems.

In Telefónica we are aware that the automatic systems may cause a certain rejection among customers, who do not feel comfortable interacting with them. Therefore, whenever a customer contacts a telephone attention centre, they are able to select the option of talking to a person.

Similarly, there are customers who wish to do their transactions more quickly than talking with an attention system or an operator. Therefore, the companies of the Telefónica Group are developing parallel attention channels, such as the website or sending SMSs.

CASE STUDY

Customer Defence Service in Spain

The Telefónica Group wishes to become a world referent as a commercial company, and 2006 was a landmark in the process with the launch, amongst others, in Spain of the Customer Defence Service. The Customer Defence Service appears with the purpose of maximising the quality excellence commitment that the Telefónica Group maintains with respect to the attention and service it gives its customers, by providing a way to check dissatisfied customers who would previously have resorted to the ordinary forms of making complaints that Telefónica makes available for them. With the launch of the Customer Defence Service, Telefónica becomes the first operator to proactively create a unit of such characteristics.

CASE STUDY

Resolution on the First Contact

The aim of the Telefónica Attention Centres is to effectively reply to customer demands in the shortest possible time. With this objective and experimentally within the group, the “Atento ao Cliente” project was developed as a joint initiative between TelSP and Atento Brasil. The project is based on three basic premises aimed at improving the resolution:

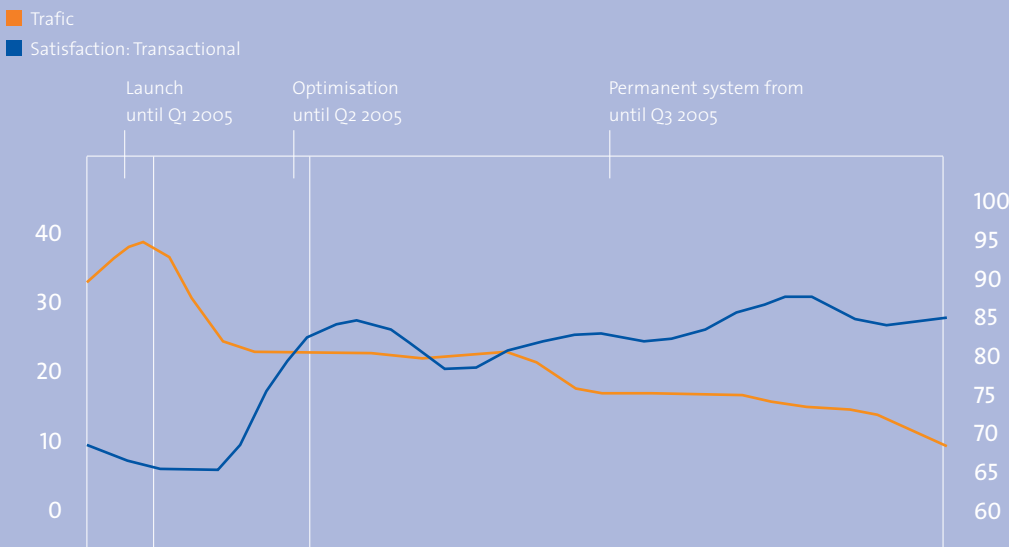
- A very strong training programme for teleoperators to improve their knowledge and attention capacity.
- Access by these better trained teleoperators to a greater management capacity on subjects that previously had to be resolved in other instances. To do this,

they were given access to applications and procedures that had not previously been accessible in the call centre.

- A modification in the contract with the service provider, Atento Brasil, which enhanced the resolution capacity. This contract is based on a price per call conditioned by a band of durations for each of the calls. If the resolution capacity improves, the price improves and the call duration band is increased.

The introduction process had an initial adaptation that caused an increase in traffic and a fall in satisfaction. However, two key results were immediately achieved: a highly significant increase in satisfaction and a considerable fall in the traffic received in the customer attention centres. This analysed from an already appreciable time period, it is detected that the traffic has fallen considerably, but it is also appreciated that the quality has reached a limit that does not seem to depend on whether the call resolution increases or not.

Evolution of the customer attention programme



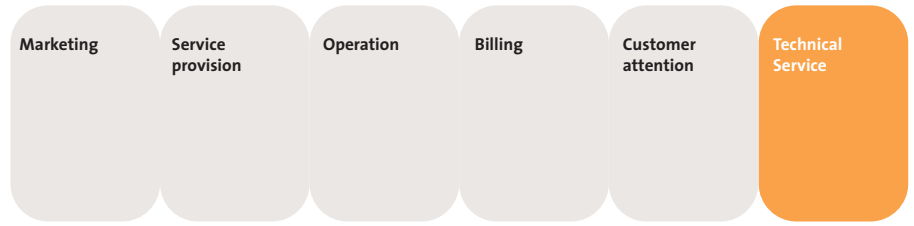
Formal channels for making claims with Telefónica Internacional

Argentina	<p>Call (112 y 0800 UNPRe)</p> <p>Boxes: Customer attention; Speedy; Infocliente; Alcancía Telefónica; Complaints and claims module; Unrecognised lines; Reimbursement management; Sivitel Reimbursement Management; Adjustments and PC Credit Notes; Process box; GAC process box; Call centers</p> <p>Notes</p> <p>Complaints book</p> <p>CNC</p> <p>Consumer defence</p> <p>Ombudsman</p> <p>Account executives</p> <p>Commercial offices</p>
Brasil	<p>Residential call centre</p> <p>SME call centre</p> <p>Company call centre</p> <p>Business manager</p> <p>Customer attention shop</p> <p>Virtual shop</p> <p>Ombudsman</p> <p>Consumer protection agencies</p> <p>Regulating agency</p>
Chile	<p>Call Center, 105 attention platforms (a platform required by SUBTEL for general claims), 104 (telephone attention), 107 (commercial attention) and TCTC customers that require attention and from telephones of the competition access through 600600105, 600600104 and 600600107.</p> <p>Customer portfolio</p> <p>Letters to direct line of the “El Mercurio” newspaper.</p> <p>Trades received from SUBTEL (communications sub-secretary)</p> <p>Trades received by SERNAC (national consumer service)</p> <p>Corporate web centre</p>
Perú	<p>104 telephone line</p> <p>Presence through multi-centres</p> <p>Letter</p> <p>The regulation also allows it to be done virtually, but not used to date</p>

CASE STUDY

Telefónica Móviles España contacts its customers on demand

If a customer wishes us to get in contact with them to clarify any query on our products or services, they just have to complete the questionnaire available at www.atencionenlinea.movistar.com. This is the best way we can anticipate our customers’ queries and resolve them more quickly.



CASE STUDY

Re-establishment of Deloitte operations following the fire in the Edificio Windsor

Telefónica Empresas collaborated with the company Deloitte to re-establish its operative activity following the fire in the Windsor building, located in the financial center of Madrid, where the auditing firm had its head offices and occupied 20 of the 25 floors of the building. This work was carried out under a Disaster Recovery Plan that Deloitte had drawn up hardly a month before the catastrophe, which identifies the critical nature of every application and the steps to be taken. The communications and information recovery and support work was performed quickly thanks to Telefónica's skill and experience in Business Continuity Solutions and BRS (Business Recovery Services). Specifically determining were Telefónica's on order storage and backup services, which provided the necessary resources almost immediately, and on which the auditing company began to recover its information stored on security tapes. Hardly 24 hours after starting the recovery work, practically all of the delegations already had an Internet connection and began to use their electronic mail, which enabled the company to start the process of activating the applications supporting their business and the documentary management.

Technical Service

Telefónica customers hope not to need the technical service, as they expect the service offered to be of great quality. However, when the intervention of the technical service is necessary, customer expectations are that it should be resolved rapidly and effectively.

Fixed telphony

The mean time for resolving faults in a basic telephone line in Spain was 16 hours in 2005, an identical value to that achieved in 2004. In Latin America, this value was 42 hours on average between the three segments (Residential, SMES and Companies). In December 2004, this figure was 42.75. The targets set for 2006 are based on adapting the times to the expectations of each customer segment.

ADSL

The mean time to resolve problems with an ADSL line in Spain was 14.15 hours (10.36 in 2004). In the case of ADSL in Latin America, the mean time for resolving problems was 21.8 hours (19.45 in 2004), a small increase bearing in mind the broadband explosion in the region in the past year, reaching 2,165,000 ADSL lines.

Data circuits with a larger bandwidth

In 2005, faults on circuits with a larger bandwidth in Spain were repaired in an average time of 8.39 hours.

Service order returns

Service order returns are one of the main causes of customer dissatisfaction, as while customers expect to receive a reply from Telefónica, the Company has no indication in its registers that any action has to be carried out with the customer.

In order to reduce the current level of returns, Telefónica de España has planned two pilot experiences based on the areas of greatest influence in service order returns, which are located at the beginning and the end of the value chain:

- The commercial area, as a result of the inadequate closure of the sale (35% of the returned service orders on gross sales).
- The installations area, associated with problems in contacting the customer (30% of the returned service orders on gross sales).

From the results achieved in both experiences and the reduction of the indexes of returned service orders, the adequateness of these actions and the convenience of their territorial extension will be evaluated.

CASE STUDY

Telefónica technical assistant for ADSL customers

Telefónica de España has provided customers with a new Technical Assistant to solve incidents with the ADSL service. This is a software tool to protect, check and automatically resolve the most frequent problems that might occur with any computer user in relation to the use of ADSL.

The functions provided particularly include:

- It automatically detects and resolves connection and mail setup problems.
- It allows system setups previously stored to be restored to re-establish the connection with the previous parameters.
- It provides detailed information on hardware, software and customer PC connections.
- It includes simple tools to optimise the resources of the customer PC: connection tests, router rebooting, cleaning IE caché, resetting IP, etc.
- It provides online assistance from the telephone attention centre (TAC), by opening a chat session, and also, when authorised, allows the remote control of the customer PC from the CAT.

All of these facilities will enable the number of calls to the TAC and the time for resolving incidents to be reduced, with a direct impact on customer satisfaction and the costs of the TAC.

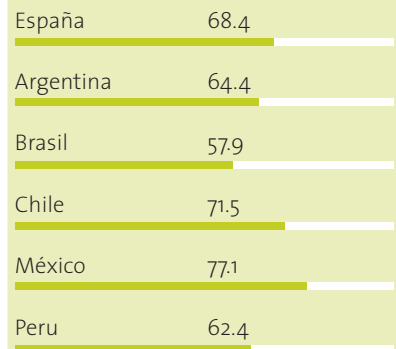
The aim is that all ADSL customers should have this tool, so the Assistant has been distributed by electronic mail to 350,000 customers, and has been made available to customers through the website, the Customer Attention Centres have been trained and the application has been included on the ADSL installation CD for all customers.

OPINION

What do our stakeholders think?

In the RepTrak study, we asked society about its perception of whether “Telefónica guarantees its products and services”. Society’s opinion as a consumer is highly significant, as the sample completely identified those interviewed with customers of the services of the Telefónica Group.

The results obtained in December 2005 were the following



Excellence in service

Service improvement initiatives

Quality certificates

Service improvement initiatives



Telefónica de España

The strategic programme meta:cliente in 2005 in Telefónica de España started a new wave of improvement initiatives structured in four modules, one of which is Operative Excellence, focused specifically on customer satisfaction and increased efficiency throughout the value chain. In 2005, the following six transversal work teams were established, from which around 150 planned actions arise:

- Residential and small business and professional customer attention centres
- Broadband services
- Large customer billing
- System renewal and availability
- Effectiveness in different units
- Comprehensive material management

Telefónica Latinoamérica

The Six Sigma methodology is being used in the four operators in Latin America as a key tool to identify the processes and levers critical for improving quality. The bases of the project are the Rules for the Introduction of Six Sigma approved in 2004.

More than 250 Six Sigma projects were carried out in 2005 (96 in 2004) involving over 2,100 professionals from Telefónica Latinoamérica in the Six Sigma training processes. The work plan established for 2006 includes the training of a further 1,000 professionals in the different tools of the Six Sigma methodology.

Some of the Six Sigma projects developed in 2005 were:

Brazil:

Logistics efficiency of the Speedy self-installable Kit. Programming Speedy installation and repair services. Reduction of repeated STB faults.

Argentina:

Optimisation of the SME customer complaints. Optimise and systematise the provision of personal protection elements. Optimise the times for giving Company Customers service.

Chile:

Speedy ADSL Broadband customer complaint attention. Resolution of STB Household and SME complaints on the first contact. Time for delivering quotes to customers.

Peru:

Complaints associated with new campaigns and products. Efficiency in managing installations. Incidents in the network affecting the customer.

2005 saw a close collaboration between the commercial, operational and quality areas of Telefónica de España and

The Six Sigma improvement methodology, based on controlling the variability of the processes and training people, pursues customer satisfaction and has been constituted in the reference methodology of the Telefónica Group for process optimisation.

Introduction of the Six Sigma methodology in Telefónica Latinoamérica

	Argentina	Brazil	Chile	Peru
Seis Sigma projects	17	197	16	28
People involved in the training	123	1,735	111	143

Telefónica Latinoamérica. With this, successful experiences were shared and common work areas were identified in subjects such as commercial intelligence, sales models and channels and customer attention, in offering broad band products and traditional business.

Telefónica Móviles

In 2005, Telefónica Móviles España established different work groups in order to establish improvement initiatives in the service offered to its customers.

- Management of the service quality from the customer’s viewpoint (3 projects).
- Resolution of root cause of customer complaints (8 improvement groups).
- Automation of the management of the quality of the services from the customer viewpoint.
- Evaluation of 6 services, introduction, improvements and table of indicators.
- Improvement of the quality management of the internal customer (3 improvement groups).

Telefónica Móviles operators applied the Six Sigma methodology to develop projects and initiatives to improve the service, as described below:

Argentina (Six Sigma)

Increase the productivity of the call centers
Reduce demands for personal attention.
Reduce the logistics time

Chile (Six Sigma)

Increase the capacity to resolve claims for first line reloading failure
Reduce the time for generating and approving credit notes

Ecuador (Six Sigma)

Guarantee the availability of the cellular network each month
Reduce the time required to deal with serving goods and services in the management areas

El Salvador and Guatemala

Reduction of the number of claims by solving root problems through the Claims Committee
Reduce repeated claims

Mexico

Increase network availability and added value service platforms
Reduction of the percentage of failed calls
Reduction of the number of rejected SMS

Panama (Six Sigma)

Reduction of billing complaints
Reduction of commercial attention time
Reduction of activation time

Peru (Six Sigma)

Reduce the amount of external customer dissatisfaction
Increase the service level of the call center to minimise customer waiting time
Increase the satisfaction of customers with the process of activating pay-to-phone cards and virtual reloads

Venezuela

Reduce the service centre attention times
Reduce the reply time to corporate customer failure scaling
Improve the price change control process

Quality certificates

The introduction and achievement of quality certificates shows us that both the processes and procedures of the company management are controlled and standardised, resulting in an improvement in the efficiency and efficacy of the organisation. These certificates are drawn up by external independent entities and are made under criteria determined by international standards to guarantee a quality service from different aspects. The ISO 9001:2000 standard nourishes the company in the culture of Continuous Improvement and increases the customers' confidence in the products and services offered by the Company.

Telefónica de España has had a quality system implemented and certified since 2001, applicable in all processes of the organisation and in the whole of the territory where the Company operates. In 2005 Aenor carried out a further follow-up audit of the quality management system for which all the transversal processes of six products were audited, from the development of the products to the billing and payment. The chosen products were Imagenio, ADSL and KitADSL for the residential segment and SolcionesADSL, Wifi and "Líneas Retribuidas" in the small business and professional segment. In addition, in 2005, the "Madrid Excelente" certificate was renewed.

Telefónica Latinoamérica developed significantly in ISO 9001 certifying its quality processes. These processes in the region involved more than 5,000 professionals of the Group and had the following results.

Telefónica Móviles is also moving forward in the process of certifying its processes in all countries of Latin America where it has operations.

Development of the ISO 9001 certification process in Telefónica Internacional

Country	Activity	Certification Date
Argentina	Attention in queries, processes, withholdings and cancellations, receipt of customer complaints and claims in the commercial centres of the Residential business Unit.	October 2005
	SMEs, Wholesalers and Large Companies	November 2005
	Billing (Residential and SME) Activities from pre-billing calls and processing to issuing, enveloping, dispatching and distributing bills.	
	Billing of Data / Solutions and Control of invoice delivery (TEmpresas).	September 2005
Brazil	Telephone attention for requests, queries, sales, cancellations, claims and complaints from preferential customers, companies and wholesalers and the commercial management of SME customers and indirect channels.	
	Telephone attention and First Level Technical Support for Customers with Data Services and Datacenter	November 2005
	Guarantee of installation, operation and technical support for ADSL technology broad band access (Speedy Home and Business).	April 2005
Chile	Attention and support for Ombudsman management	April 2005
	Maintenance of the process of collecting, recording, prices and billing (ABNT)	June 2005
Chile	Planning, Design and Development of Communications Products and services for Companies (Telefónica Empresas)	December 2005
Peru	Assurance of orders, information management and contacts	November 2004
	OTF billing claim management	February 2004
	Management of claims concerning data and value added services (TEmpresas)	
	Cyclical billing of services of Added Value and Packages including Added Value of Telefónica Empresas and Telefónica del Perú	February 2004
	Provision, Management and Maintenance of Connectivity Networks and Services (TEmpresas).	August 2005
	OTF Billing process control.	November 2003
	Corrective and preventive maintenance for the Fixed and Data Transmission services.	December 2004
	Assignment and Installation of Fixeds and maintenance of the customer access network.	December 2004

Development of the ISO 9001 certification process in Telefónica Móviles

Argentina	In the course of COPC-2000 PSIC certification. The process covers 100% of customer relations with Movistar (call center, retention, customer experience centres, back office and help desks...) Certification is expected for December 2006.
Chile	100% of the processes associated with customer attention are ISO 9001 certified and approximately 65% of the company activities.
Colombia	The main customer attention processes are ISO 9001 certified, affecting 80% of the processes associated with the transactions of the sales and service centres. The first mobile phone operator in the country to achieve this certification.
Ecuador	The operation and maintenance of the radio bases are ISO 9001 certified
El Salvador	100% of all the business line processes are ISO 9001:2000 certified
Spain	100% of activities are ISO 9001:1994 certified, from service design, network building and commercial attention to after-sales and throughout the country.
Guatemala	100% of all the business line processes are ISO 9001:2000 certified.
Mexico	In November 2005, a follow-up audit was made of the ISO-9001:2000 Quality Management System and the ISO-14001:2004 environmental management system.
Nicaragua	Certification according to ISO 9001:2000 complete in 2006.
Panama	In 2005 the certification process began according to ISO 9001:2000.
Peru	100% of the claim registering, treatment, resolution and close processes through the Call Center, Commercial Offices, Integral Agencies and Multicentres of the city of Lima ISO 9001:2000 certified.
Venezuela	In the process of appointing consultants and launching the ISO 9001:2000 certification process.



Responsibility in the service offered

Secret of telecommunications

Protection against Internet abuse

Data protection and privacy

Protection of infancy

Terminal theft

Responsible use of telecommunications

Secret of telecommunications

The State jurisdictional agencies, such as the Tax Office and other bodies of the different Public Administrations, have asked for information and action from our Company in their respective areas of competence, in which Telefónica is obliged to carry out instructions issued from them or to provide the required information.

The legitimate action of the mentioned public bodies in carrying out their functions at times comes into conflict with the, also legitimate, rights of people. Therefore, the requirements demanded with respect to the legal raising of telecommunications secrecy are strictly fulfilled both in the Constitution and in the Law of Criminal Judgement, through the intervention and observation of communications or the connection to the circuit of malicious calls.

Customer protection against “Internet abuse”

Despite the innumerable advantages that Internet offers its users, it can also present certain threats. The global extension of the networks makes it possible for users to receive external attacks such as spam, intrusion, attacks on intellectual property, unsuitable contents, child pornography, fraud, phishing, offence...

In 2005, a growing situation was detected of the problems of security from people seeking recognition among the Internet community from making viruses, trojans, etc to seeking an ever more obvious economic benefit, as is the case of phishing, the fraud of the Nigerian letters, spyware, etc. In Spain, phishing has been one of the increasing problems, with the appearance of webs pretending to be banks and entities of electronic commerce.

Corporate policy of protection against “Internet abuse”

In March 2004, Telefónica started up a corporate initiative to co-ordinate the policies and processes used in detecting and resolving IP incidents in the networks. The companies making up the Subcommittee of Internet Abuse are Telefónica SA, Telefónica de España, Telefónica Móviles España, Telefónica Wholesale Services, Telefónica Empresas España, TeleSP, Telefónica de Argentina, Telefónica del Perú, Telefónica CTC Chile, Telefónica Empresas América.

The objectives of the initiative are the following:

- To reply to the demands for security and protection declared by the customers
- To mitigate the perception of poorer service by our customers
- To assure continuity in the service, avoiding blockage by other networks
- To reduce the costs of network maintenance
- To manage the risks to Telefónica’s reputation

In 2005 the Subcommittee of Internet Abuse developed a series of rules concerning the management of such incidents by the companies of the Telefónica Group.

- The “Policy of Acceptable Use of Internet Services” (approved by the Security Committee in June 2005) establishes the recommendation to the companies of the Telefónica Group of informing their customers of the need to make suitable use of the Internet services.

The document “Obligations of the Companies of the Telefónica Group related to the Management of Abuse in Internet services” was approved by the Security Committee in November 2005. The principles included are the following:

- To develop and introduce products, services and/or secure networks.
- To attend any claims of abuse brought in by the customers or other users.
- To start up technical measures to identify and counter the said abuse.
- To co-ordinate actions with other companies of the group.
- To co-operate with other actors of the society of information
- To inform and/or educate customers of the importance of security.
- Centralisation of the “white list of Telefónica mail servers”. The objective of this is to avoid blockage between addresses of customers of the Group, thus guaranteeing the continuity of the service.

The Sub-committee has developed “Common procedures related to the management of abuse in Internet services”, which will be discussed and approved in 2006. This document establishes the actions that must be carried out by the companies of the Telefónica Group when they receive reports about attacks from spam, virus, intrusion, fraud, phishing...; infringement of intellectual property; child pornography; terrorism; xenophobia; unsuitable contents; blockage due to black lists; offence...

CASE STUDY

Intellectual Property Defense

Telefónica states its solid support to promote the use of licit content in the Information society and its refusal to carry out criminal acts or third rights infractions through digital networks. Some of the outstanding initiatives carried out by Telefónica during 2005 are:

Public initiatives support:

Telefónica states its firm support to the Integral Plan of decreasing and eliminating the activities against Intellectual Property, approved by the Spanish Cabinet in 8th April, 2005.

The objective is to establish a shared opinion, in every Telefónica’s Group companies, that could be submitted in the different Forums created by the main affected stakeholders for this plan and with the aim of adopting a unique stance in the Telecommunications Industry against piracy

Sectorial initiatives support:

Besides an internal working group constitution, Telefónica has also joint the working Group created by the different affected agents, who are interested in implementing an anti-piracy plan.

What can our customers do? Protect their equipment

Contrary to what it might seem, practically all spam incidents registered in Telefónica de España are due to the existence of customer equipment with vulnerabilities and security holes that allow others to send unauthorised mail without the knowledge of our customers.

There are a large number of units connected to Internet that do not meet minimum security requirements as regards their browsing habits and use of Internet. As a result of this, their units end up under the control of “hackers” or “spammers” from other countries to carry out their attacks.

The companies of the Telefónica Group have strengthened their tools to guarantee the protection of their customers both in the use of Internet services and to prevent them from being victims of them.

The companies of Telefónica Móviles have also introduced the necessary systems to protect customers from spam as far as possible:

- There are solutions that allow it to be determined on the basis of statistical criteria whether messages are spam, eliminating those identified as such (e.g.: Argentina, Peru, Uruguay...)
- There are permanent traffic monitors and controls that allow customers making massive mailings or short messages to be identified and their use limited (e.g. Colombia, Panama...)

- Establishment of sanctions in the contracts with integrators to avoid unwanted messages or voice calls from being sent to customers (e.g.: Ecuador, Panama, Venezuela)
- Anti-spam service, thanks to which customers can indicate that they do not wish to receive Movistar campaigns (e.g. Chile, Ecuador)

Report attacks

Telefónica de España has more than 20 electronic mail addresses for reports available for its customers and computer security companies and other operators. These include abuse@telefonica.net for the electronic mail service and abuse@rima-tde.net for the connectivity services (ADSL, RTC, RDSI, Satélite, etc). All messages received are sent to the Telefónica de España Nemesys centre. Other similar services are abuse@terra.es and abuse@telefonica-data.com

Showing its leadership in the sector, in 2005, Telefónica organised the first meeting of Internet abuse attention groups in Spain, an event that received the collaboration of more than 20 Internet service providers, Universities and other groups interested in sharing best practices to combat the said abuse. The meeting analysed subjects such as undesired electronic mail messages, viruses, attacks, the sending of false messages to collect confidential data or black lists.

Tools offered by Telefónica de España to protect its customers

Protection	Input	Output
Customer PC	Anti virus Anti spyware Anti Intruders	
Network	Anti spam Anti phishing Content filter	Customer blockage due to complaints in Abuse
Mail server	Anti spam Anti virus Black list Punisher	Authentication Anti virus Anti spam Punisher Customer blockage due to complaints in Abuse

CASE STUDY

Advice when using Internet

- Under no circumstance must links be followed that lead to the user’s banking portal or their electronic banking system. It is necessary to always use the addresses entered in our browser by hand. The banking entity never asks for codes of any kind by mail, nor sends mail messages with subjects on the need to confirm data in the event of supposed cancellations. Such messages must always be mistrusted.
- The electronic mail must also be watched. Almost all fraudulent messages arrive by this means, so it is recommended to have a safe address for banking matters. This address must not be published or given in forums, chats or public media. The large majority of unwanted mail lists come from tracking through chain mails, forums, chats and notice boards on the net, so if we avoid taking part in such emails in these places, it is a guarantee that we will not receive advertising or dangerous messages.
- Make sure that the name of the page corresponds to the name of the entity, for example: <http://www.BancoOnLine.es>. Normally with fraudulent pages, instead of this there is a numerical sequence or one of the following type: <http://218.12.31.xxx>, which does not belong to any entity of the bank entity. Other times there is an almost imperceptible modification in the name of the bank, a letter is inserted or repeated in some part of the name <http://www.BancoOnLinee.es>, or [ttp://www.BancoOnLiine.es](http://www.BancoOnLiine.es), or a spelling mistake is intentionally given which is not noticed by some users, <http://www.BamcoOnLine.es> or <http://www.vanconline.es/>
- Be suspicious of mail and web pages where there are serious mistakes of spelling and in the grammatical construction of the sentences. In general, translations placed in mails and websites are made by people with no knowledge of our grammar, and the use is also noted of very poor automatic translators in their creation
- Note that the page works with SSL protocol, or safe servers that guarantee traffic encrypting between machine and customer. This may be seen simply at sight if the address bar of our browser gives "https://" instead of "http://;" at the beginning of the address, or if the state bar shows a padlock that warns us that this is a safe page.
- As a final piece of advice, we should do nothing of which we are not absolutely sure.

CASE STUDY

Telefónica Empresas España and its customers' security

Telefónica Empresas España is a pioneering company in guaranteeing the protection and security of its customers. In 2005, they strived outstandingly to protect their customers from virus, spam and other attacks such as phishing.

In 2005, 1,418 million electronic mails were analysed (+ 47.5% over 2004). The increase in the number of mails analysed is due to the inclusion of mail from employees of new companies that are customers of Telefónica Empresas España. The conclusions of the analysis are as follows:

- 67 million emails carried a virus (4.7%). A fall of 29.75% is seen in the number of emails with a virus (despite the increase in the number of mails analysed).
- Spam traffic was multiplied 5.8 times, reaching 168 million mails (11.84%). This increase in traffic is due to the explosion of fraud on the net (phishing) and the activation of heuristic detection filters (in addition to black lists and spam signatures). Telefónica Empresas España is the national leader in antivirus and antispam on the net, analysing more than 56% of the traffic documented in "red.es".
- In 2005, 291 cases of "phishing" were detected in Spanish entities (33 in 2004). The United States is the origin of 50% of the attacks on Spanish entities, and Germany, Korea and Taiwan account for a further 25%. Telefónica Empresas España collaborates with its customers in resolving attacks, and solves over 60% of the cases in under five hours.

CASE STUDY

Telefónica de España Nemesys centre

In Telefónica de España, the Centro Nemesys deals with attending and processing claims received from Internet on illicit or fraudulent activities or abuse made from its IP network.

Spam

Despite having reached more than 400,000 complaints about spam from the Telefónica networks, there is no recognised active "spammer" in such networks. When a spam report is received, the following is done:

- Identify the origin of the attack / spam among the customers.
- Notify the customer of the sending of spam from their computer.
- According to the "Policy of Acceptable Use", customers are eliminated from the service who repeatedly try to make use of the Telefónica networks to carry out mailings.

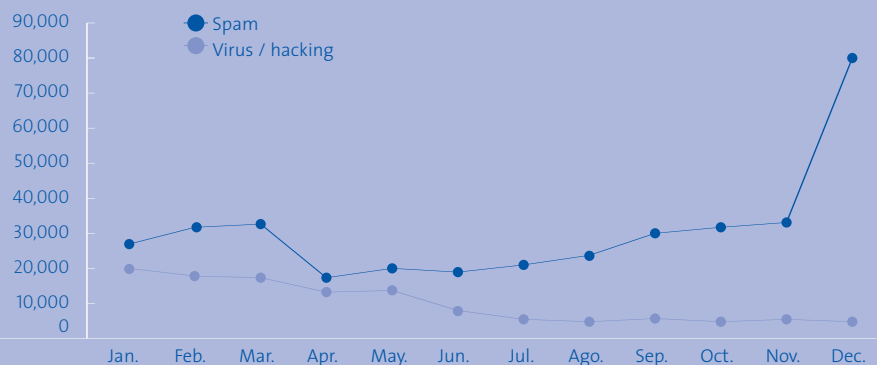
Phishing

Telefónica de España was informed of 52 cases of phishing generated from their networks (attacks against banks and companies).

In order to protect all Internet users from such frauds, Telefónica de España puts into practice that of the protocol of action against phishing agreed with the Centre for Interbanking C-operation and other National -phishing Work Groups:

- By detecting and blocking all phishing webs that have been reported,
- By blocking the access to these webs from the net,
- By eliminating the phishing webs detected in our customers' equipment

Center Nemesys



CASE STUDY

Management of Spam and Abuse in Telefónica de Argentina

Telefónica de Argentina manages spam in the mail platform used by customers of residential, preferential and company business lines. This work involves approximately 90 hours of work each month.

To control the spam, checks are made on the amount of mailings in each account, the authentication of the sender and the control of sending times for very long mails. The most outstanding results in 2005 are:

- More than 7,500 domains and 545,000 mailboxes are analysed
- Approximately 400 mailboxes are blocked each month as not respecting the "Policy of Acceptable Use".

CASE STUDY

Code of conduct with Mobile Spam

The Code of conduct with Mobile Spam reflects the commitment of the operators and GSMA (GSM Association) against spam in mobile phones. This code is applied specifically to commercial short or multimedia messages that are sent to customers without their due consent, including, as required in national legislation, messages that invite people to contact premium services (short messages, telephone calls...) or messages that are fraudulent.

Telefónica Móviles signed this code, the general principles of which are the following:

- To include anti-spam clauses in all new contracts with service providers
- To establish a mechanism that assures the consent of the customer to such services, assuring control with respect to the marketing actions of the mobile operator
- To collaborate with other mobile operators to face aspects of spam
- To inform and give resources to customers to help them to minimise the levels and impacts of mobile spam
- To encourage other anti-spam activities to reduce the level and impact of mobile spam
- To involve governments and regulators in supporting the industry

Data protection and customer privacy

In 2004, Telefónica started the Proyecto MADRE (Automated Regulation Maintenance), initially conceived as a tool to facilitate the compilation of data protection material. The MADRE application allows the effective, efficient management of compliance with the Organic Law on Data Protection (LOPD) and the Safety Measure Regulation (RMS).

The application is developed from initial experiences in Telefónica Móviles España and the additional requirements of the Telefónica Group Security Committee derived from the regulations themselves. The maintenance of the application in time has implied that it has to be constantly adapted to the legal framework and the organisational circumstances, regulations and techniques of the companies of the Telefónica Group. To develop it, in 2004 a work group was set up with Telefónica, the results of which were implemented in 2005.

The use of the application reduced the exposure of the Telefónica en España companies to administrative sanctions as a result of shortcomings or the infringement of administrative and management procedures provided in the mentioned law. The main landmarks in 2005 were the following:

- Registering the intellectual property of the computer application to show the innovative effort and safeguard the interests of Telefónica.
- Making personal visits to all the companies (May-June) to give them support and attend their needs in implementing and starting up the service.
- Presenting the MADRE application in Securmática 2005 (26th April 2005): XVI Spanish Congress of Information Security joint sponsored by Telefónica Empresas. The application aroused interest in the sector and offered an image of Telefónica as an innovative, proactive company in safeguarding the personal data of its customers.

The rules and procedures of Telefónica companies in protecting the personal information of customers stipulate that information is only given to holders of lines and applications are only processed that refer to services given directly by them. The request for information on customers made by third parties is only attended with authorisation from the court or competent authority in each country

Fixed Telephony

Spain

Telefónica de España has been a pioneering company in Spain in assuming commitments of protection and security that guarantee the inviolability of personal data, and to this effect, in July 1994, it drew up the first Deontological Code registered with the Spanish Data Protection Agency.

Telefónica de España respects and fulfils the directives established by the Spanish Data Protection Agency (AEPD) concerning the privacy of the personal data of citizens. In 2005, Telefónica de España passed over ten inspections and started up several initiatives to assure compliance with these requirements. The initiatives include the following:

- Preparation of a Decalogue of rules on Data Protection, to which the Lawyers' Offices collaborating with Telefónica de España must be subject.
- Preparation of a Decalogue of rules on Data Protection, to which the distributors and the agents commercialising Telefónica de España products and services must be subject.
- Inspections of the files of entities responsible for treatment.
- Proposed extension of the typical Data Protection Code of Telefónica de España to all companies of the Telefónica Group.

Approximately one hundred and fifty reports by customers determined the opening of different claims against Telefónica de España by the Spanish Data Protection Agency (Inspection, Informative File, Right-holdership, Sanctions...). In 2005, Telefónica de España was sanctioned in two Cases, and the proposed sanction was reduced to a minimum. Likewise, the

Spanish Data Protection Agency has released a resolution against Terra and other againts Telefónica Soluciones.

Latin America

Telefónica guarantees the confidentiality of its customers and employees, etc. data in all countries where it operates. The Company guarantees that it will adopt and fulfil all security measures in all treatment centres, premises, equipment, systems, programmes and therefore all personnel involved in their treatment, according to the functions and measures established in the Safety Measure Regulation and other internal regulations established there for.

In accordance with its concession agreement, Telefónica del Perú has given ten annual reports on activities carried out to guarantee secrecy in telecommunications. The Central Offices of the Operations of Telefónica Perú in the second half of the year started ISO 27001:2005 certification concerning Information Security, and completed the audit with "zero non-conformities" with the recommendation of the certificate for the said office. The certificate was received in March 2006, and this is the first Peruvian company and one of the first in Latin America to achieve it.

A claim was brought against Telefónica CTC Chile, alleging damages for not having respected the confidentiality of telephone lines when it published numbers in the residential telephone directory. After the appeals, Telefónica was finally sentenced to compensation.

Mobile telephony

The Telefónica Móviles España S.A.U. Security Sub-committee fulfilled the Strategic Security Plan 2005 and presented a new Strategic Security Plan 2006 in order to increase security in the Company's systems and processes.

Likewise, in 2005 an online course in Security Culture was drawn up to make all workers of Telefónica Móviles España S.A.U. aware of the importance of respecting the confidentiality of information.

An automatic process is being developed to enable customers and users to control their personal data, in order to comply with data protection legislation.

Systems containing details of customers of Telefónica Móviles are structured in the following way to protect the information:

- The structure of the system allows the different elements to be dealt with independently (example: Queries, customer operations, etc.).
- Each user has a profile that controls personal access to the different elements.
- The profiles have confidentiality levels, which allows more delicate information to be controlled. Moreover, actions may be carried out on customer information.
- Users may not use options without previous access. Certain delicate queries

require registers to allow users consulting the mobile number to be detected.

- Operations with customer data leave a trace of every user who enters, with information on the user, date and a comment.
- Accesses to the system are handled exclusively by the Computer Security group.
- In the online channels, accesses are by security code and all corporate websites have an approved certificate to guarantee confidentiality in communications.

The Data Protection Agency has published 6 resolutions against Telefónica Móviles España.

In 2005, two claims were brought against Telefónica Móviles Colombia (ordinary civil liability proceedings) for the supposed undue use of customer data. These proceedings are in the initial phase. In Argentina, Chile, Ecuador, El Salvador, Guatemala, Nicaragua, Panama, Uruguay and Venezuela the absence of claims of this kind has been confirmed.

Protection of infancy

Despite the general recognition of the role Internet plays in modern society, activities are developed through the net with aims that are not shared by society. The use of Internet to spread illicit contents, for the illicit use of contents, and for committing the so-called technological crimes means that such crimes have risen giddily. It is a particularly alarming fact that a large part of these attempt directly against the weaker sectors of society and which must be the object of greater protection: infancy and the young.

Telefónica considers that it is necessary to take a step further towards strengthening its current collaboration with different public and private associations and entities; at the same time the crimes committed on Internet are of an ever rising degree of sophistication shown both in the form and speed of their reproduction, and in the skill to avoid any kind of control and follow-up, especially with regard to their authors. Therefore, in 2005, Telefónica led several Round Tables in the head offices of the Defender of Minors, which discussed the main problems derived from the insecure use of the net.

Collaboration in the struggle against child pornography

Telefónica has sought the support and collaboration of the most representative public institutions and agencies in the fight against such crimes, and also private entities and associations. There has long been direct and stable discussion between them, and in line with this collaboration, some measures have been taken, such as:

- Suppression of the service of anonymous personal pages thus making it easier to pursue child pornography.
- A campaign encouraging users to report any activity that was illegal, illicit or immoral included or accessible through personal portals or pages
- Establishment of internal procedures to give a rapid, safe and effective reply to reports and investigations proposed by the State Security Forces and Agencies, such as the Spanish Civil Guard Telematic Crime Group. These actions, coordinated by the Contentious Juridical Advice department of Telefónica S.A. are extended to all countries where the Telefónica Group develops its activities
- Collaboration with the main NGOs protecting infancy on Internet, such as Protegeles and ACPI (Association against Child Pornography).

According to data from the Civil Guard and the Police, this all contributed to reducing illicit actions by 99% and very particularly the display of child pornography.

Awareness of the good use of Internet

One of the most effective measures to prevent the poor use of Internet is to make society aware of it, as well as the availability of resources from parents and educators to guarantee the protection of minors and at the same time nurture the good use of new technologies.

- Dissemination through talks and discussion, animated scripts and leaflets of the advantages of the use of Safe Internet in different schools of several Autonomous Communities. This campaign will continue in 2006.
- Safenet Project; of collaboration with the European Union concerning the protection of minors, prevention of illicit activities and secure use of the net. In 2006, this agreement was materialised in the publishing of specialised magazines, leaflets, CDs and educative websites aimed at turning the net into a secure, amusing tool... and the later distribution of all this to parents, teachers and pupils.
- In February 2005, coinciding with the International Day of Safe Internet, a new Agreement was signed to extend the field of protection to minors. This agreement for the first time includes NGOs, institutions and different business entities of the sector.

These activities have focused mainly on Spain, as this is the country where there is greater access to new technologies by minors. In 2006, Telefónica had the objective of disseminating these materials in all countries where it develops operations, for which it made use of the possibilities offered by Educared.

Adult content management regulation

The Commission for HR and Corporate Reputation of the Telefónica Board of Management favourably reported on the Adult Content Management Regulation in June 2005. The general principles of these regulations are:

- To protect the reputation, brand and the institutional values of Telefónica
- To foster Telefónica's commercial relations with its customers, based on the idea of confidence, the core value of the Group.
- To foster the creation of a philosophy sensitive to protecting citizens from contents liable to offend their sensitivity.
- To guarantee the protection of citizens for whom society demands special attention, and specifically the young and infancy.
- To promote the necessary preventive, technical and organisational mechanisms to avoid these citizens accessing unsuitable contents.
- To make possible the effective use of its infrastructures and networks.
- To contribute to the effective development of the Information Society by streamlining and hindering the inclusion of unsuitable contents.
- Total opposition to any type of illicit conduct related to adult contents.

This regulation has specific section that deal with Internet, mobile telephony and television, and a common characteristic is the establishment of systems of access to contents for adults on the express wish of the customer (opt-in).

Tools for protecting infancy Fixed telephony

Telefónica de España offers its customers of ADSL a service to control access to unsuitable contents under the name of CanguroNet. With this service, guardians may enable a filter that blocks access to undesired contents, by selecting the categories they wish to block: sex, violence, racism, sects... There are up to 22 categories that the customer may filter or allow at their own discretion. Likewise, there is a service mode that inhibits the undesired advertising of websites and spyware.

Mobile telephony

Telefónica Móviles operators do not offer adult contents, although there is the possibility of accessing these kinds of products prepared by others through the SMS, WAP or BREW platforms.

When such contents are offered by providers legally connected to the Telefónica Móviles platforms, current habitual rules consist of warning customers that they are accessing information authorised only for adults. The associated voice and chat services are generally more difficult to control, as their contents are not always declared.

In 2006, Telefónica Móviles has the objective of sharing policies of action, methodologies and systems with O2, as this operator has great experience in managing relationships with customers in more sensitised markets such as the British and Irish.

CASE STUDY

Preadolescent pack

In Spain, Movistar has launched an exclusive, unique product on the market so parents could have a mobile phone service adapted to the communication needs of their children. The pack is designed bearing in mind criteria of security and tranquillity; control on spending and access to contents; saving; communication and protection of children and parents' demands for security and saving. The initiative has the backing of the "for responsible consumption" guarantee of the Union of Spanish Consumers (UCE), and one euro for each pack sold will be used to collaborate with Aldeas Infantiles SOS de España.

Telefónica Móviles Colombia launched the Firefly telephone with Movistar plans, the first product truly designed for children in this country. It is a simple, amusing telephone that allows control of both the incoming and outgoing calls through a book of contents previously programmed by parents with a key.

Terminal theft

In 2005, Telefónica Móviles España continued to work on the programme to control the theft of terminals. The blocking was processed by means of an application that confirms the IMEI/MSISDN link, and if there is conformity, the terminal is blocked in all national operators. The total number of terminals reported stolen exceeded half a million, and 18.5% were disabled by the system.

Similarly, in the area of fraud prevention, the Company is taking part in initiatives to warn users against techniques of deceitful obtention of card codes or reloads intended for making undue charges to accounts or balances.

In other countries, Telefónica Móviles is working in a sector manner and with the local authorities to seek solutions that not only minimise the consequences of robbery for customers, but also serve in turn to discourage this activity by leaving stolen terminals completely useless.

- In Argentina, Chile, Colombia, Ecuador, Panama, Peru, Uruguay, Venezuela... files are exchanged with the registers of the units reported stolen between the different national operators for the different existing technologies.
- In the case of Colombia, Ecuador and Peru, given their closeness the databases were exchanged between the Telefónica operators.
- In El Salvador and Guatemala the systems do not yet exchange information with the other operators, although they do have the tools to deactivate the units in their own network.

Responsible use of telecommunications

As stated in the section “Motor of social development” of this report, there is considerable social consensus on the positive impact of telecommunications on society. However, due to the speed with which the new technologies are adopted, telecommunications are having a fundamental impact on people’s lifestyles, and at times can have a negative impact on them.

This negative impact is usually associated with misuse of mobile telephony, in particular in public places such as cinemas, theatres, churches, conferences, academic places. Furthermore, despite the growing social sensitisation, many drivers use their mobile phones while driving, with the resulting risks to their integrity and that of the traffic.

For this reason, different operators of Telefónica Móviles have produced information aimed at sensitising customers on how to use the technology. Therefore, in Spain, Chile, Nicaragua, Colombia and Peru, web campaigns have been developed, leaflets have been published and advertising supports and banners have been placed on invoices.

It is important to remember that Telefónica Móviles has also informed its customers on questions such as electromagnetic fields and health. The breakdown of the said activities is presented in the environment chapter of this report.

CASE STUDY

Manual for understanding mobile telephony.

In this field, Telefónica Móviles España has signed a collaboration agreement with the Spanish Union of Consumers (UCE) with the aim of improving the information to citizens on mobile telephony, protecting their rights and seeking solutions for users to improve the services, applications and mobile contents for the Information Society. One of the first joint projects resulting from the agreement is the publication of the “Manual for understanding mobile telephony”, a guide intended to provide users with clear, simply information on how to use and enjoy mobile telephony better.

Amongst other things, the manual explains what mobile telephony is and how it works, the contribution of mobile telephony to social well-being and economic development, and recommendations for the good use of mobile telephones, such as:

- Using discreet call signals, reducing the volume or using the vibration mode.
- Trying to talk quietly and, if possible, in a separate place. In addition to avoiding disturbing others, it will preserve their privacy.
- In surroundings where it is not possible to hold a conversation (cinemas, concerts), using the mobile to send or receive messages, browse, etc., always in silent mode.
- If the mobile phone is able to take photographs, never photograph anybody without their permission. In no case must minors be photographed.
- Specific recommendations are also included on the use of mobiles in hospitals, on planes, in petrol stations and in the car, and the use of mobile phones by children.

Further information at
<http://www.empresa.movistar.es/elcompromiso>



Markets where
Telefónica
operates

Situation of regulations and free competition

Situation of competition and market evolution

Competitive situation and market evolution

Fixed Telephony

Spain

Land line accesses in Spain are estimated to have grown by 0.9% in 2005, whereas those of Telefónica de España fell by 1.2%, leaving the Company with an estimated market share of nearly 85% of these accesses, after lining up the historical series with recent data from the CMT (Telecommunications Market Commission)

As regards the land voice analogue traffic, the total estimated volume in the Spanish market, expressed in minutes, experienced a fall of 3.1% over the year. After lining up the historical series with recent data from the CMT, the estimated share of Telefónica de España in this market in December would be 66%.

The market of broadband Internet accesses in Spain reached 5 million accesses on the close, according to our estimates. The success of Telefónica ADSL contributed significantly to this growth, which as a whole (wholesalers plus retailer, including accesses only providing the Imagenio service) reached 3,479,824 accesses at the end of 2005. Furthermore, the local loop rental market share made Telefónica de España's share in the ADSL market in Spain fall to 89%.

The total plant of retail accesses to Telefónica broadband Internet reached 2,719,669 accesses at the end of 2005, which according to our estimates is approximately 55% of the whole market in Spain. It is significant to see that this growth was achieved in an aggressive commercial environment, both from our cable competitors and local loop rental.

The total plant of rented local loops, 116,112 at the end of 2004, reached 434,759 units, which according to our estimates is 8.8% of the total plant of broadband Internet accesses and 11.1% of all ADSL lines. Of all of the local loop rental lines, 64.2% are shared.

Argentina

The management of TASA adapted to a context of growing activity and consumption, and in a market of frozen rates, has enabled growth of Fixed line accesses and voice traffic and an expansion of the broadband. At the end of 2005, with a 34% market share and 50% in telephony, TASA is still the market leader. In its area of influence, their share is 73% in broad band and almost 100% in local telephony.

In all markets where Telefónica is present, there is sufficient effective competition with the entity so as to limit its significant weight in the market, and on certain occasions, without it being able to be the leader. As a result of the strong competition in the markets, Telefónica is therefore obliged to take into account the competitors (current or even potential), the suppliers and the Administration in its decisions.

Brazil

TeleSP closed 2005 with a 46% growth in its broad band accesses and the alternative plans for land lines such as Líneas Económicas. In March the Línea de Economía Familiar was launched, which in under nine months exceeded a million customers, taking the total number of Líneas Económicas to over two million accesses.

TeleSP finished 2005 with a market share of 77% in local telephony and 78% in broadband (referring to the area of original concession).

Chile

Telefónica CTC notes a total 314,200 broadband Internet accesses at the end of the year (289,600 retail), reaching a market share of 43%. This growth reflects the commercial effort made in the year to spread broadband massively throughout the country. New forms of variable broadband have been developed (Speedy reloaded) and new packages of broadband + voice have been launched, in addition to a joint offer with satellite TV and new distribution channels.

The total traffic of the Telefónica CTC network continued to fall, mainly due to the strong replacement of mobiles and Internet. Fixed to Fixed local traffic fell by 10.5% in 2005, whereas land-to-mobile grew by 8.4%. In long distance national and international, the total market continues to fall.

Peru

In 2005, Telefónica del Perú (TdP) saw a considerable increase in the number of accesses (+13.7%), as a result of a strong commercial activity throughout the year, both in Fixed telephony (prepaid and consumption control accounts for 59% of Fixed line accesses in December 2005) and in broadband (more than 340,000 retail accesses to broadband Internet).

These figures represent a market share of 96% in local telephony and 98% in broadband. The good behaviour of the Cable Television plant (Cable Mágico) is also stressed, with inter-annual growth of 18.8%, reaching 462,211 customers by the end of the year.

Mobile Telephony

Spain

In 2005, the Spanish mobile phone sector was characterised by greater competitive intensity, exceeding 43 million lines and achieving a penetration of 97%. At the end of 2005, Telefónica Móviles was reaching 20 million customers (+5% over 2004).

We must stress the strong commercial effort made throughout the year. Including new customers, migrations and terminal changes, Telefónica Móviles España accumulated 10.7 million actions in 2005 (+19% over 2004).

In a competitive environment characterised by a large amount of actions in numerical portability, Telefónica Móviles España achieved a negative net balance, including prepaid and contract, in the yearly accumulated figure of 116 thousand lines.

Equally, we must stress the effort made by the Company in loyalising activities, by launching campaigns to reward time spent as a customer and offering favourable conditions for terminal renewal, encouraging greater commitment from our customers. Therefore, in 2005 nearly 4.5 million changes were seen (+23.2% over 2004).

In the fourth quarter of 2005 new data rates for connectivity were brought in, with concepts close to those of flat rates, prices of 30 euros/month for 1 Giga and 58 euros/month for 5 Gigas.

Brazil

Mobile phone penetration in Brazil rose to 46.6% in December 2005, with a total 86.2 million customers. In an environment of continued competitive aggressiveness, at the end of December Vivo had reached 29.8 million customers (+12.3% over Q4 2004).

Central America

In 2005 Telefónica Móviles México continued focused on the development of a quality distribution network and the improvement of its processes, making changes in its commercial offer, strengthening customer attention and the quality of its services. In this context, in a year characterised by greater commercial activity, the number of accesses managed in December 2005 amounted to 6.37 million (+12.9% over 2004).

Guatemala was characterised by great market growth marked by intense competitive pressure among the operators. In this context, Telefónica Móviles was the second largest operator in the country with a market share of 26.4%.

In 2005 cellular penetration in El Salvador reached 31.9%, 17 p.p. higher than that achieved in 2004. In this context, Telefónica Móviles achieved a market share of 23%, reaching a figure of 538 thousand customers, a gain of 40% over 2004.

In Nicaragua, the growth of the number of customers was marked by the intense competitive pressure among the operators of the competition, based on two companies under the same consortium. The year culminated with 355,705 active users for mobiles, 15,871 Fixed lines and 7,000 public telephones, representing an annual growth of 31%.

Panama achieved a market penetration of 53% with respect to the 39% in December 2004. A large part of this growth was driven and capitalised by Telefónica Móviles which, with a sustained strategy of accelerated growth, achieved a market share of 49.5.

Andes region

In 2005, a strong commercial activity was maintained in the mobile telephony market in Venezuela, which translated into significant growth in estimated penetration, up to 48%. In December 2005, Telefónica Móviles Venezuela had reached 6.2 million customers (+42.4% up on December 2004), after registering net gains of more than 1.8 million lines in the twelve months of the year.

In 2005 the Colombian mobile telephony market was the one of greatest growth in the region, with a development of almost 25 percentage points in its estimated penetration rate to 48% in December 2005. Telefónica Móviles Colombia in December 2005 had reached over 6 million customers, 83% up on 2004.

The Peruvian market was characterised by an increase in competitive activity in the last quarter of the year. In this context, Telefónica Móviles Perú in December 2005 had 3.5 million customers, (+20.4% over the close of 2004).

The penetration of the Equatorian cellular telephony service at the end of 2005 reached 45%, a growth of 61% over 2004. At the close of 2005, Telefónica Móviles Ecuador accounted for nearly 1.9 million customers, after achieving net gains throughout the year of 763 thousand new customers.

Southern cone

The Argentine mobile market maintained its high growth rate in 2005, with a strong acceleration driven by the favourable macroeconomic environment in the country and the development of the competitive surroundings. In this way, estimated penetration in December 2005 reached 55% (almost 21 percentage points higher than at the close of 2004). In this context, the commercial efforts made by Telefónica Móviles in Argentina were positive, which allowed 8.34 million customers to be reached in December 2005. The weight of GSM over the whole was now 51%.

Despite the initial penetration, in 2005 the Chilean market continued to develop with great dynamism, advancing 10 percentage points in its estimated penetration rate to over 71%. In this context, at the close of December 2005, Telefónica Móviles Chile accounted for 5.28 million customers, after achieving net gains in the whole of the year of 525 thousand new customers. GSM was now 51% of the total.

At the close of the year, cellular penetration in Uruguay had risen from 17% to 34%. In this context, Telefónica Móviles achieved a market share of 38%, with 419 thousand customers, representing a net gain of more than 106% over 2004, and leading the number of new customers in 2005.

Telecommunications services are considered services of public use in many of the countries where Telefónica develops its operations. This is one of the main reasons why services of this kind are regulated by public bodies. The different companies of the Telefónica Group amply meet the different service quality objectives established by the regulators.

Regulatory situation and free competition

Within the framework of a regulated market, the different companies of the Telefónica Group periodically give the objective quality results of the service given, according to the established indicators. Each regulating body defines independent mechanisms to follow up on the quality of the service given.

With such a situation, the different operators of the Telefónica Group have established common parameters to pursue quality in the service in order to be able to establish corporate objectives on a Group scale and transfer the best practices between some countries and others. Some of these parameters are those presented in the chapters associated with the critical processes for customers.

One of the objectives of the regulating bodies is to achieve maximum competition in the markets. In this situation, the Telefónica operators (and particularly fixed operators) receive many claims from their competitors associated with abuse of their dominant position.

The main suits brought against Telefónica in previous years and still under appeal by the Company are gathered in the official documentation provided by the Company on its different stock markets.

The main regulatory resolutions against Telefónica in previous years and which are still being appealed against by the Company are presented in the documentation provided by the Company in its different stock markets.

Telefónica de España

Telefónica de España meets 12 of the 16 quality objectives established by the CMT, as can be seen in the table attached to this chapter. According to the study made by the Secretary of State, Telefónica de España offers better average quality than the alternative operators in the thirteen measured parameters.

The point of greatest conflict for Telefónica de España is the instruction by the CMT and the Court of Defence of Competition (TDC) of several sanctioning processes in relation to the action of Telefónica de España as the established operator and the dominant operator. There follow the most important sanctioning resolutions imposed by the CMT and the TDC that have been the object of appeal before the competent jurisdictional bodies.

Contentious-Administrative appeal against the Resolution of the Telecommunications Market Commission of 23rd July 2002.

This Resolution ended a sanctioning process brought against Telefónica de España, S.A.U., in relation to the commercial conditions offered to Closed Groups of Users, in which a fine was imposed against it of 18 million euros.

Telefónica de España, S.A.U. brought a contentious-administrative appeal against the resolution, which was followed before the Eighth Section of the Contentious-Administrative Chamber of the National Audience (Court order nos. 8217/2004), which overturned the appeal with the

sentence of 29th June 2004. On 18th October 2004 Telefónica de España, S.A.U. drew up an appeal for annulment against the Sentence, which has not yet been resolved.

Contentious-Administrative appeal against the Resolution of the Telecommunications Market commission of 10th July 2003.

This Resolution ended a sanctioning process brought against Telefónica de España in relation to the supposed infringement of a resolution of the CMT concerning the prices applied to VIC TELEHOME. With this Resolution Telefónica de España, S.A.U. was fined 8 million euros. Against this resolution Telefónica de España, S.A.U. brought a contentious-administrative appeal against the resolution before the Contentious-Administrative Chamber in the National Audience, under Court order number 731/2003, thus requesting the suspension of the execution of the sanction. The Appeal is pending vote and decision.

Contentious-Administrative appeal against the Resolution of the Telecommunications Market commission of 24th October 2002.

The challenged Resolution was given in the sanctioning process brought against Telefónica de España, S.A.U. for the supposed infringement of the resolution of the CMT concerning interconnection obligations for voice + data capacity, and for which Telefónica de España, S.A.U. was given a fine for 13,5 million euros.

Telefónica de España, S.A. brought a contentious-administrative appeal against the resolution before the Contentious-Administrative Chamber in the National Audience (Court orders no. 97/2003), in

CASESTUDY

Report on the quality of the fixed telephone service in Spain

In 2004, as in previous years, Telefónica de España maintained high levels of service quality, as is understood from the "General report on the quality of service relative to the Fixed Telephone Service in España", corresponding to 2004, which was presented by the Secretary of State for Telecommunications and for the Society of Information of the Ministry of Industry, Tourism and Trade in 2005. Its preparation included the collaboration of the Commission for the Pursuance of Quality in providing telecommunications services, in which alongside the Administration, representatives of the operators and the users also take part. This report includes details from fifteen fixed operators which, on the close of 2004, had a joint market share of 99% with regard to direct accesses.

Telefónica de España obtains above-average results in the thirteen parameters considered than the average level achieved by the main alternative operators in the country (Auna, Uni2, Jazztel and Grupo Ono). TdE's strengths stress the parameters related to the operation of the Red Telefónica (0.22% average 2004 in failed international calls against 0.81% by Uni2 and 0.61% by Jazztel) and in line installation time (17.25 days average 2004 in the percentile 95 against the 71.75 of Jazztel or the 67.25 of Uni2).

We must also stress the greater quality demands that TdE agrees to assure in providing the fixed service in comparison with its competitors, and the degree of compliance with the regulatory objectives required of the company. In this sense, it must be said that generally the service quality commitments for the different quality parameters required Telefónica's current regulations, as the operator designated for the provision of the Universal Service, are more demanding than the average minimum quality levels for the year 2005, which the main national alternative operators have voluntarily agreed to offer their customers

The data have been audited by independent entities, which have made sure that the measures have been carried out according to what is provided in the Quality Order and that all the data have been obtained with a precision of over 95%.

which on 5th July 2005, the sentence overturned the appeal. On 24th October 2005, an appeal for annulment was drawn up against the mentioned sentence by Telefónica de España, S.A.

Contentious-Administrative appeal against the Resolution of the Court of Defence from Competition on 1st April 2004.

On 1st April 2004, the Court of Defence from Competition (TDC) passed a sentence in which it estimated that Telefónica de España, S.A.U. had incurred in conducts restricting competition and in abuse of its dominant position, imposing a fine of 57 million euros.

On 16th April 2004 Telefónica de España, S.A.U. brought a contentious-administrative appeal, which was processed before the 6th section of the Contentious-Administrative Chamber in the National Audience (appeal 162/2004), in which the suspension was requested of the execution of certain decisions of the Resolution of 1st April, including that concerning the application of the fine. By Court order of 29th June 2004, the Chamber granted the cautionary suspension of the execution of the sanction, upon provision of bail for the same amount by Telefónica de España, S.A.U.

















At the current time, the main proceeding is pending indication of a date for voting and decision. Based on the opinion expressed by its advisors, the Company understands that there significant factual and legal arguments that might lead to a total or partial upholding of the presented appeal.



Opening of proceedings against Telefónica by the European Commission (EC)

The European Commission (EC) informed of its decision to open formal proceedings against Telefónica, by sending a set of charges with their preliminary conclusions on the past 22nd February as of 2006.

In the mentioned charges, the EC considers that Telefónica S.A. and its subsidiaries Telefónica de España S.A.U., Telefónica Data de España S.A.U. and Terra Networks España S.A might be incurring, at least since 2001, in abuse of their dominant position, consisting of undercutting prices in the market of broadband internet access.

Fulfilment of the objectives established by the CMT. 4th quarter 2005

Parameter	Measurement	Value Q4 2005	Quarterly targets	Fulfilment
Supply time of the initial connection for all request	Time for 95% of lesser duration (all customers)	21.0	25	
	% supplied on the agreed date with respect to all agreements	99.0	85	
Proportion of faults in the access network per access line	Fault notifications /100 access lines / quarter	4.2	4	
Proportion of faults in the rest of the network per access line	Fault notifications /100 access lines / quarter	0.4	4	
Time to repair faults in the access network	Time to repair 95% with less duration	65.2	48	
	% repaired within the target time	88.5	90	
	Time to repair 95% of least duration	51.9	48	
	% repaired in target time	92.4	90	
Proportion of overall failed calls	% failed calls for domestic calls	0,3	1	
	% failed calls for international calls	1.19	2.5	
	% failed calls for calls to mobiles	0.2	2.5	
Overall time to establish calls	Overall mean time	2.0	3	
Reply time for directory enquiry services	Mean time to attend calls	17.6	18.3	
	% attended in under 20 seconds	94.0	90	
Percentage of public Telephones in service	% in full service	96.4	95	
Percentage of claims on invoice correction	Per thousand	3.5	5	

 Cumplido
 No cumplido

Telefónica del Perú

Osiptel supervises of the Telefónica Group's observance of the regulations. In December 2003, Telefónica del Perú asked the Peruvian State for the renewal of their concession agreements for a period of five years. In accordance with the planned procedure, Osiptel issued an evaluation report in which it recognises that the company has met the measurable targets and objectives established in the agreements and makes observations only in 6 of the 24 obligations analysed. Osiptel's evaluation report finds that the company has deserved sanction in under 2% of the claims brought against the company due to presumable infringement of the rules of interconnection, on all the interconnection relations, amongst others.

As Telefónica del Perú has informed the Ministry of Transport and Communications (MTC), Osiptel's observations do not in any way impair the high level of the obligations, so the renewal of the time of the concession agreements, in the view of the Group, must be granted.

The companies of the Group that hold a dominant position in the markets in which they take part are subject to intense supervision by the Agency of Supervision of Private Investment in Telecommunications (Osiptel). This is the entity entrusted with the application of the Law of Free Competition in the telecommunications market.

In the past two years, none of the companies of the Telefónica Group in Peru has been sanctioned by the National Institute of Defence from Competition and Protection of Intellectual Property (Indecopi) for infringement of regulations that control both advertising and

competition. The few processes started against any of the companies of the Group concluded in resolutions that overturned the claims. In the same period, other telecommunications companies were sanctioned for infringing advertising regulations.

The main questions pending in this area are:

- In 2002, an Official Osiptel Agency imposed a fine in first administrative instance on Telefónica del Perú of 1,097 UIT for presumed acts of abuse of its dominant position affecting AT&T Latin America. The Company took the claims head on before the Judicial Powers, where the corresponding contentious-administrative action has been processed.
- As a result of the claim made in 2001 by the company Comunicaciones Alfa E.I.R.L (Alfotel), Osiptel ordered Telefónica del Perú in 2003, to lease its posts to the claimant so that it might use them to support a coaxial cable network to give a radio broadcasting service in the town of Huaycán. Although it disagreed with the analysis of the regulating body, the Company complied in full with the provisions and approved a policy, which is currently being applied, of leasing infrastructure to third parties.
- In addition to the mentioned cases, in 2004 cases were brought against Telefónica Multimedia, for supposed abuse of its dominant position. The proceedings, now concluded, exonerated the companies of the Group in all cases.

Fulfilment of the objectives established by Anatel Average 2005

Concept	% Fulfilment	No. of indicators	Months of non-fulfilment
Local service quality	232.6	9	0
Domestic long distance service quality	196.5	6	0
Attention to requests for repair	107.4	4	5
Attention to requests for line transfer	102.3	3	0
Telephone attention	104.9	3	0
Public telephony	138.7	2	0
User access code information	103.1	1	0
Attention by post	100.0	1	0
Personal attention	104.0	1	0
Billing	140.5	4	6
Network modernisation	104.6	1	0

TeleSP

Telefónica periodically informs the National Telecommunications Agency (Anatel) on the fulfilment of the indicators established in the General Quality Plan. In 2005, this plan included 35 targets, and Telefónica complied with 97% of the indicators throughout the year.

- In the first half year, the infringement was associated with the number of bills receiving complaints from customers, with the maximum value being two per thousand. After starting up an indicator revision committee, Anatel's objective was met in the second half-year.
- In the second half-year, the indicator was not met of "97% fault repair requests attended in under 24 hours". Seasonal factors such as rain and storms, together with vandalism and the theft of cables caused the deviation from the target. To correct this, the Company put 35 million reales into the preventive maintenance of the external network, created contingency plans to attend critical areas and strengthened actions against vandalism and cable theft.

On the past 22nd December, Telesp signed the renewal of its concession agreement, which expired on 31st December 2005, for a period of 20 years. The conditions of the new agreement were approved by Anatel in December, and include the obligation to invoice local traffic in minutes instead of pulses (although on the past 23rd February, Anatel announced a 12 month delay in the enforcement of this measure), the new reference index for price revision (IST), and the new productivity factor applicable in price revisions, the new interconnection price regulation and the provision of a new form of service to facilitate access for low-income customers (AICE).

There are some working processes in TeleSP by Economic Administrative Defense Body, Secretary of Economic Right (SDE) and the National Telecommunications Agency (ANATEL). TeleSP strives for preventing possible processes and resolving the existing ones.

Currently, an anti-Trust fulfilment programme is ongoing in TeleSP, fact that has been released to the Court of Defense of Competition. This programme pursue the objective of resolving competition issues together with Anatel, CADE and SDE; TeleSP joint the the "Termos de Cessação de Conducta" agreements, which allow to interrupt, whitout any fine for the Company, the following processes:

- Embratel's claim against TeleSP (Representação 53500.005770/200) for supposed abuse of its dominant position in the local loop provision.
- Oneworld's Administrative process (Administrative process 08012.007667/2004-48) for supposed calling blockade to Oneworld's network

In the last twelve months, the company proved its commitment with the Defense of Competition Law, achieving to file important processes.

- Embratel / Intelig against TeleSP (Representação 53500.001821/2002) for supposed discriminatory practice in the collection of the fare for using local telephony network (September 2005)
- Federal State Ministry against TeleSP, TPI and Listel for supposed anti-Trust conduct of TeleSP in relation to Telephone Guides.

Telefónica CTC Chile

The Chilean regulator (Subtel) periodically requests information from all telecommunications operators in the country to produce national statistics and as a way to supervise the observance of the regulations.

- The number of lines in service and traffic are statistical information for the regulator to be able to draw up national statistics. They are therefore not an indicator and have no objectives (only to inform on the true current situation).
- The remaining items (network disintegration facilities, Fixed Charge Returns and Reports of network faults) are information that the regulating body requests to be able to protect compliance with certain regulations established in law. These reports that are delivered to Subtel are not an indicator either.

Voissnet presented a claim before the Court of Defence of Free Competition (TDLC) on 14th March 2005 for supposed acts that would attempt against free competition, the development and growth of Internet technology, basically broad band technology and access, to establish the prohibition of passing voice through the Internet access broad band service provided by Telefónica CTC Chile. Voissnet hopes that the TDLC might oblige Telefónica CTC Chile to allow third parties to provide IP Telephony via Internet on Telefónica ADSL lines.

Telefónica CTC Chile rejected each and every one of the claims of the claimant by giving market, legal and regulatory reasons on the market, legal and regulatory backgrounds on the development of the broad band market in Chile, indicating that large investments have been made to develop broad band in Chile and that they have facilitated the participation of all the ISP through an open model, and that they are not opposed to IP Telephone but rather to the anti-competitive practices that companies try to carry out by taking advantage of others' investments.

Telefónica de Argentina

Telefónica de Argentina meets the 16 quality objectives established by the regulating body, as can be seen in the table attached to this chapter.

Historically, Telefónica de Argentina has nineteen open processes related to Customer Associations, within the Administrative Chamber from Argentina, although only two of them correspond to Fiscal Year 2004 and 2005.

- Consumers and users Union claimed against Telefónica de Argentina in 2004, with the aim of returning to users all the liquidated and received amounts by way of tax to credits and debits in current bank account, and other operations (Law 25,413) in each period before 02.07.03
- The Deaf's Argentine Foundation presented a claim against Telefónica and Telecom in 2005, by which they are asked for the fulfilment of public and semipublic phones provision, installation and operation obligation aimed to hipoacoustic and speech disability persons in public places.

Fulfilment of the objectives established by the Argentine regulator 2005

Concept	% Fultilment	No. indicators	Indicators with non-fulfilment
Service installation	307.7	1	0
Faults and repairs	113.0	4	1
		(Repairing delays: 99%)	
Public Telephony	106.0	1	0
Telephone attention	113	3	0

Mobile telephony

Telefónica Móviles España led four of the six parameters evaluated in the study of the quality of mobile telephony services in Spain, drawn up by the Spanish Ministry of Industry, Tourism and Trade. The study is based on a campaign on 8,000 measurements per operator in towns of over 5,000 inhabitants, made by Ericsson on the request of the State Secretary for Telecommunications.

Telefónica Móviles España is highlighted in this report in the section on blocked calls, that is, the percentage of calls that a user tries to make in areas of cover, but which can not be completed as 0.52% of attempts are blocked. The company also leads call establishment in voice services, with the lowest time, that is, 3,514 milliseconds. Among the current challenges of the company is the optimisation of the dual GSM/UMTS service, in which it is hoped to continue to expand the frontiers of improvement.

Telefónica Móviles España, S.A. and the companies of its Group are involved in several suits the unfavourable resolution of which, in the opinion of the Company, would not significantly affect the economic-financial situation or the solvency of the Group, based on the reports of the advisors dealing with the cases.

Of these cases, those for which an unfavourable outcome is expected have been adequately covered. With respect those with respect to which a possible unfavourable outcome might be expected and which do not require provision, there follows a list of those which could be considered particularly significant either because of their subject or due to the size of the sum claimed.

Spain

Claims against settlement of the tax for reserving the public radio-electric domain corresponding to the GSM, DCS-1800 and UMTS services, and to the year 2001.

Faced with the modification of the formula for proceeding to calculate the tax for reserving the public radio-electric domain with a significant increase, applied by Law 13/2000 of 28th December concerning the General State Budgets for the year 2001, Telefónica Móviles España, S.A. brought in three economic-administrative claims against the settlements corresponding to the GSM, DCS-1800 and UMTS services for the year 2001, which were overturned so Telefónica Móviles España, S.A. proceeded to make administrative contentious appeals before the National Audience and, at the same time, against the payment of the settlements before the State Secretary for Telecommunications. At the present time, in the proceedings against the settlement of the DCS-1800 and GSM taxes, an edict has been given by which it is agreed to raise the question of unconstitutionality. In the proceedings against the UMTS tax, Telefónica Móviles España, S.A. has presented a letter to the National Audience, asking for the question of unconstitutionality to be brought for a second time before the Court of Justice of the European Union. The quantities claimed for undue income amount to 228,357 thousand euros.

Economic-administrative claim against the settlement of IAE (Tax on Economic Activities – 2003)

In December 2003, Telefónica Móviles España, S.A. made an Economic-Administrative Claim before the TEAR in Madrid against the settlement of the IAE tax for 2003 for 26,000 thousand euros. Telefónica Móviles España, S.A. understands

that the Tax Administration made a mistake in the administrative act of settling the tax, by annulling a previously transferred amount of 3,226 thousand euros. Telefónica Móviles España, S.A. has paid the amounts requested so the object of the claim is the return of the amounts considered unduly paid.

Prices of terminating the interconnection of Retevisión Móvil, S.A.

By resolution of 12th January 2006, an end was put to the conflict of the interconnection posed by RETEVISIÓN MÓVIL, S.A. against Telefónica Móviles España, S.A. concerning the prices of terminating the calls on the network of the former. This obliged Telefónica Móviles España, S.A. to regularise the RETEVISIÓN MÓVIL termination prices from 4th February 2005 in line with those holding on the previous 7th October 2004. Telefónica Móviles España, S.A. made an administrative appeal for reversal which was wholly upheld by the CMT by Resolution of 16th February 2006. This determines that the termination prices for RETEVISIÓN MÓVIL, S.A. previous to 7th October 2004 are not applicable for Telefónica Móviles España, S.A., and that, therefore, Telefónica Móviles España, S.A. is not obliged to regularise the payment of such prices for an amount higher than that effectively paid during the period of conflict. A contentious-administrative challenge may be brought by RETEVISIÓN MÓVIL, S.A. against the Resolution of the CMT within a time of two months.

Germany

Ostheimer

In 2003, the expert company Ostheimer GmbH brought a claim against Quam GMBH for compensation of 100 million euros for damages deriving from the termination of the framework agreement it had signed with Quam. In 2005 a resolution was passed in favour of Quam GMBH with the mentioned resolution recently appealed against by Ostheimer.

Termination of the licence granted to Quam GMBH

In December 2004, the Regulatory Authority for Telecommunications and Post (RegTP) terminated the UMTS licence granted in 2000 to Quam GMBH. After achieving the suspension of the termination order, on 16th January 2006, the company Quam brought a claim before the German courts against the termination, which consisted of two main parts: the first defends the annulment of the termination order determined by the RegTP, and the second, if the first is not accepted, calls for the total and partial reimbursement of the price paid for the licence.

Italy

Before the refusal of the Italian Government to accept the return by Ipse 2000, S.p.A. of the additional 5MHz of spectrum that they had been adjudicated with the concession of the UMTS licence, Ipse 2000, S.p.A. presented the corresponding claim based on the basic right to waive the rights granted by the administration and requesting the reduction of the amount pending payment by 826 million euros (corresponding to the aforementioned 5 MHz).

Alongside this, in view of the new regulatory framework that establishes a maximum annual price for every 5MHz below that set in the adjudication of the licence to Ipse, S.p.A., in December 2003, it presented a claim before the same body against the Italian Ministry of Communications, asking for the cancellation of the amounts pending payment derived from the adjudication of the UMTS licence, which might determine a reduction with respect to the initial amount to 1.2 and 2.3 billion euros. Equally, on 31st May 2004, Ipse, S.p.A. brought a claim against the assignment by the Italian Government of GSM frequencies free of charge.

All of these claims are currently in a single process. In August 2005, the TAR overturned the first 2 recourses and postponed its decision on the last of them (assignment of GSM frequencies).

Mexico

Law on income Tax, interest deduction

Telefónica Móviles México, S.A. de C.V. and companies of its Group promoted a protective claim against certain Transitory Provisions of the Income Tax Law that limits the deduction of interest from capitals taken in loan, under certain circumstances.

In January 2006, the sentence was notified in which the judgement is rejected as the Judge considers that it is not the right time to uphold the unconstitutionality of these precepts. The Companies will present the corresponding appeal for revision as they consider that the claimed precepts cause harm to the companies from the time they come into force.

Annual levy for the use and operation of frequency bands

The Federal Law of Rights contemplates the

payment of an annual levy for the use and operation of frequency bands that have been granted from the year 2003. As a result of the participation of Telefónica Móviles México, S.A. de C.V. in a suit carried out in 2005, it was adjudicated frequencies in the 1900 MHz band in April 2005, with respect to which they are obliged to pay the said contribution.

Telefónica Móviles México, S.A. de C.V. promoted a protection judgement by claiming the unconstitutionality of the rate on the rights contained for the use and operation of the bands that had been awarded to it.

Telefónica Móviles México, S.A. de C.V. brought an appeal for revision against the Sentence overturning the claim in December 2005.

Telefónica Móviles México, S.A. de C.V. has paid all corresponding rights, so the aim of the suit is to have the amounts paid returned or paid.

Kargo, Inc., ACK Ventures Holdings and United Mobile Technologies, LLC

Kargo, Inc. is claiming from Telefónica Móviles México, S.A. de C.V., Pegaso PCS, S.A. de C.V., Pegaso Telecomunicaciones, S.A. de C.V., Telefónica Móviles, S.A., Telefónica S.A. the payment of damages for court costs and lawyers' fees and anything that the Court might establish, for the presumed non-fulfilment of a licence contract for systems and hosting negotiated by Pegaso PCS, S.A. de C.V.

The case is being processed before a federal court, and Telefónica Móviles México, S.A. de C.V. in January 2006 presented a motion for the case to be waived due to a lack of elements.

Brazil

Universal Fund of the Telecommunications Service

The operators of the VIVO Group brought an appeal against the decision of ANATEL to modify the income that have to make up the tax base for the calculation of the FUST (Fundo de Universalização de Serviços de Telecomunicações), a fund that pays for compliance with the obligations derived from the universalisation of the telecommunications service operators (fixed and mobile).

Lune

Lune Projetos Especiais em Telecomunicações Com has brought a claim against the companies of the VIVO Group, alleging that they have the patent for the caller ID, and that they are the holders of the register of the “Bina” trademark, requiring the interruption of the service and asking for compensation equivalent to the amount paid by the consumer for its use.

Several cellular infrastructure manufacturers, and subsidiaries of the VIVO Group have started an administrative process before the National Institute of Industrial Property to annul the patent on which the claim is based.

PIS and COFINS

The COFINS (Contribuição Social para o Financiamento de la Seguridade Social) and the PIS (Programa de Integração Social) are taxes that encumber companies’ gross income. In 1998, the calculation of the PIS and COFINS was modified by Law 9.718, which (i) increase the tax amount of the COFINS from 2% to 3% and, (ii) increase the amounts making up the tax base. The operators of the VIVO Group opted to claim against the União de Estados Brasileños

against this law and to ask for provision of all amounts, except for the case of Celular CRT, S.A., where they opted to make payment according to Law 9.718.

With respect to the increase of the tax base of the PIS and COFINS, two of the companies of the VIVO Group (Tele Centro Oeste Celular Participações S.A. and Telergipe Celular S.A.) have achieved favourable final sentences. In the coming year, the remaining companies are expected to receive favourable outcomes.

Venezuela

Contentious Tax appeal brought by TELCAL, C.A. in 2002 against a Resolution of the Integrated National Service of Customs and Tax Administration (SENIAT) that obliges TELCAL, C.A. to pay approximately 54,364,291 euros due to lack of checking, expense rejection, lack of withholding of unrecoverable taxes from the financial years between 01-11-94 and 31-10-95, 01-11-95 and 31-10-96 and between 01-11-96 and 31-10-97.

Credits

Departments that collaborated in the preparation of the report

Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
05 Shareholders	Shareholders' Office / Investor Relations / Secretariat General
06 Employees	Corporate Human Resources / Human Resources Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Communication / Health and Safety / Fundación Telefónica / ATAM / Fonditel
07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

Shareholders and investors: profitability and transparency

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According to information obtained on April 3, 2006 from the Spanish Securities Registration, Clearing and Settlement System, S.A.U. (Iberclear), Telefónica has 1,570,039 shareholders.

CASE STUDY

80 years of Telefónica in the Stock Exchange: 1925-2005

In 2005, Telefónica completed 80 years presence on the Madrid Stock Exchange. The Compañía Telefónica Nacional de España (CTNE) was set up as a limited company on April 19, 1924, with an equity of one million pesetas. The following year, on March 31, 1925, it was launched on the Stock Exchange.

Telefónica was the first Spanish company to quote on the principal world exchanges (Paris, Frankfurt, London and Tokyo). This happened in 1985, before the business became internationalised some years later with its entry into Latin America. In 1987, the security was also incorporated into the New York Stock Exchange.

Between 1995 and 1997, through a series of IPOs, all the shares of the company remaining in the hands of the Owners were completely privatised. Telefónica is currently quoted on the Continuous Market of the Spanish Exchanges (Madrid, Barcelona, Bilbao and Valencia) and in the Exchanges of London, Paris, Frankfurt, Tokyo, New York, Lima, Buenos Aires, São Paulo and the IRS of the London Stock Exchange.

Profitability

Progress has continued in 2005 and the Company is situated as one of the most attractive in the sector, and stronger since the purchase of O2. A dividend was paid in 2005 corresponding to financial year 2004 of 0.5€/share, own shares of Telefónica S.A. representing 4% of equity have been distributed in the proportion 1x25, and the share buyback programme has continued.

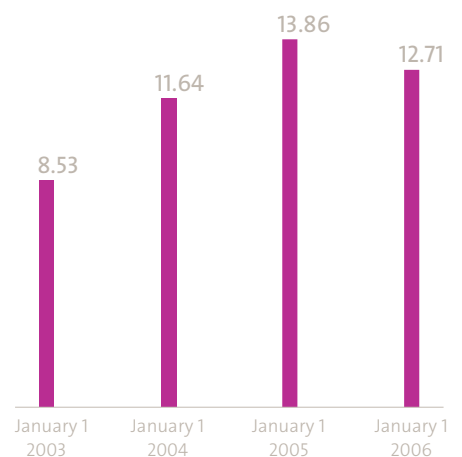
The increase in the dividend in 2005 – showing Telefónica as one of the most attractive securities in the telecommunications market in this regard – and despite the negative trend seen in the stock market in 2005, that affected the whole telecommunications sector, implies a total accumulated profitability of almost 76% for a shareholder who invested in Telefónica on January 1, 2003.

An investment in 100 shares in January 2003 at 8.53 euros involved an investment of 853 euros which, at December 31, 2005, would be 1,372.7 euros as a result of the increase in the market price, with a cash dividend received in the past three years of 129 euros.

A shareholder purchasing 100 shares on January 1, 2005, would have obtained a profit of -0.94% in financial year 2005.

Evolution of the listed value of Telefónica shares

Data in euros



Profitability per share 2003–2005

	Nº shares	Net amount euros
Value of 100 shares as at January 1 2003	100	853.0
2 Increases in capital issued 1x50 in 2003	104	-
2 Cash dividends 2003 (0.13€ July, 0.12€ Oct.)	104	26.0
Dividend in kind (1 A3 share for each 295.6 TEF shares) ¹	104	8.87
2 Cash dividends 2004 (0.20€ May, 0.20 € Nov.)	104	41.60
Cash dividend 2005 (0,23€ May)	104	23.92
Increase in capital issued 1x25 in June 2005	108	-
Cash dividendo 2005 (0.27 € November 2005)	108	29.16
Cast dividend (total) during 2003 – 2005	108	129.55
Value of 108 shares as at January 1, 2006	108	1,372.68
Profitability		76.11%

¹(0.35 A3 shares sold at 25,2 € equivalent to value set in the settlement of the fractions)

Profitability per share 2005

	Nº shares	Net amount euros
Value of 100 shares as at January 1 2005	100	1.386
Cash dividend (May 13)	100	23
Dividend in kind (June 20) per share (1x25 shares)	104	
Cash dividend (November 11)	104	28.08
Value of 104 shares as at January 1, 2006	104	1,321.8
Total portfolio value for 104 shares		1,372.9
Profitability		-0.94 %

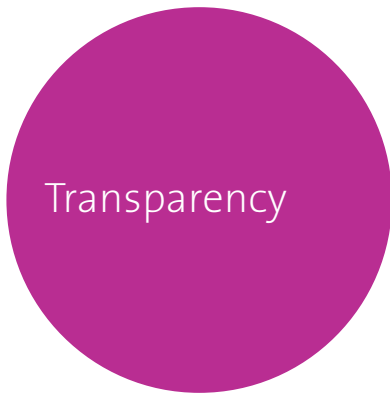
CASE STUDY

Telefónica in the DJ Global Titans 50 and “The Global Spanish Entrepreneur” Prize

The Spain-US Chamber of Commerce gave the president of Telefónica, César Alierta, “The Global Spanish Entrepreneur” Prize in recognition to the Telefónica Group for its recent entry in the Dow Jones Global Titans 50 stock chart in New York. Telefónica is the first Spanish and one of the few European companies to form part of this important index of the 50 largest firms in the world.

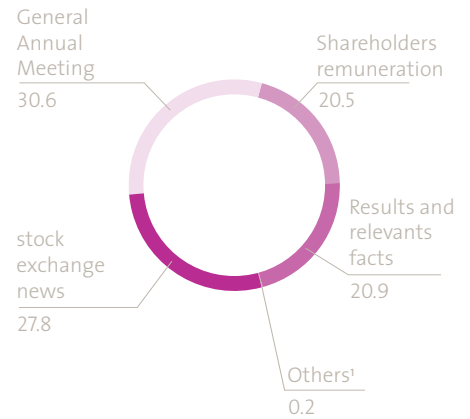
As well as this recognition, César Alierta, accompanied by the president of the New York Stock Exchange, Marsh Carter, opened the New York Exchange trading session with the famous “Opening Bell”.





Breakdown of queries made via shareholders' helpline 2005

Data in percentages



¹Includes Bonds and promissory notes

Transparency

Shareholders

Toll-free shareholder information line number Helpline

900 111 004

The Regulations of Telefónica's Board of Directors devote several articles to regulating the channels through which relations are established between the Company and its shareholders, whether individual shareholders or institutional investors, and ensures that these relations are conducted with the maximum transparency and equity.

In 1997, Telefónica set up its Shareholder Attention Service with a view to establishing transparent and fluid communication with individual shareholders. Currently a total of 194,784 shareholders are registered in this service, and receive all the Telefónica Group information, results and any other Company news that may be important for their investment.

In order to give personalised attention to institutional investors, Telefónica has an Investor Relations Area, to maintain constant communication with national and international financial markets. Its main function is to explain the main organisational, operating and business strategies of the Company, helping to form expectations about its future performance, and thus to set suitable prices for the securities issued by the Company.

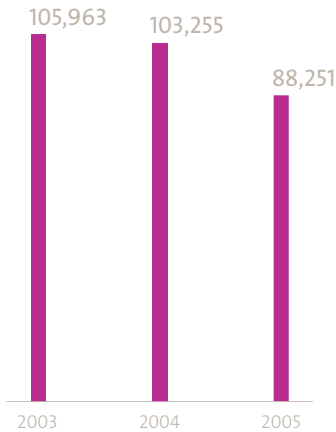
Shareholders' and investors' Website

The number of visits to the website of Shareholders and Investors rose to 1,182,729, an estimated increase of 150% compared to the previous year's figure.

The Shareholders' and Investors' website includes specific spaces on:

- Dividends, results and communications to the markets, relevant facts or General Annual Meetings, among others.
- Equity data, ratings, debt profile and corporate presentations to the investment community.
- Consulting and downloading documents, including the Annual Reports, the Regulations of the General Shareholders Meeting and of the Board Directors, Company By-laws and the Official Company Information Registers.
- The Stock Exchange section features the online share prices of the Group, and allows users to generate interactive graphics, compare share prices with those of other sector companies, calculate the profitability of Telefónica in any given period chosen by the user, and compare it with the main indices.
- The Shareholders' Corner offers small investors a personalised interactive area to make queries and receive specific information, a configurable ticker and an alerts service with important Company information.
- Online audio and video webcasts of conference calls and significant statements by the Company's Senior Managers top Company executives.

Queries handled by shareholder helplines



Shareholder Information Line Helpline

Telefónica has a free Shareholder Helpline that answered 88,251 queries in 2005. As well as the calls to this service, it also attended 3,139 email and/or postal queries.

Annual Report

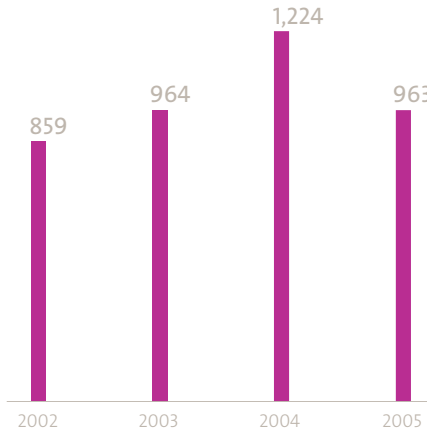
The main tool means of communication with analysts and investors is the Annual Report, and its 2005 edition received more than 20,000 queries through the web and 300,000 file downloads, as well as its print edition of more than 18,000 copies. All the annual reports published by Telefónica, since its foundation in 1924, are available on its website.

“Acción Telefónica” magazine

The physical means of periodically communicating with registered shareholders is the quarterly Telefónica shareholders’ magazine, called “Acción Telefónica”, and in 2005, 165,000 copies were sent quarterly to their homes.

Information downloaded by Telefónica investors

Thousands of downloads



Other channels of communication with analysts and investors

A high level of activity was maintained in 2005 with institutional investors and financial analysts; through presentations in forums, meetings and conference calls, the organisation of roadshows in the main financial centres and the convening of the Fifth Investors' Conference, held in May 2006.

There were also important Company presentations made to minority shareholders in the 2005 Bolsalia Forum in Madrid (Salón de la Bolsa y Otros Mercados Financieros) and in Borsadiner (Barcelona).

CASO PRÁCTICO

The Website for shareholders and investors and of the Telefónica Annual Report, awarded as the best in Spain.

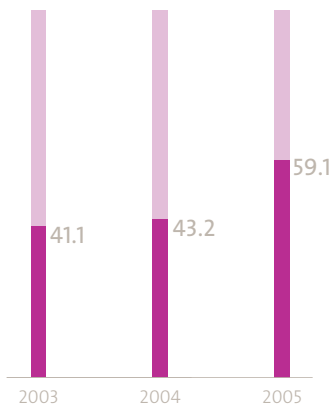
The 2005 edition of the World Awards for Investor Relations websites and Annual Reports Online (known as the MZ Awards) gave first and second prize in Spain, respectively, to the Internet pages for Shareholders and Investors of Telefónica S.A. and of Telefónica Móviles S.A. and that for Best Annual Report Online in Spain to the latest online report of Telefónica.

The awards judged such factors as content, design, technology, interactivity, timeliness and flexibility. The online pages of Telefónica were considered not only the best in Spain, but also better than the world average in the telecommunications sector in most of the criteria.

General Shareholders' Meeting

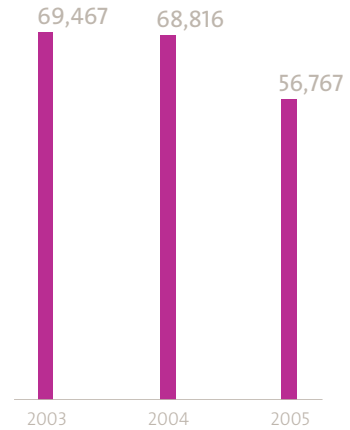
Quorum at the General Shareholders' Meeting

Data in percentages



Proxy voting requests channelled by the Shareholders Office for the General Shareholders' Meeting

Data in units



CASO PRÁCTICO

Quarterly presentation results and Business evolution

The Investor Relations area is in charge of designing and running the communications strategy for national and international financial markets. This includes particularly the quarterly publication of Telefónica's financial statements which, to meet transparency and equity requirements, uses various distribution channels: website, the CNMV register, publication in Acción magazine and quarterly conference calls to present the results.

Attendees at quarterly results presentations

	Conference Call	Webcast
1Q05	130	137
2Q05	99	101
3Q05	116	153
4Q05	144	282

General Shareholders' Meeting

The By-laws of Telefónica's General Shareholders' Meeting aim to offer the shareholders a framework which will ensure and facilitate the exercise of their rights in relation to the governing board of the Company, paying particular attention to the shareholders' right to information and to participation in the discussions and votes, aiming to make the call and the proposals presented for agreement to the General Meeting as widely known as possible.

The 2005 General Shareholders' Meeting was held on May 31, and the quorum of attendance was 59.163% of the equity. The shareholders are supported by the Shareholders' Office in all issues related to the Shareholders' General Meeting. In the 2005 meeting, the shareholders' office handled 56,767 proxy voting requests.

According to the provisions of the By-laws of the Company General Meeting, those shareholders may attend the General Meeting who own at least a number of shares representing a minimum nominal value of 300 euros. Every share present or represented in the General Meeting has the right to one vote, unless they are non-voting shares, as stipulated by the Law. On the other hand, no shareholder can exercise a number of votes above 10% of the equity with voting rights at any time, regardless of the number of votes they may possess.

Apart from those required by current applicable legislation, among the specific measures included in the Meeting By-laws in order to ease shareholder attendance and participation in the Meeting, are the following:

- Everything that the Company considers useful for these purposes, in addition to the legally required documents and information, is placed on the Company website, from the date of announcing the call. The shareholders can obtain this documentation and information directly from the website, or can request it to be sent to them free of charge, through the mechanisms set up on the site related to the Meeting.
- The shareholders can make suggestions. At any moment, and after showing their identity as shareholders, they can make suggestions about the organization, running and competency of the General Shareholders' Meeting, through the Shareholder Helpline. Shareholders can also request any kind of information, documentation or clarification that they may need about the General Meeting, either through the Company website, or through the Shareholder Helpline.

The General Shareholders' Meeting is an opportunity for those shareholders who wish, to be able to present their queries to the Company Administrators, This is confirmed by the 24, interventions raised by of shareholders in the General Meeting held in 2005.

At the same time, Telefónica puts all its communication channels at the service of its shareholders so that they can make queries about the Meeting. In financial year 2005, 25,293 queries were dealt with concerning the General Shareholders Meeting on the free shareholder help-line. Both enquiries made by private shareholders and opinions of the analysts and institutional investors, are analysed qualitatively and quantitatively in order to keep the management of the Company informed about the concerns and opinions of its investors.

CASE STUDY

Leaflets registered by Telefónica in financial year 2005

The Company has provided information through the various information leaflets it has published, either annually, which offer complete and exhaustive information about the Company, or as abbreviated ones, that were registered with security market regulatory bodies when specific operations have taken place.

Complying with the provisions in the legislation, Telefónica keeps each and every regulatory body in which its securities are traded aware of the specific information about any important event related to its business. During financial year 2005, a total of 51 significant events have been registered with the CNMV.

Leaflet	Body	Date
Annual Information Leaflet in 20F Format	Securities Exchange Commission (USA)	15.04.2005
Annual Information leaflet S.R.S	Japan Securities and Clearing Corporation Tokyo Stock Exchange	29.06.2005
Annual Information Leaflet IAN	Comissão de Valores Mobiliarios (Brazil)	12.07.2005
Registry Document about financial year 2004	Comisión Nacional del Mercado de Valores (Spain)	22.12.2005
Abbreviated information leaflet on Telefónica's Programme of Company Promissory Notes	Comisión Nacional del Mercado de Valores (Spain)	12.01.2006

Credits

Departments that collaborated in the preparation of the report

Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
05 Shareholders	Shareholders' Office / Investor Relations / Secretariat General
06 Employees	Corporate Human Resources / Human Resources Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Communication / Health and Safety / Fundación Telefónica / ATAM / Fonditel
07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

Employees: Clarity and professional development

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Description of the workforce

Generation of employment

Workplace environment

Internal communication

Involvement of employees

The management of personnel is one of the key values in the new Telefónica culture. Thus, within the five strategic axes of the transformation process, an axis has been defined aimed at strengthening leadership and the commitment of professionals to Telefónica.



Description of the workforce

Telefónica closed the 2005 financial year with a physical workforce of 207,641 professionals, meaning an increase of 19% over the previous year. The most significant changes to affect the workforce during the financial year are the following:

- **Purchase or creation of new companies:** the workforce increased as a result of the creation of Edinet Europa and Edinet America and TPI Direct in the Directorio Group, the purchase of the company Azeler Automoción and Terra Business Travel and the creation of Terra Asociadas, and the purchase of Cesky Telecom and the creation of Sociedad de Cobros in Brazil by T Gestiona.
- **Closure of companies:** The businesses affected are Terra (Lycos Group, Terra Latam, One Travel and Caribe), Telefónica UK, T Gestiona Mexico, Lola Films and T. Short in Contenidos .
- **Change in the workforce:** due to an increase in the workforce of Atento and an increase in the average workforce for Bell South operators in the mobiles business.
- **Continuity of the Employee redundancy plan in Telefónica de España,** approved by the Department of Employment of the Employment and Social Affairs Ministry. The plan is governed by voluntary principles and those of non discrimination, affecting 15,000 employees. During 2005, a total of 1,945 employees had requested access, added to the 7,906 requests for separation accumulated up to 2004.

The outsourced workforce of Telefónica in Spain was estimated at 33,000 persons at December 2005, 25,000 of them corresponding to Telefónica de España and the rest to Telefónica Móviles España. This data was estimated according to the contractual volume of services to third parties.

The main characteristics of the Telefónica Group workforce throughout the world are as follows:

- 85.4% of the equivalent workforce has a fixed or indefinite contract (86% in 2004). The remaining amount is distributed among employees with temporary contracts (13.6%) and interns (0.9%)
- The employee hierarchy rate stands at 4.3% (4.2% in 2004). This indicator is the percentage which represents senior management, administration and middle managers over the total staff.
- The distribution of the Telefónica workforce by functions, without taking into account the Atento workforce, indicates that 37.2% is engaged in sales functions (33.2% in 2004), 48.3% to production functions and 14.4% to support functions. Of note is the increase in the sales workforce for the second year running.
- 47% of the workforce of the Telefónica is made up of women (48% in 2004), in particular Atento, with 66% of the workforce made up of women, and Contenidos with just 7%.
- The average employee seniority for the Telefónica workforce is 7.3 years (8 years in 2004), the average age being 32.7 years.

Physical workforce of the telefónica group¹

by country	2003	2004	2005
Spain	58,189	59,978	60,405
Europe	-	4,322	14,326
Czech Rep.	-	-	10,051
Netherlands	-	3,789	3,789
Germany	-	533	480
Luxemburg	-	3	3
Switzerland	-	3	3
Latin America	80,041	94,204	131,968
Argentina	14,100	15,177	18,856
Brazil	42,496	51,741	63,743
Chile	8,795	10,060	12,375
Peru	9,422	10,733	11,548
Mexico	5,228	6,493	8,506
Colombia	-	-	4,487
Venezuela	-	-	5,983
US	-	-	1,166
Uruguay	-	-	536
Ecuador	-	-	747
Panamá	-	-	601
Nicaragua	-	-	285
Central America	-	-	3,135
Morocco	-	1,075	942
Other countries	10,058	13,469	-
Telefónica	148,288	173,554	207,641

By business	2003	2004	2005
Fixed spain	38,464	36,425	35,053
Fixed latin america	25,762	25,905	28,856
Terra	2,229	1,584	-
Telefónica Móviles	13,093	19,797	22,739
Directories	2,787	2,876	2,942
Content. and Media	4,638	5,860	5,734
Atento	54,394	74,829	95,907
Cesky Telecom	-	-	10,051
Others	6,921	6,278	6,359
Telefónica	148,288	173,554	207,641

¹Physical workforce: number of employees who work in the company
Equivalent workforce: number of employees proportional to the number of hours

Characteristics of the Telefónica workforce

	Type of contract %			hierarchy %	Function %			Experience		Diversity Women
	Fixed	Temp	Interns		Sales	Operations	Support	Seniority	Average age	
Fixed - Spain	98.5	1.0	0.6	3.3	31.4	56.5	12.1	18.7	42.3	27.4
Fixed business -latam	95.9	2.0	2.0	6.5	33.9	53.5	12.6	13.5	39.7	28.3
Mobiles	96.9	1.1	2.0	10.5	56.2	25.6	18.1	5.0	30.0	40.5
Content and Media	98.3	1.6	0.1	5.4	12.0	72.8	15.2	3.5	38.7	7.7
Directories	91.8	5.9	2.3	7.9	73.7	11.4	14.9	8.3	38.5	43.9
Atento	71.4	28.5	0.1	1.4	0.2	98.5	1.3	1.5	27.1	66.3
T-Gestiona	94.2	1.1	4.7	7.4	1.0	93.6	5.4	8.3	25.8	26.2
Çesky Telekom	95.2	4.8	0.0	5.3	38.8	49.0	12.2	12.2	37.8	34.4
Others	84.1	6.9	8.9	18.0	9.9	52.4	37.7	4.9	28.9	47.2

Generation of employment

The companies of the Telefónica Group (excluding Atento) hired more than 10,000 employees during the 2005 financial year, of which 10% were from the Telefónica Group itself. In relation to redundancy, 50% was forced and another 50% voluntary.

Within this personnel rotation, there were more than 1,600 intra-group movements: employees which left one company and joined others within the Telefónica Group.

The Telefónica Group has launched numerous programs for the inclusion of young people into its workforce or the employment market in general.

- Telefónica de España and the Fundación SEPI, as part of the 2005 internship program, offered 52 internships to young people qualified in Professional Training in the specialities of Telecommunications systems and IT, Sales and Marketing Management, Administration and Finances and Administration of IT systems. This period of internships, over a long period of time, is integrated into employment creation processes associated with the Social Plan of the Employee redundancy plan, as it is predicted that in 2006, a large amount of those selected will join Telefónica. One of the aims of this incorporation is to boost customer attention centres in the Business and Professionals Segment.

Hiring and firing by business

	Hiring			Firing			Change of perimeter
	Total	External	Company	Total	Forced	voluntary	
Fixed Spain	934	725	209	2,710	2,000	710	-
Latam business	3,541	3,154	387	2,128	1,035	1,093	211
Telefónica móviles	3,427	3,231	196	3,410	1,361	2,049	886
Directories	788	633	155	710	248	462	-
Content and Media	226	225	1	212	81	131	152
Cesky business	44	44	0	179	0	179	10,186
T gestiona business	312	283	29	253	164	89	157
Others	807	757	50	671	162	509	95
Total Telefonica (excluding Atento)	10,079	9,052	1,027	10,273	5,051	5,222	13,203

External hiring: people who had no relationship with Telefónica

Company hiring: personnel who had a prior link with Telefónica (temporary, internships)

Forced redundancies equivalent to incented redundancies (firing, incented redundancies and application of Employee redundancy plans)

Joining and departure of companies equivalent to the impact of the change in perimeter of the workforce, with the significant impact of the acquisition of Cesky Telecom in this section.

- Telefónica de España has implemented a new Employment Creation process to incorporate people from outside the company as Diploma Level Sales persons. These new incorporations associated with the social plan of the ERF are framed within the Sales Motivation Model for the Meta:Cliente program.
- Telefónica CTC Chile and Fundación Telefónica Chile have developed a program of employment skills and the use of new technologies with the aim of contributing to the insertion of young people into the workplace, in conditions of equality of opportunity to create productive and quality jobs. The beneficiaries - men and women between 18 and 30 years old - will carry out their professional practice under the company's employment skills model or in different contracting companies. Training activities will be for approximately four to six months.
- The Telefónica Group in Argentina launched its First Program of Telefónica Internships For Argentinean Universities, whose aim is to encourage links between the academic and corporate sectors, supporting advanced students in degree courses, graduates commencing post graduate studies and professionals who, in the context of technical specialities, are specialising in Communications Law. The program has a budget of 1,300,000 pesos, and will benefit 72 students in the fourth year of their degree courses, 54 graduates starting their masters and 30 Legal professionals, all with technical orientations. It will take place from 2005 to 2007.

CASE STUDY

Contribution of Atento to generation of employment

In 2005, Atento Group, a company made up of people working in the service of people, again showed its capacity to generate employment. At the end of the financial year, the organisation had 96,000 employees, 28 percent more than in the previous year.

This ability to create jobs and thus continue the development of the company has been of great value in the 12 countries where the Group is present:

- Atento Brasil was recognised by the economic publication Exame as the third private company in the country in terms of employment generation;
- in Peru it was awarded the distinction as one of the 15 "Great Places to Work", with the best employment environment, and
- In Puerto Rico, the town of Caguas gave Atento several awards in this area: best employer, best newcomer and best company for hiring unemployed or displaced persons.

In other areas, Atento is characterised as being a company which offers equality of opportunity to groups which have traditionally had problems accessing the labour market.

- In 2005, Atento continued to hire young people in its workforce (the average age of the workforce standing at 27 years), encouraging their access to their first job.
- At the same time, aware of their responsibility as an employer, the organisation continued to develop various initiatives to employ disabled persons, of note the Atento Special Employment Centres in Spain.
- Finally, in 2005 Atento encouraged gender equality in the workplace. In fact, 66 percent of Atento employees were women.

Development of workplace environment surveys¹

Data in percentage

	2004	2005
	Overall Sat.	Overall Sat.
Management	73	78
Mid management	63	64
Employees	48	57

¹ Presented on the 29 standardised questions for 2004.

Workplace environment

In the period from November 2005 to February 2006, the second joint workplace environment survey in Telefónica was carried out. This year, as well as the 7 corporate indicators measured in 2004 (clarity of communication, leadership of Immediate Superiors, Confidence in Management, Professional Development, Customer orientation, Internal Collaboration and Perception of the Group), four additional questions were included (increasing the number from 29 to 33) to get a new indicator to measure innovation in Group companies.

66 people participated in the survey (19 more than in 2004) with a participation of 71% (10 points more than in 2004). For 2005, the aim of increasing the Global Satisfaction Index by 5% was set, which was exceeded, increasing by 7.11% (3.91 percentage points, going from 55% to 58.91%). If we consider the 4 values introduced in 2005 (reaching 33 questions), the resulting satisfaction value stands at 58%.

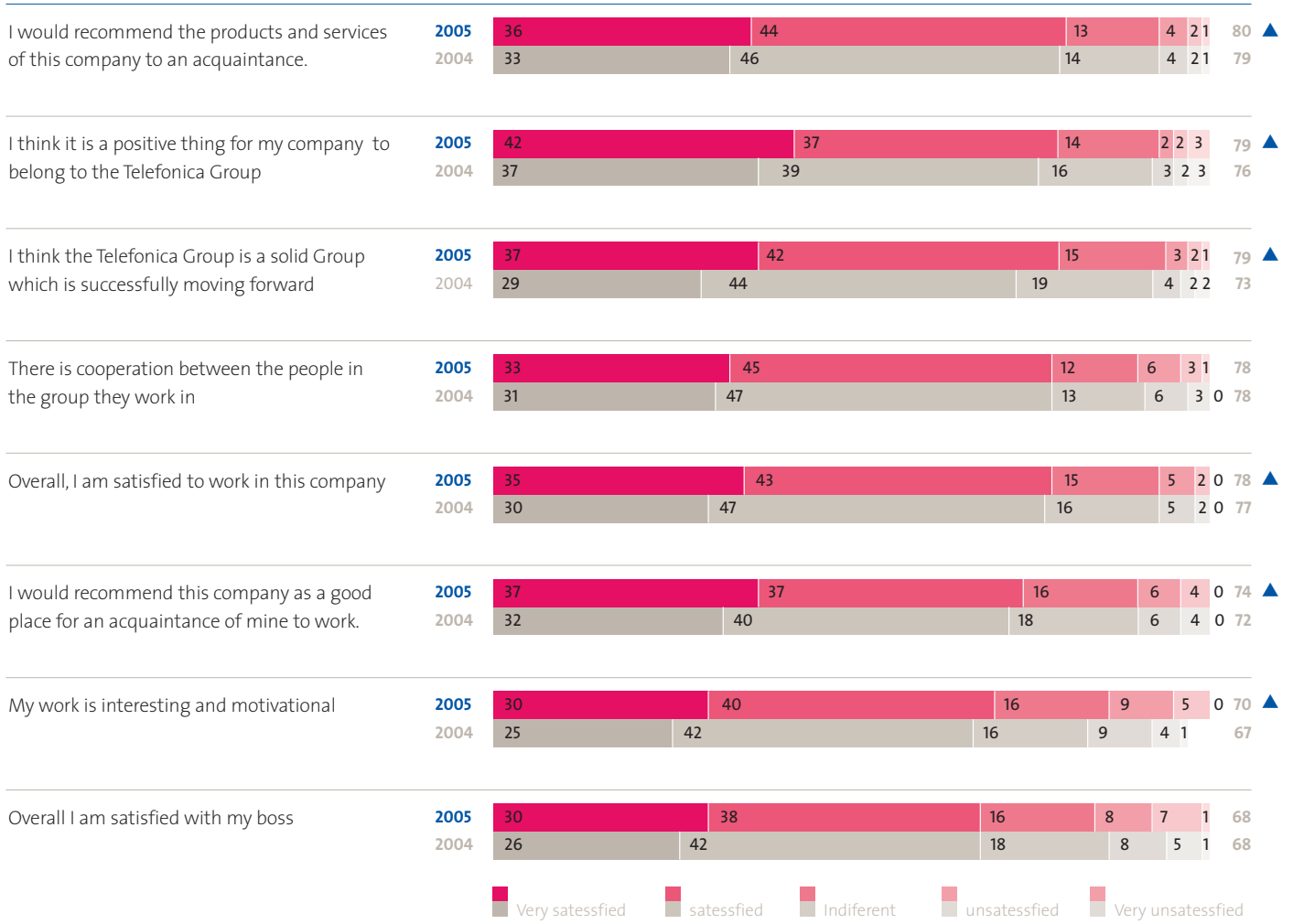
The most important improvement (average increase of 9 points) was seen in the area of perceptions of employees, especially in aspects relating to Clarity of Communication and Confidence in the Management. With this progress, the gap between perceptions of the management and the workforce has lessened. The improvement in management has been seen mainly in areas related to Internal Collaboration and Professional Development.

After the results were notified to all employees, in 2006 design commenced on action plans to improve the workplace environment. The priority lines of action on which the action plans for the improvement of the workplace environment were: Professional Development, Leadership, Innovation and Customer orientation. Our goal is to continue improving to make the objectives set in the strategic plan a reality, making Telefónica the best place to work.

Workplace environment observatory

During 2004 the workplace environment observatory was established, comprising workplace environment representatives from the main Telefónica companies. Its mission is to share and encourage workplace environment improvement initiatives in the Group and, definitively, provide a space for debate and innovation to help improve employee satisfaction and their motivation in terms of the project for the future of Telefónica. The workplace environment observatory started off in Spain and has been repeated in Argentina, Brazil, Chile and Peru.

Most positive questions in workplace environment survey



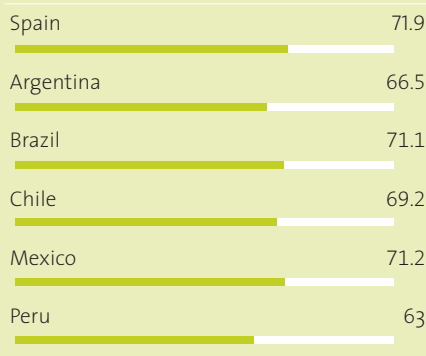
OPINIÓN

What does society think?

Studies on corporate reputation have included the WORK dimension as one of the seven factors making up a person's perception of the company. As a result, for Telefónica not only is it important to find out the opinion of its employees, but also of society. The better the perception of the quality of the workplace environment in Telefónica, the more opportunities human resources representatives will have of attracting the best professional talent for the company.

Results show Telefónica in Spain as the second ranking company in terms of workplace environment, unlike in Latin America, where good results in the workplace environment survey have not been reflected by society as a whole.

Results November - December 2005



Internal Communication



Telefónica's transformation strategy, "Accelerating to strengthen our leadership" developed during 2005, gave communication a key role in said process. In this context, the Internal Communication Master Plan established for 2005 the plan to give the Group a single dynamic which would integrate the requirements and specific needs of the over two hundred thousand employees of Telefónica.

The objective is to encourage their active participation in achieving the company's goals and strengthening its internal cohesion under the message "Accelerating to strengthen our leadership". To do this, specific communication campaigns in the master plan were carried out, also in coordination between the countries, as well as bringing current objectives existing in different business and countries into line with new joint objectives.

Against this backdrop, the action plan carried out in 2005 involved the implementation of numerous initiatives: the creation of teams and new communications dynamics, remodelling of tools and the creation of new channels, the implementation of new personal communication dynamics and the commencement of a communication training plan, both for management and professionals involved in this field.

One of the key initiatives of the plan was the establishment of an Advisory Board for internal country communications in Spain, Brazil, Mexico and Peru. The objectives of this Advisory Board are as follows:

- Coordinating all communication initiatives between business lines/countries and the corporation
- Make corporate policy consistent with internal communications practices in each country
- Design and propose to the Telefónica Group actions which meet the needs and/or specific requirements of each country, in an integrated manner.

In Spain specifically, at the end of 2005 "the Telefónica news" was established as an integrated communication dynamic for all Telefónica employees, with real time updating of information. It is aimed to progressively expand in all countries where Telefónica operates.

Another of the initiatives developed over the year was the launch of the trail version of the "Management Portal", a new channel for Group managers which is aimed at becoming the communication channel par excellence for management.

Notable advances have also been made, throughout 2005, to the new Intranet model, Unica, already in application in district C, with the aim of being progressively implemented in all countries where Telefónica is present. In relation to district C, communication actions were carried out around a "new space for a new way of working".

Employees involvement in the strategy

During the 2005 financial year, employees were involved in the transformation process of Telefónica, under the slogan “Accelerating to strengthen our leadership”. In this respect, both internal communications channels and presentations to directors were aimed at disseminating the five main axes of transformation which have been worked on since 2004. The process of aligning all messages under the slogan “Accelerating to strengthen our leadership” is significant; more specifically the “meta:cliente” program from Telefónica de España and “Customer Commitment” from Telefónica Internacional.

Additionally, during the 2005 financial year, of particular note is the dissemination among directors of the Telefónica Strategic Plan. This activity, lead from the President’s office in collaboration with the Communication department, involved the following aspects in 2005:

- Presentation of the Strategic Map in 34 Management Committees of Group companies, located in 7 countries and involving over 400 directors.
- Training courses for directors on the methodology of Strategic Maps, with over 300 participants in Spain (15 sessions) and 750 in Latin America (35 sessions).
- Cascade communication through specific communication materials, such as triptychs which summarise the Telefónica Strategic Map, its objectives and indicators.
- Publication on Intranet of the Strategic Map portal, which contains the latest news on its progress, with information on indicators.

After this presentation of the Strategic Map, the next step is communicating same to all middle management of the Telefónica Group.

Directors and middle management are the key to communicating strategy to the employees of a company. Communicating and involving employees in a strategy is a task that cannot be carried out with one way communication media, as professionals usually require responses to questions and a detailed explanation of different matters.

CASE STUDY

Sharing knowledge

e-MARCO: Portal for sharing knowledge and Practicing Community methodology, with an active community of Weblogs under way. This is a dynamic tool available to all companies and countries in the group and specialises in sharing internal and external knowledge through documents - currently 30,000 -, videos and weblogs on the Information Society, Expert Forums and Conferences, Sponsors, Regulation, Marketing and Advertising among others.





Compensation

Pension Plans

Health plans

Other benefits

Compensation

Personnel expenses in the Telefónica Group in 2005 totalled 5,045 million euros (4,346 million euros in 2004), representing around 13.3% on the Group's income in 2005 (14.4% in 2004). From this total, salary package expenses (fixed and variable salary + benefits + pension plans and commissions) came to 78%, 69.2% of which corresponded to fixed and variable salary and 4.3% to benefits. Additionally, Telefónica has incurred workforce restructuring costs of 611.20 million euros.

During 2005, both for fixed and variable salary, the Telefónica Group has drawn up a total pay packet framework common to all directors. This framework is aimed at achieving defined results and strategies, providing the necessary flexibility and transparency to maintain maximum internal equality and the maximum external competitiveness possible, with the aim of encouraging mobility, attraction, motivation and retention of management talent.

Telefónica Group's compensation system is aligned with the Group's global strategy and best practices of the marketplace to motivate the employee while being

competitive, fair and consistent through the establishment of a compensation package based on the following points:

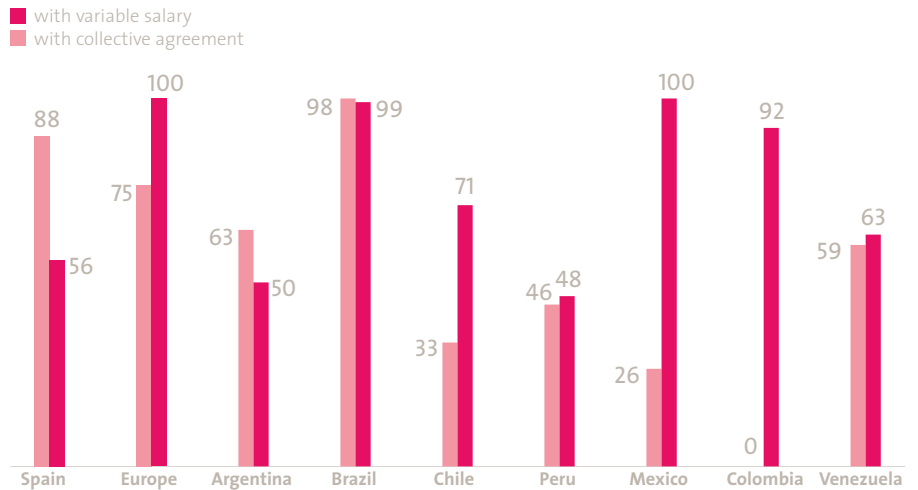
- Adaptation to the reality of each market and each Business Line.
- Consistency with the Telefónica Group's values.
- Focus on key persons according to their performance and contribution.
- Relevance of non-monetary compensation: social and in-kind benefits.

To define this compensation system, salary benchmarks have been established which allow comparisons with companies of similar scale and relevance. Said analysis was carried out by directors and middle management in Spain, Europe and Latin America.

For the general Telefónica workforce, compensation conditions for employees are described in the different collective agreements in force. At the close of 2005, over 142,700 employees in the Telefónica Group had their status regulated on the basis of collective agreements compared to 120,000 in 2004.

Percentage of employees with collective agreement and variable salary by country in 2005

Data in percentage



Variable salary

For years, the Telefónica Group has been working on designing and implementing variable compensation policies that reward effort and the fulfilment of its employees' objectives.

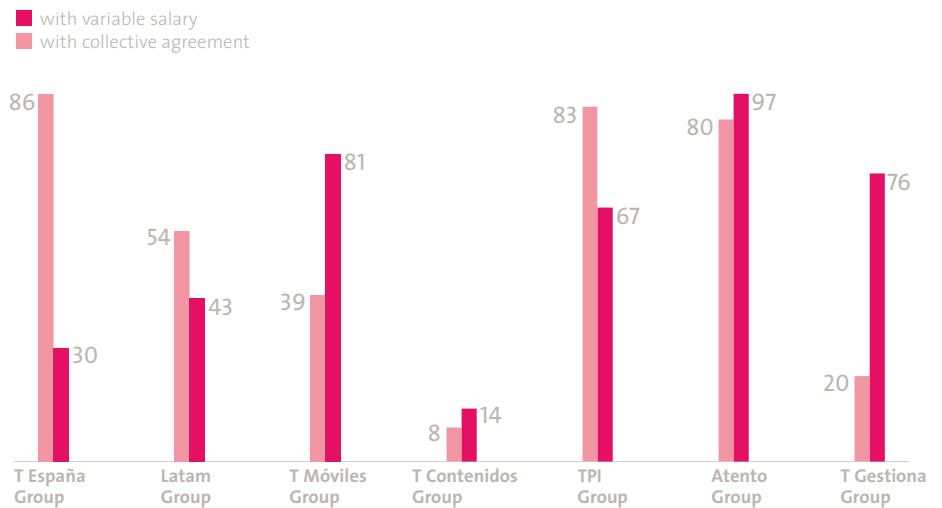
These policies seek, on the one hand, a greater commitment and involvement by employees with company objectives, and on the other, greater fairness in the compensation system. Variable compensation is designed to mobilize attainment of the Group's global objectives and to compensate in function of according to contribution to results based on achieving individual, company and Group objectives.

Variable salary is based on a model which, linked to global Group results, combines the perspective of objective achievement (what has been done) with perception about achievement methods (how it has been done).

Over 147,000 employees (105,000 in 2004) are covered by variable salary based on the fulfilment of individual, company and group targets.

Percentage of employees with collective agreement and variable salary by business line in 2005

Data in percentage



Health plans

The Telefónica Group offers private medical insurance to over 98,000 employees throughout the world. This includes 100% of Telefónica de España employees, 76% of the Telefónica Móviles Group, 62% of T-Gestiona, 48% of TPI and 40% of Telefónica Internacional. In relation to Atento, in Brazil, such plans are offered to over 25,000 employees, bringing the figure for the company to 31%.

In Spain, Telefónica de España and Telefónica S.A. underwrite insurance policies for their employees with the Antares Group, consolidating the complementary health coverage from the Social Security General Regime for active employees, their wives and children, early retirees and those who have left the company. Other employees, up to 40,000 throughout the country, have health plans in other private institutions.

In Argentina, over 6,800 employees of the Group have private health access, double the 2004 figure. In Chile, the former health insurance system based on an internal institution has been changed and has now moved towards a private institution (ISAPRE) that competes in the market and provides more comprehensive health coverage. Currently over 2,100 employees participate in same.

In Peru, most of the companies in the Telefónica Group have health plans that supplement those that other workers in the country generally have. The Group companies have agreements with Private Health Provider Companies (EPS), which act as private insurers to look after the needs of the employees and their family members. Similarly, at Telefónica del Perú a group of employees and their families are covered by a self-insurance system (PAMF) that offer services similar to private insurance. The total number of employees having access to this type of service is more than 2,300.

TeleSP in Brazil offers all its employees and their dependents the chance to be included in the health and assistance plan from Plamtel, which offers more comprehensive services than those generally found on the market and has been recognized by Accoesp (State of Sao Paulo Association of Medical Clinics and Doctors' Offices). Over 35,000 employees throughout the country have access to health services of this type.

Pension plans

Employees of the Telefónica Group in Spain, Peru and Brazil participate in pension plans promoted by the Group, meaning costs for Telefónica of 94 million euros. In the rest of the countries, employees participate in public pension plans.

In Spain, 60% of employees of the Telefónica Group participate in Group pensions, managed by Fonditel. 84% of employees of the Telefónica de España Group are covered by plans, as are 91% of Telefónica Móviles España (there are no programs of this type either in TPI or Atento). On a monthly basis the company contributes 6.87% of gross salary of employees to the plan and each contributes 2.2% of same, except employees contributing after June 1992, whose percentage is 4.51%.

In Brazil, 83% of TeleSP employees and 65% of Telefónica Empresas have private pension plans to which employees make a personal contribution matched by the contribution of the company.

Almost all employees of Telefónica del Perú participate in the pension programs offered in the country. Most do it through the private pension system operated by the Pension Funds Administrators (AFP).

CASE STUDY

Fonditel

Pension plans for employees of the Telefónica Group in Spain are managed by Fonditel and in 2005 obtained annual profitability of 12.38% for the Employee Plan of Telefónica de España and up to 14.56% in the case of Fonditel B, which is the pensions fund which groups together pension plans for the other companies in the Telefónica Group. The volume of assets managed at the close of 2005 reached 4,528 million euros in the Employee plan of Telefónica de España and 209.5 million euros in Fonditel B.

Fonditel has continued to get public recognition at home and abroad due to its excellent results in pension fund management. Thus, for the fifth year running it was awarded the prestigious IPE prize (Investment & Pensions Europe) for Spain and reached the final three candidates for the overall European prize. Also, prizes awarded by Intereconomía-Morningstar gave two awards to plans managed by Fonditel: to the best manager of mixed fixed income. In terms of national ranking by profitability, individual plans managed by Fonditel continued for yet another year to get excellent results and reach the top positions in their categories for three and five years.

Additionally, employee funds for the Telefónica Group, with the knowledge of their respective Control Commissions, have strengthened their commitment to make investments in ethical, sustainable and responsible fund until reaching 1% of all assets managed. Specifically, at the close of 2005 the volume of investments of this type reached 48.1 million euros, meaning 1.01% of all equity in employee plans for the Telefónica Group. From this amount, 33.7 million euros were invested in socially responsible investments, 10 million euros in social housing developments and 4.44 million to a forestry development company.



Other benefits

All Telefónica employees have a package of social benefits which complements their salary package and which varies depending on the company. It is planned, during the 2006 financial year, to carry out a comparative analysis of the different social benefits existing for the management group, with the aim of collecting good practices and standardising the range of benefits, maintaining the necessary homogeneity necessary for different corporate realities.

Purchasing club for Telefónica employees in Spain

Telefónica de España employees may make online purchases of various products and services, with additional benefits compared to market price, through the purchasing club. The purchasing club highlights those offers related to Telefónica products and services, and which are in the telefonicaonline.com employee store, which can also be accessed directly.

The objective of this new channel is to encourage online business, providing employees with interesting offers. Also in this space, the customer will enjoy special attention provided directly by the service provider. Since this initiative was implemented, over 500 monthly transactions have been carried out, for the purchase of automobiles, technological goods, food and banking and property services

Additional benefits for employees of Telefónica Group¹

(Datos en unidades)

	N. of people who receive food tickets	N. of people who receive studies are financed
Spain	11,108	161
Europe	—	—
Latin América	24,491	613
Argentina	13,763	67
Brazil	9,808	108
Chile	98	296
Peru	—	13
Mexico	—	129
Colombia	86	—
Venezuela	736	—

¹Including Atento employees

Additional benefits for employees of Telefónica Móviles

	Argentina	Brazil	Chile	Colombia	Ecuador	El Salvador	España	Guatemala	Mexico	Nicaragua	Panamá	Peru	Uruguay	Venezuela
Private medical insurance	•	•	•		•	•	•	•		•	•	•	•	•
Life insurance	•	•	•	•	•	•	•	•		•	•	•	•	
Family help (children, college etc.)	•		•	•	•		•				•	•		•
Food tickets	•	•		•	•		•						•	•
Pension plans			•			•	•							
Financing of studies	•		•		•		•		•			•		
Stock option plans	•		•			•	•	•	•			•		



Training

Tele-training

Management of Skills

Professional Career

CASE STUDY

Training to improve sales focus

During 2005 Telefónica encouraged its workforce sales focus through several training programs:

- Directors' program: "Making the company customer focussed", already commenced in 2004 and attended by over 1,000 directors in all group business, this course was given in Spain, Argentina, Brazil, Chile, Peru and Mexico, with participants having the opportunity to take part in different training actions going in depth into the importance of making Telefónica an operator which creates solutions of value to its customers.
- Training schedule: "Commitment to our customers" was taken by over 5,000 middle managers from the Group in the main countries where it has a presence (Argentina, Brazil, Chile and Peru), and the program has contributed to improving the skills and know-how of participants to successfully fulfil their commitment to making the company more customer focussed.
- Actions aimed at all Group employees: all employees have access to specific courses to improve their sales skills through the training Portal.

The different businesses in the group have strengthened sales skills with specific actions. Of note are the Telefónica de España Sales Schools and programs associated with the program "Compromiso Cliente de Telefónica Latam" (Telefonica Latam customer commitment".

Training

In 2005, the Telefónica Group invested over 70 million euros in training its employees, an average of 380 euros per employee. Professionals in the Telefónica underwent over nine million hours of training in 2005, meaning an absolute increase of 5%

By business lines, for yet another year, Atento made notable efforts with over five and a half million hours training its employees. Considering the Telefónica Group without counting customer relations, absolute growth in training hours was around 15%.

Annual training hours per equivalent employee exceed 48, which breaks down into 33 hours per director, 58 for middle management and 48 for the rest of the workforce. The decline seen compared with the 60 hours for 2004 is due mainly to less intensive training in the Móviles and directorios business, added to the effect of specific training actions for mid management carried out by Telefónica de España in 2004. The number of individual students exceeds 650,000 (600,000 in 2004), meaning an average of more than three training actions for each employee.

Training of employees in Atento is so intensive due to the size of its workforce, its greater turnover of professionals compared with other companies in the Telefónica Group and the particular characteristics of the business it carries out. Atento employees receive both training in recording contacts with customers and related directly with customer service.

Considering the rest of the workforce (excluding Atento), the distribution of hours by function places training hours at 37 hours for employees carrying out sales functions, 38 for operative functions and 30 for support professionals.

Number Employees with personalised training plans¹

Spain	35,242
Latin America	7,441
Argentina	1,858
Brazil	1,576
Chile	N.D.
Peru	1,060
Mexico	153
Colombia	430
Venezuela	2,364
Rest of America	367
Total	43,050

¹ including Atento

In line with its ambition to be the biggest and best integrated telecom group in the world, Telefónica has set itself the challenge of offering the best future for all its professionals. Telefónica aims to start up the individualised training plan in the 2006 financial year.

Distribution of training hours by employee and business line

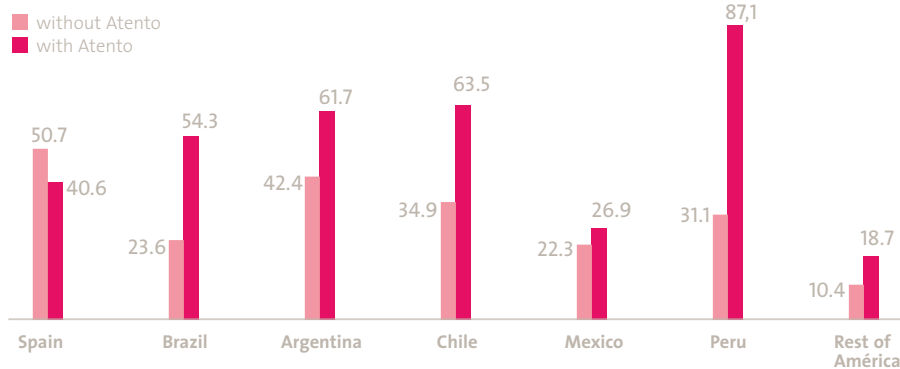
	2004			2005		
	Directors	Mid manag.	Rest workforce	Directors	Mid manag.	Rest workforce
Fixed spanish business	48	187	40	46	187	44
Fixed latam business	50	48	31	29	69	32
Mobiles business	123	58	71	54	38	39
Directories	145	132	35	27	67	30
T-Gestiona Group	-	-	-	21	57	31
Other companies	38	95	25	13	12	7
Negocio Atento	-	-	84	-	-	64

Training hours by business line

	2.003	2.004	2.005
Fixed spanish business	1,907,743	1,566,794	1,668,527
Fixed latam business	719,307	812,665	983,392
Mobile business	671,504	684,094	905,699
Directories	223,317	111,105	93,180
T-Gestiona Group	-	-	94,875
Other companies	390,344	168,072	98,246
Atento	2,457,017	5,567,453	5,505,098
Telefónica Group	6,369,232	8,910,183	9,349,017

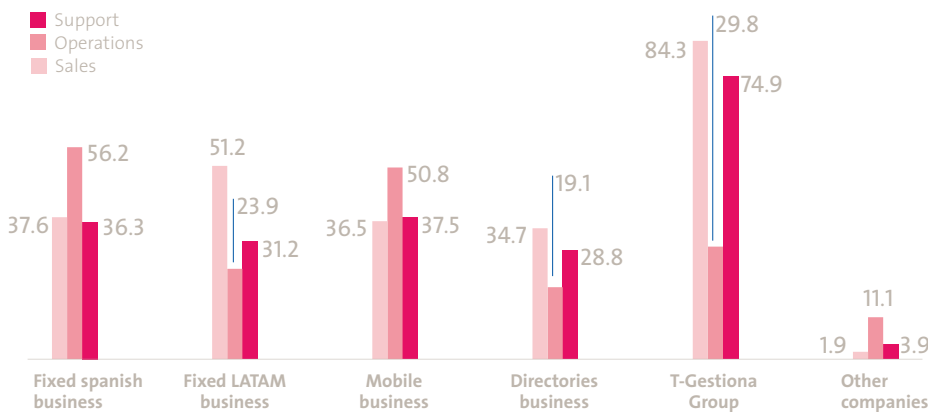
Distribution of training hours by employee and country 2005

Data in hours per employee



Training hours by employee and function 2005 (w/o Atento)

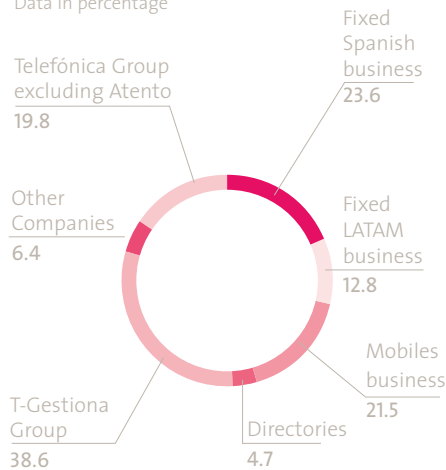
Data in hours per employee¹



¹Without Atento.

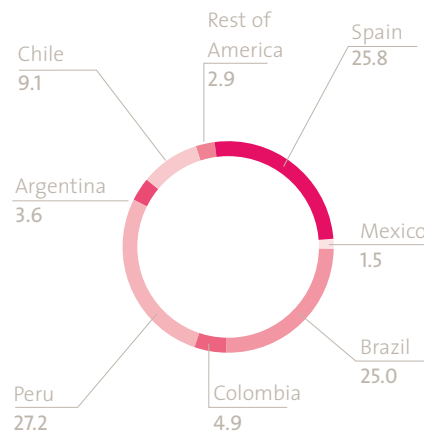
Online training by business line

Data in percentage



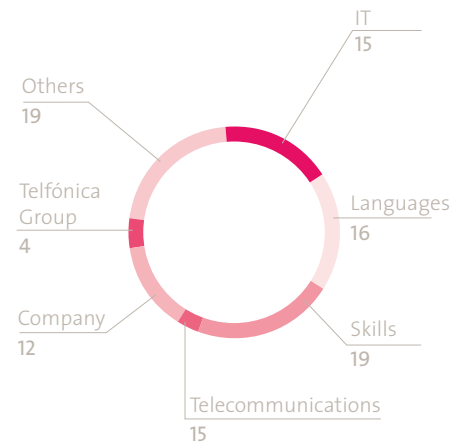
Online training by country

Data in percentage¹



Breakdown of online training hours by subject

Data in percentages



CASE STUDY

Mobile learning

Mobile learning is the next generation of online training, with access to content through mobile devices giving independence and immediacy to training. In said type of training, which is normally combined with standard online training, the structure of content should be modular, with reduced estimated study times per module (maximum of 10 minutes) so the student can access them without disrupting his normal activity.

Telefónica, through Educaterra, has been investing throughout 2005 in the development of a series of tools and applications based around the a+ service, which enable mobile access to training resources. There are currently 98 lessons with contents produced for "mobile learning". Typically, Telefónica Móviles España is leading the Group in this type of training.

Tele training

In 2005, professionals from the Telefónica Group (excluding Atento due to the specific characteristics of its training programs, carried out 20% of their training via online tools, particularly in T-Gestiona (where training comes to 38% of total training).

During 2005, the a+ service offered through Educaterra consolidated its visions of standardising the skills and abilities of employees, ensuring flexible access to training and acting as catalysts in knowledge sharing. The portal is available in two languages (Spanish and Portuguese) and is accessible from Spain, Argentina, Brazil, Chile, Peru and other countries in Latin America.

The results of activity in 2005 were as follows.

- The number of students registered with online training services exceeded 130,000, with a reduction of 14% compared to the figure of 150,000 the previous year.
- The number of hours used has declined by 38%, from 650,000 hours of connection in 2005 to 406,000 in 2004.
- The number of simultaneous training house through the virtual classroom (centra) reached 8,460: Said tool simulates a traditional class through the computer, enabling real time interactivity between the trainer and students. This tool makes it possible to combine voice and image, share applications, work in a group, carry out surveys or evaluations en vivo, etc.

Indicators of training use showed falls compared with 2004, which was unique in its very intensive use of online tools. This indicator has encouraged us to renew contents and more actively promote the portal, with the aim of increasing its use by Telefónica employees.

As a positive detail, it is important to highlight the fact that the percentage of training actions passed, compared with actions initiated, has increased from 60% in 2004 to 67% in 2005.

2005 saw investment in the development of 125 new content sets, including 371 modules, meaning an additional offer of 800 new training hours. Among the most notable projects are:

- Cisco technology training for Telefónica companies
- Individual training plans for para Telefónica de España
- Mixed training program (attendance - online) for management secretaries
- Giving up smoking program
- Engineering portal
- Portuguese for Spanish speakers
- Environmental management course developed by Telefónica de España and Telefónica Móviles España

Commitment to our customers

Working together with customers (internal and external), understanding and bringing forward to their needs, and offering them quality solutions with a high value added

Environment Integration

Understanding and participating in the social context (society, customers, companies, employees and shareholders), adapting adequately to new situations and encouraging change

Communication and transparent relations

Knowing how to use communication to create a positive environment

Collaboration

Actively cooperate to achieve common goals

Professional development

A commitment to the professional and personal development of others and yourself

Results contribution

Effectively managing resources and always seeking, with initiative, to improve the company's results

Management by skills

All lines in the Telefónica Group share a system of generic skills for all employees, strengthening the values of the group and acting as a basis for implementing strategy.

Skills are the markers which make it possible to know what the company expects from each employee, also acting as a personalised guide for professional development.

In 2005, all companies of the Telefónica Group participated in an evaluation process which involved, at least, self evaluation and the evaluation of representatives of the hierarchy. The results of this evaluation enabled identification of areas for improvement for each employee and the appropriate actions to be carried out each year.

During 2005, over 78,361 employees from the Telefónica Group were evaluated on the basis of their skills, meaning a consolidation of the model compared to the 68,677 in 2004 and the 35,758 in 2003.

Telefónica continues to make progress in management by skills, integrating this within different human resources management systems (selection, training, development), thanks to a corporate skills model which facilitates horizontal and vertical mobility between departments, units and countries, encouraging organisational development and improving the suitability of personal skills.

The development of skills will boost a process of cultural development towards a professional model of greater employability, facilitating efficiency, the vision of internal customers and trans-functional empathy.

All employees in the group have access to a training portal where there is a section on self-development of corporate skills where numerous actions can be found to increase skill levels

The human resources department is making progress in implementing a 360° evaluation model for group directors, which to date has been completed with the evaluation of management talent in 2005 and the 180° minimum feedback process. 360 ° evaluation involves the evaluation of a professional by his superiors, those reporting to him, and his peers, complementing the self-evaluation process. During the next financial year a range of corporate policies will be developed around this initiative.

Telefonica employees evaluated on the basis of their skills in 2005¹

Spain	38,857
Europe	10,007
Latin America	27,203
Argentina	6,711
Brasil	9,313
Chile	3,835
Peru	5,599
Mexico	1,615
Colombia	130
Rest of America	2,294
Total	78,361

¹Without Atento

The Telefónica Group is aware that its employees aspire to a professional career which will help them develop in terms of their functions and responsibilities. For this reason, the Group's Human Resources departments have developed various initiatives to encourage this objective.

Professional career



Career initiatives for directors

- Rotation of directors. Telefónica has established a framework for the rotation of directors, which is determined by a range of established criteria, among which are aspects related to the potential and development of persons, succession plans, previous experience and career in other companies, projects implemented, know-how, motivation.
 - Rotation of directors enables the transfer of good management practices between the different units of the company, offers opportunities for professional development to employees and helps share existing talent within the Group, in this way making it possible to reach management levels when management positions become vacant which are mainly to be filled internally.
 - During the 2005 financial year, 171 directors have rotated internally (12% of the total) and another 54 have left Telefonica (4% of the total)
- over 350 vacancies in the Group have been published. This tool is available for the publication of management and non management vacancies.
- Project interchange program between Telefónica de España and Telefónica Latinoamérica. The sales areas of both companies have encouraged a year long professional exchange program, with the twin objective of transferring good project management practices and developing professionals with a vision of an integrated telecom group. During 2005, 25 professionals participated in this initiative.
 - Participation in the Fundación Carolin scholarship program, in which 26 professionals from the Telefónica Group in Latin America have developed their professional activity in companies within the Telefónica Group in Spain at the same time as taking year long post graduate studies.
 - Establishment of Project Management professional career in Telefónica de España

Career initiatives for other employees

- General publication of all vacant positions on the Intranet. Through this initiative, Telefónica aims to inform all Group employees of the professional opportunities which exist in the different companies of the Group. This action is also aimed at encouraging clarity and transparency of procedures for filling vacancies and the transfer of talent within the group. The first phase of the project started in 2005, and since then

The end of 2004 saw the approval of the development of the expert career model towards a new project management professional career. The development of the previous model was aimed at adjusting the functions of the expert to the needs of the company, identifying the most suitable experts for each position, offering a more attractive professional outlook contributing to improving satisfaction and basically positioning this group in accordance with the company's main strategic lines. Project Management, Sales and Technical Advisor to Customers (ATC's) were integrated into a model for development and professional careers involving around 4,000 professionals in the company.

- More rigorous personnel selection procedures at Telefónica de España. Through the participation of a second hierarchical superior alongside the person responsible for the vacancy increases objectivity in the process of deciding on the most suitable candidate.
- Encouragement of rotation in internal selection processes. Telefónica de España rotates personnel between departments in 30% of internal selection processes and 44% of cases within the same department.

CASE STUDY

JAP (High potential youth) program

The program's aim is to identify and develop young talent at the outset of their professional careers. This program, begun in the 90s and revised in 2003, has the following objectives:

- Retaining and promoting loyalty in persons with talent from the outset of their professional careers.
- Speeding up their process of development within the organisation.
- Training agents who will promote change towards the new desired culture.
- Forming a pool of future managers for the Telefónica Group.

At the close of 2003 the selection process for the new Telefónica Group High Potential Youth Program began, which was completed in 2004 with the selection of 138 JAPs.

In 2005, JAPs carried out temporary rotations (3 to 6 months) during which they worked in other functional areas within the same company, other Group companies and, in some cases, other countries. This action has contributed to increasing their overall vision and knowledge of the Group.

In 2006 it is planned to carry out additional development actions, putting the final touches to the 2004-2006 session of the JAP Program.



Professionals and persons

Human rights

Freedom of association and collective bargaining

Work-life balance

Abolition of child labour

Equal opportunities

Health and safety

Workplace demands

Human Rights

For Telefonica the defence and promotion of human rights, beyond a mere obligation, is one of the values on which our human resource management is based.

Express commitment

Formally, this commitment by Telefonica to guarantee human rights includes:

- Telefonica Group code of ethics, which expressly refers to respect for human rights in relation to employees and providers
- Code of ethics agreed between Telefonica and the Union Internacional de Sindicatos (UNI) in 2001 and renewed annually. This code applies to the whole Telefonica Group and is inspired by the Global Compact and the Fundamental Agreements of the ILO. It includes joint recognition by both parties of the fundamental rights in the community and workplace, namely freedom to choose employment, absence of discrimination in the workplace, abolition of child labour, union freedom and the right to collective bargaining, minimum salaries, working hours, environment, workplace health and safety and improvement of community conditions through training actions, and stability of employment.
- United Nations Global Compact. Telefonica signed this declaration in

March 2002 and since then has reported, through different communication channels, on progress in implementing its 10 principles.

Supervision mechanisms

Telefonica supervises, checks and reports on compliance with human rights in all its activities through different mechanisms:

- Code of ethics office, which has different channels for consultation and complaint, and whose processes are verified by the internal audit department. This office is fully functioning within companies in the Telefonica Mviles Group and is aimed for establishment within the rest of the Group during the 2006 financial year. Among its functions are the drawing up of an annual report.
- Workplace audit, in companies themselves, considering relationships in first and second lines of contracts.
- Annual meeting with the Union Internacional de Sindicatos to review compliance with the UNI-Telefonica code.
- Report on progress in the Global Compact, drawn up annually and included in corporate responsibility reports and the Telefonica web site

The success of a company lies in its employees. Telefónica treat its employees as persons who join both professional and personal challenges. That why, Telefónica wants to become a company where its employees feel as persons.

The different departments of the Telefónica Group develop different initiatives aimed at guaranteeing human rights, equality of opportunity, work-life balance and maximum protection for health and safety.

Reporting lines

Compliance with and respect for human rights is the responsibility of each and every Telefonica employee. Functionally this is the responsibility of the human resources department with cooperation from the corporate responsibility department when it comes to detecting risks, promoting and encouraging improvement and coordinating the drafting of reports.

Both departments report every two months to the Commission set up by the Board of Directors in 2001 to directly supervise all matters relating to human resources and corporate reputation, including human rights (comprising four independent directors).

External collaboration

For Telefonica, the benchmark partner in human rights is the UN. Its different agencies have developed numerous specific collaborations and projects during 2005. In the specific area of human rights, the following are of note:

- The ongoing participation of Telefonica in working groups created on an ad hoc basis by international bodies such as the ILO, the International Employers' Organisation or the International Chamber of Commerce.
- Participation at the headquarters of the ILO in a special working session with John Ruggie, Special UN Representative for Human Rights, providing the process with internal documentation and comments.

- Presentation of the workplace audit carried out in the Telefonica Group as a case study in Global Compact workshops, based around points 1-3.
- Participation in HCRA, Human Rights Compliance Assessment, developed by the Danish Human Rights Institute, with the collaboration of 40 Human Rights experts.

Along the same lines as in 2004 (in the 23 most important companies in the Group), all companies audited have had to draw up an action plan to correct any workplace contingencies.

As a corrective measure on a corporate level, in February 2004 a joint audit and human resources instruction was approved with action criteria for the control of workplace risks in the contracting of works and services.

Below are the main actions guaranteeing respect for the principles contained in the Global Compact relating to Human Rights and the working environment (see chapters on environment and providers to complete the information).

CASE STUDY

Workplace audit in Telefonica

The object is to ensure compliance with applicable employment regulation of basic human resources policies and procedures, as well as knowing, evaluating and correcting any workplace contingencies.

In the first phase (04/05), 26 companies were audited in 6 countries. During 2005, workplace audits were carried out in T-Gestiona Spain, TSoluciones, T-Móviles de Venezuela, T-Móviles Colombia.

As a corrective measure on a corporate level, in February 2005 a joint audit and human resources instruction was approved with action criteria for the control of workplace risks in the contracting of works and services. The challenge for 2006 is to complete the third and final phase of the workplace audit in Telefonica.

This is an internal standard which includes:

- A list of pre-contractual requirements (approval of providers and contracts)
- List of the information to be provided at the beginning of the contract
- Obligations in terms of prevention of workplace risks for the principal and the contractor
- Obligations in terms of information to legal representatives of employees
- Measures to adopt during the validity of the contract
- Measures to adopt after the cancellation of the contract
- Supervision and control measures

Another of the corrective measures taken during 2005 was the obligation of training in human rights for employees of security companies working for Telefonica.

CASE STUDY

Social dialogue in the Internacional Arena

In relation to social dialogue in the international arena, it is worth mentioning that Telefónica and UNI (Union Network International) have agreed to meet annually so that Telefónica management can inform unions of general information about the most important Group topics which affect its position on the market, its future and priorities.

The meeting corresponding to 2005 was held in Mexico DF on 14 February 2006. Among the topics covered was an updated presentation on the Telefónica Group, its positioning in Latin America, with particular emphasis on the boost given, in 2005, to the process of internationalising Telefónica (Cesky telecom, alianza China Netcom and O2).

The final part of the presentation focused on the company's future strategy, especially the need to effectively involve all employees and for union leaders to play a leading role in reaching the objectives established.

Freedom of association and collective bargaining

Search for efficiency is the cornerstone on which Telefónica's labour strategy is founded. It is a strategy that takes into account factors that closely influence the transformation of the business to ensure that social dialogue and negotiation definitively constitute key elements in our development as a Group.

Dialogue with unions

Social dialogue and collective bargaining are irreplaceable instruments for labour relations management and governance, as well as enabling collective bargaining to adapt to the changes occurring at the companies. Its sound functioning is clearly evidenced by the meetings held periodically between all parties.

Freedom of association

Freedom of association is an employee right at Telefónica, as shown by the more than 45,000 employees with labour union affiliation. By company, those with the largest number of affiliated personnel are Telefónica de España with 15,876, Telefónica Latinoamérica with 13,227 and Atento with 7,579. By country, particularly notable are Spain, with 16,246, Argentina with 12,275 and Chile with 3,957 affiliated employees.

Employee participation of employees of the Telefónica Group in the labour union elections rose to over 106,000 employees (95,000 in 2004), electing over 6,300 union representatives

Collective bargaining

Likewise, labour relations as a whole have been very satisfactory. At the end of 2005, over 142,700 employees of the Group had their conditions regulated on the basis of collective bargaining, compared with 120,000 in 2004. The breakdown of these details by country and business line is in the section on compensation.

Some of the achievements in this area merit special consideration:

Spain

Telefónica de España and workers' representative signed the extension of the 2003/05 collective agreement until 31 December 2007. The agreement to extend the collective agreement was adopted with 12 votes in favour by the company, the response of the Inter Centre Committee being very positive, with the votes in favour of CC.OO. (4 votes), U.G.T. (4 votes) and U.T.S. (1 votes), STC (1 vote) and votes against from CGT (1 vote) and AST (1 vote).

The company is committed to maintaining the acquisitive power of workers of Telefónica de España, S.A.U, so at the end of each year, the difference is reviewed if the real CPI is higher than the predicted CPI.

Both parties, sharing their concern about the rise in absenteeism and in order to reduce absentee rates during 2006 and 2007, have agreed that within the Interpretation and Supervision Committee, absenteeism rates for the last two years will be evaluated, so that an extra day's holiday will be awarded as long as a decline in the aforementioned rate compared with the previous year is observed. In Telefónica de España, the number of hours for labour disputes fell to 3,724 in 2005, showing a downwards trend compared with the 15,794 in 2004 or 54,500 in 2003.

The management of tgestiona España and the Works Committee (with the advice of union members represented in same, CC OO and UGT) have signed the first collective agreement for tgestiona, for the 2005-2007 period. The collective agreement was signed by the works committee of tgestiona and the company management.

This fulfils one of the main objectives suggested in negotiations: standardising the working conditions of the whole workforce, especially in terms of professional categories, basic salary conditions, right to contributions, social benefits and working hours. The aforementioned conditions differed depending on the existence of applicable employment regulations (those for tgestiona and TPTI), as well as prior hiring conditions in different Group companies.

The collective agreement includes a range of material and content from a perspective of renewal and even innovation, and which hope to achieve an overall improvement both in the areas of productivity of the company and life and work conditions of the professionals which render their services in same. Thus it included measures seeking to make working hours more flexible and compatible with improvements in the quality of life of workers, bringing about improvements to customer service and the company's productive processes. Along these same lines, new rights were incorporated aiming for a better work-life or guaranteeing, strengthening, the principles of equality of opportunity.

The number of hours of labour dispute in Atento España stood at 7,902 hours in 2005, a tenth of the 75,918 in 2004, the year in which the third collective agreement for the sector was reached.

Latin America

During 2005, social dialogue was significantly improved throughout the region. Almost all matters raised were resolved, significantly reducing controversies, disagreements and litigations. Likewise the matters which were subject to negotiation in all companies have expanded both in quality and quantity.

Possibly related to the above is the significant improvement in working environment surveys for the region among T. Latam companies.

CASE STUDY

Evolution of the Employee redundancy plan of Telefónica de España

Agreement on the Social Plan in the Employment redundancy plan of Telefónica de España (E.R.E.) for the period 2003-2007.

The program is based on voluntary redundancies, affecting a maximum of 15,000 workers, and with a commitment to replace up to 10% of positions. This plan enables Telefónica de España to reduce the number of employees, maintaining its competitiveness.

The plan is non discriminatory, voluntary and applies to all employees of the company. At 31 December 2005 a total of 1,945 employees had asked to join the scheme, added to the 7,906 requests for departure.

Chile.

It is important to emphasize that collective bargaining was carried out in line with the law, respecting the times established and without resorting to strike action. Among these negotiations, of note are

- Telefónica CTC Chile S.A. with Grupo Negociador (60 persons)
- Telefónica Mundo S.A. with Sintelfi (33 persons)
- Telefónica Mundo with Sindicato OITT (78 persons)
- Globus 120 S.A. with Sindicato OITT (9 persons)
- Telefónica CTC Chile S.A. with Sindicato OITT (92 persons)

There was also negotiation of complementary health insurance with all unions, affecting around 438 persons.

Peru

2005 saw satisfactory conclusions to collective negotiations pending with the Federación de Trabajadores and the Sindicato de Empleados, signing the respective collective agreements for a period of 3 years. Bearing in mind the fact that the previous year a collective agreement was signed with the Sindicato Unitario de Trabajadores for the same period, the signing of these agreements will define employment benefits for the whole workforce up to 2006.

May saw the signing of an agreement for reconversion of manpower with the Sindicato Unitario, which is the majority organisation, and in which it was agreed to support the Dr. Speedy project. The aim of this project is to train company technicians in integrated solutions for broadband customers.

Argentina

In Telefónica de Argentina it is important to indicate that the number of hours lost to labour disputes fell to 69,715, from the 170,000 hours in 2004. At the same time, in relation to unions in Argentina, the following notable agreements were reached:

- Salary agreement Jan 06 - Mar 07 (Foesisitra - Foetra/Fatel)
- Reduction of potential liabilities for claims for equal payment for equal work (Foesisitra-Fatel)
- Reduction of working hours as of 1/3/06 (Foesisitra-Foetra/Fatel)
- Creation of category 6 (Foesisitra-Foetra/Fatel)
- Art. 15 incorporating the basic salary (Foesisitra-Foetra/Fatel)
- Salary advance up to mid March 06, when the holding of a new CCT will be discussed alongside the definitive salary agreement (Fopstta/Upjet)

Brazil

The most significant facts in 2005 in relation to unions were the following:

- January '05: Renewal of the Agreement with Sintetel relating to the the Conciliation Committee, whose aim is to settle disputes with workers and management.
- April '05: External and internal network companies negotiated a collective agreement.
- Negotiation of regional CIPA (Internal Commission for the Prevention of Accidents) and POE (Emergency Operation Program) by Telefónica/SP together with unions and the Employment Ministry.
- September 05: Negotiation with Sintetel in relation to the Assist exclusion in the Collective Employment Agreement for Telefónica/SP and negotiation of a new agreement up to May 06.

It is also worth noting that TELESP and T-Empresas negotiated together with SINTETEL (Telecom union) and SEESP (Engineering union) the collective employment agreement for 2005/2006.

CASE STUDY

Work-life balance in Telefónica Móviles España

The last collective agreement of Telefónica Móviles España (2004-2006) contained new measures to improve work-life balance of employees to complement those already in force, such as flexible working hours, child assistance, better paternity leave, etc. Among the new measures are:

- School help, extending child assistance to children between 6 and 12 (30 euros a month for each child)
- Special leave of absence (2-4 years) to look after children or family members, with the position in the company being held
- Addition of paternity leave for hospitalisation and for time spent in hospital during caesarean birth. In this case, paternity leave is 5 days.
- No minimum limit to the reduction of working hours, improving the provisions in the Workers Statute (minimum 1/3 reduction).

Work-life balance

Working hours

The number of hours worked by employees is regulated by collective agreements, which affect over 120,000 employees, different in each country and business line in accordance with the requirements of the business and legislation in each country. The collective bargaining policy of the Telefónica Group expressly includes the limitation of extraordinary hours.

Work-life balance

The collective bargaining policy for companies in the Telefónica Group identifies the needs to manage working time, the duration and distribution of working hour, making them compatible with personal and family life.

In December 2005, 14,026 employees of Telefónica companies (10,263 in 2004) rendered their services under a regime of reduced working hours. Employees claimed: sickness (25%), maternity (9.8%) or studies (11%). Part time contracts were not considered, although these make up a high proportion of the Atento workforce.

The number of employees receiving family assistance stands at more than 27,943 employees, particularly in Spain (18,868), Argentina (2,694), Chile (3,201) and Peru (1,818)

The duration of maternity leave accords in each country with legislation in force, ranking between 12 weeks in some countries and 18 in others.

Duration of maternity leave

(weeks)	
Telefónica de España Group	16
Telefónica Latinoamérica	
Telefónica de Argentina	12
TeleSP (Brazil)	17
Telefónica CTC Chile	18
Telefónica del Perú	12
Telefónica Móviles	
Spain	16
Argentina	12
Chile	18
Central America	12
Colombia	12
Mexico	12
Panama	13
Peru	12
Venezuela	18
Atento	
Spain	16
Argentina	12
Brazil	17
Central America	12
Colombia	12
Chile	18
Morocco	14
Mexico	6
Peru	12
Venezuela	18

Mobile working

For Telefónica, mobile working is more and more important, one further step in its strategy of technological, cultural and organisational change. In this way, Telefónica aims for factors such as trust, responsibility, commitment and innovation allied with efficient management of working time targets and greater autonomy in the organisation of activities to be determinant factors in the new way of working and the consequent change in managers and employees. To achieve this, employees have been provided with different types of spaces and technological media, in such a way that their activity does not have to be carried out solely in the office or work station, in the traditional way. With the implementation of this new way of working, Telefónica aims to increase its employees' motivation, help them to find the right balance between their personal and professional life, while improving productivity at the same time.

To encourage this new way of working, in July 2005 a Corporate Policy on Mobile Working was approved. Mobile working enables professional activity to be carried out without the physical presence of the worker at the work station for a significant part of the working day/week. The aforementioned policy defined the process for establishment of this policy and sets targets for the 2005-2008 period.

In the first half of 2005, several Telefónica companies setup "pilot" schemes based on the policies and guidelines established in the mobility policy, which will be evaluated during 2006. Among the most notable experiences in this area were those of Telefónica de España, which since 2002 has been running a tele-working scheme called eWready! in which over 750 persons have participated outside the agreement and 200 from within it.

Other companies which have implemented tele-working include TeleSP (126 employees), Publiguías (36 employees), TPI España (185 employees), I+D (80 employees), Telefónica Móviles España (32 employees).

Employees taking part in this program have commented on its flexibility, the opportunity to improve work-life balance and the savings made in travelling time.

Number of hours worked

Telefónica de España Group	1,658
Telefónica Latinoamérica	
Telefónica de Argentina	1,920
Telesp (Brazil)	1,948
Telefónica CTC Chile	2,025
Telefónica del Perú	2,145
Telefónica Móviles	
Spain	1,766
Argentina	1,967
Chile	2,142
Central América	1,761
Colombia	2,280
Mexico	-
Panama	2,288
Peru	2,304
Venezuela	2,040
Atento	
Spain	1,511
Argentina	1,950
Brazil	2,160
Central América	1,761
Colombia	1,977
Chile	2,496
Morocco	2,304
Mexico	1,560
Peru	1,792
Venezuela	2,184

CASE STUDY

Brazil.- Empresa amiga da criança

In Brazil, four companies in the Telefónica group were granted the “Empresa Amiga de los Niños” certificate by the Fundación Abrinq por los Derechos de los Niños y los Adolescentes (working for the rights of children and adolescents).

TeleSP, Telefónica Empresas, Telefónica Assist and T-Gestiona have complied with the ten commitments, summarised below:

1. Rejection of child labour
2. Respecting young employees
3. Inclusion of contractual clauses for providers requiring the rejection of child labour and allowing termination of the contractual relationship in the event of non compliance.
4. Offering nurse services for children of employees.
5. Ensuring that employees register all children under 18 in school and encouraging school attendance.
6. Providing pregnant employees with pre-partum training
7. Encouraging breast feeding, establishing conditions where employees can breast feed their children (under six months).
8. Raising awareness among employees to register employees who have recently given birth.
9. Social investment aimed at benefiting children and adolescents.
10. Contributing to the Fund for the Rights of Children and Adolescents with an amount equivalent to 1% of the company's income tax

Abolition of Child labour

Telefónica has a zero tolerance policy when it comes to child labour in all countries in which it operates, A policy which extends to its supply chain through the contractual requirement for strict compliance with the laws of each country.

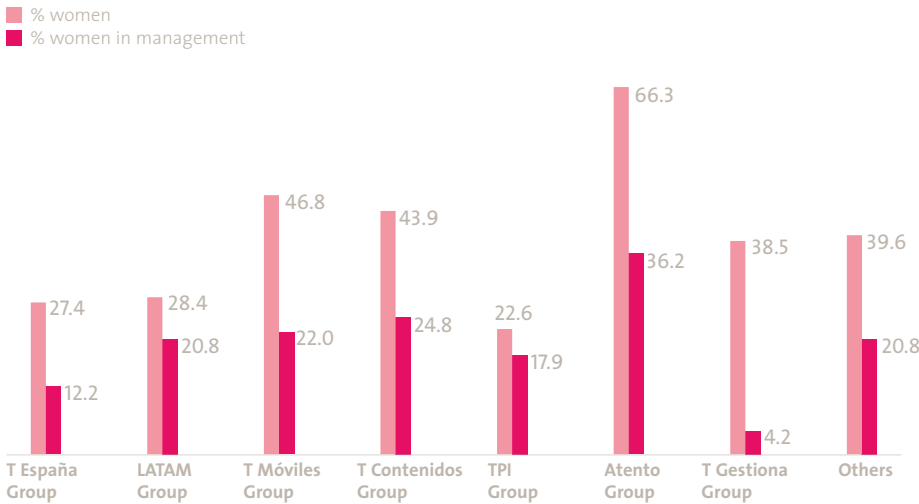
In 2004 the Telefónica Group carried out a workplace audit with an external consultant in 23 companies of the Group, located in six different countries and representing 86.4% of the Telefónica Group. Child labour was not among the risks detected and leading to corrective measures. In the general contract award conditions of Telefónica, respect for employment legislation is expressly included, as well as in the Group's Code of Ethics and the Code signed up to by Telefónica and the Unión Internacional de Sindicatos.

Additionally, four companies of the Group in Brazil were granted the “Empresa Amiga de los Niños” certificate.

Proniño is the social initiative of the Fundación Telefónica, which seeks to help Latin American child workers go to school, in this way contributing to the eradication of child labour in the area and giving these children the opportunity for development to allow them a better future. This initiative, described in the chapter on Society, is developed jointly by Telefónica Móviles subsidiaries and NGOs, currently offering scholarships to over 11,000 children. Funds are used to pay registration fees, school material, uniforms, transport and food. The Proniño program also holds workshops with families and educators, medical checks and cultural and sporting activities.

Distribution of employees in the Telefónica Group by gender and business line 2005

Data in percentage:



Equality of Opportunities

Equal opportunities are, for Telefónica, one of the transversal values which governs its relationship with stakeholders. Thus, it is expressly included in the Telefónica Code of Ethics, Principles of Customer Relationships, agreement signed with worker representatives, the Advanced Purchasing System Manual (providers) and many other regulatory documents issued by the Telefónica Group.

Telefónica actively manages equality of opportunity for disabled persons within the framework of its “Telefónica Accesible” program. The company does not have an active policy of encouraging women to join the Telefónica Group and their internal promotion. Likewise, there is no program for measuring the percentages of diversity by ethnic origin, as this is not included in employee records, as any question in this respect could be deemed discriminatory. It is significant that no incidents of this nature have been reported in the Group.

In Telefónica we consider that each new hiring and promotion must be assessed on personal and professional merits, without recourse to quotas. For this reason we feel the application of a policy of non discrimination will enable a balance to be struck over the years in terms of gender and ethnicity to bring Telefónica into line with the society in which it does business.

Gender equality

On average 49.3% of the workforce of the Telefónica Group is made up of women, an increase compared to the 48% for the 2004 financial year. By business line, of particular note is the high level of integration in Atento, with a female workforce of 67%, with lowest numbers being found in the fixed telephone companies. Without considering the effect of Atento, the percentage of women in the company is 33%.

In terms of management levels, there are over 1,700 women in superior and mid management positions in the company, representing 21.8% of the total. Companies with the greatest percentage of women at these levels are the Atento Group, Telefónica Contenidos and Telefónica Móviles. The lower proportion of women in fixed telephone companies is reflected in the proportion of women at management levels in Telefónica de España (10.6%).

CASE STUDY

Equal opportunities prize

The Telefónica I+D centre in Boecillo, recognised as a company sensitive to equality of opportunities by Valladolid Council. This recognition rewards the Valladolid company with the best work-life balance.

Distribution of employees by gender and country

	With Atento		Without Atento	
	%men	%women	%men	%women
Spain	56.3	43.7	68.6	31.4
Europe	65.6	34.4	65.6	34.4
Latin América	46.5	53.5	65.3	34.7
Argentina	60.2	39.8	68.5	31.5
Brazil	38.0	62.0	65.3	34.7
Chile	50.2	49.9	64.4	35.6
Peru	58.7	41.3	67.5	32.5
Mexico	54.6	45.4	68.5	31.5
Colombia	48.1	51.9	53.3	46.7
Venezuela	46.0	54.0	49.9	50.2
Rest of América	53.7	46.3	58.3	41.7
Rest of world	51.5	48.5	-	-
Total	50.7	49.3	66.5	33.5

Distribution of disabled employees in the Telefónica Group

Spain	556
Europe	152
Latin America	356
Argentina	14
Brazil	315
Chile	12
Peru	5
Mexico	3
Colombia	2
Venezuela	5
Rest of America	15
Total	1,079

Companies with the largest disabled workforce

	2004	2005
Telefónica de España Group	150	166
TeleSP Group	363	209
Telefónica Móviles España	28	28
Atento España	248	345
Atento Brasil	137	95
Other companies	58	236
Total	984	1,079

CASE STUDY

Special Job Centres in Atento

In 2004, three SIAA (Integral Help and Assistance Services) Special Job Centres were put into operation.

The three Centres, located in “Comunidad de Madrid” (Madrid and Getafe) and in Seville, provide special customer services for top-level institutions and entities. At the end of the year, it had a group of 200 employees, most (98%) of whom were disabled persons of very different backgrounds: over 25 taking their first job, housewives, professionals retained to adapt to their disability, etc.

As part of the SIAA project in 2004, Atento Spain signed an agreement with the Adecco Foundation for Integration into the Labour Market with a view to choosing people with disabilities for our Special Employment Centres and establishing the bases to achieve future training classes for telephone operators. With an outlook towards 2005, Atento Spain's objective is to promote expansion of SIAA and open a Special Employment Centre in Cáceres in the next few months.

Equality for the disabled

Telefónica's commitment to the social and employment integration of disabled people goes back to 1973, when at the initiatives of the workers and their representatives the ATAM was created, an initiative described in the section on caring employees.

Currently, around 1,079 disabled professionals work in the Telefónica Group, 0.54% of the global workforce. The number of employees is 9.6% higher than in 2004, despite Brazilian regulations raising the bar for the consideration of a person as disabled, meaning that figures for Brazil are on face value lower than those for the previous year.

Despite this positive trend in the integration of disabled people into the Telefónica Group, the company knows that there is much to do to achieve full integration. For this reason, as part of its integrated plan for support of disabled persons (Telefónica Accesible), the company is developing a range of measures aimed at helping the integration of disabled persons into the workforce:

- Corporate policy of maximum rigour in compliance with the LISMI (Disabled persons' Labour Integration Act) in Spain through direct hiring.
- Policy of strengthening the policy of hiring products and services through special employment centres.
- Channelling all offers and vacancies to the ATAM Labour Integration Service.

- Development of training agreements to qualify disabled persons in Brazil, where the labour market does not meet the demands for qualified personnel in companies.
- Monitoring and internal audit of all the above measures

ATAM offers support to Telefónica in analyzing the various alternatives available and assessing companies in matters of compliance with the prevailing law in this respect. A collaborative system is thus generated for employment, with synergistic effect and benefits for the companies, their employees and the very people with disabilities, all born of respect for rights of the disabled.

ATAM offers the different companies the possibility of using any of the formulas considered in the LISMI (Disabled Persons Labour Integration Act) and other legislative developments. In addition to ATAM's Labour Integration Service (SILA), ATAM also has several special employment centres staffed entirely by the disabled, operating in three sectors of activity: industrial laundry, electronic component assembly and telemarketing.

Health checks in the prevention service in Spain

Activity	Number of checks
Diagnostic checks	142,156
Health campaigns	36,860
Health consultations	65,447
Vaccination	8,651
Health examinations	36,666

Prevention of risks for health

Activity	Number of checks
Technical activity	5,314
Technical reports and studies	1,373
Fire prevention	1,043
Risk evaluations	323
Evaluation of psychological and social risks	20

Health and Safety

Commitment to employees of the Telefónica Group in matters of health and safety.

The commitment that the Human Resources Department has made to all employees of the Telefónica Group in the promotion of health is structured in Spain around the Common Workplace Risk Prevention Service along lines of action aimed at maintaining and increasing prevention of workplace risks in all our companies.

Prevention of workplace risks inherent

in daily work, with the aim of eliminating or at least minimising them with the adoption of corrective measures, collective and/or individual, preventing them from affecting workers.

- Risks and workplace re-evaluation, including psychosocial issues, as well as workplace evaluation, base stations and new workplace evaluation.
- Fire prevention - including a particular focus on emergency simulations, as well as frequent informative talks for employees as well as the preparation of action plans for emergency situations and reports on the compliance of buildings with current legislation.
- Technical advice for the business lines of the different companies and in particular relationships with public authorities.

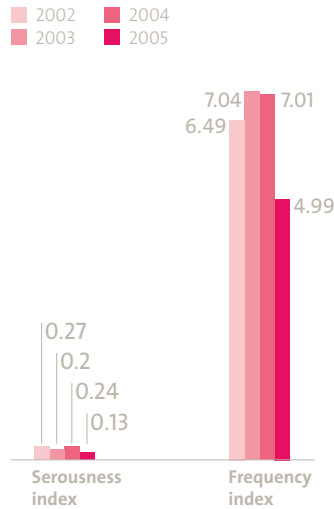
Workplace Health

The maintenance and promotion of workers' health is central to the daily work of basic health units that the Common Workplace Risk Prevention Service runs in each province and is achieved via the following actions:

- Medical health checks making it possible to check changes in the health of workers to ensure at all times the medical APTITUDE of each of them.
- Preventative health campaigns to improve health faced with common illnesses. Acting in the prevention of the most frequent infections through vaccination campaigns.
- Health assistance for workplace accidents. Health workers in the Common Risk Prevention Service provider, in their capacity of self insurers for accidents, the health assistance necessary for all accidents, both in the workplace and when workers of Telefónica de España and Telefónica S.A. are travelling

Workplace accident rates in Spain

Data in percentages



Workplace accidents

Research and assessment of workplace accidents and frequency and seriousness indices have allowed us to increase corrective measures with the aim of reducing not only the number of accidents but also the harm caused to workers, a target we have been meeting each year, as can be seen by comparing annual indices, such as those from the Communications Sector published by the National Institute for Health and Safety in the Workplace.

Health and Safety Committees

Among the model agreed with the Social Representative, a total of 84 Health and Safety Committees have been set up in companies within the Telefónica Group. These are peer committees, comprised in equal numbers by worker and company representatives. All committees receive technical advice from the Common Prevention Service.

As well as in Spain, there are Health and Safety Committees in Argentina, Chile and Peru.

Coordination of business activities

With the aim of spreading our prevention policies to external collaborators and promoting health with the aim of reducing accident rates, Inspection and Supervision Audits were carried out, as well as Coordination meetings with the technical support of the Common Workplace Risk Prevention Service. Although not in the direct ambit of this service, it should be emphasised that as a complement to the commitment undertaken by the Corporate Human Resources Division to all workers, companies in the Telefónica Group have taken out private health insurance to complement the public health system, contributing to improving and speeding up diagnosis and cure of pathological processes.

Good preventative practices in Spain

A commitment to prevention of workplace risks

Telefónica de España's management to comply with Law 31/1995 on the Prevention of Workplace Risks takes shape on an organisational level in the operation of a range of bodies framed, in turn, within a specific organisation which seeks to develop a system of prevention which facilitates the planning, setting up and monitoring of said system, and above all its integration into all hierarchical levels of the company.

The main planks of the system

Workplace Risk Prevention Committee

Made up of representatives of the Management Committee whose skills have a special impact, direct or indirect, on the prevention of workplace risks. It is presided over by the Human Resources Director and meets every six months or whenever deemed appropriate, and among its functions are:

- Approving and analysing the preventative policy in Telefónica de España.
- Drawing up the Prevention Plan
- Incorporating preventative criteria into management.
- Approving the Annual Preventative Plan of Telefónica de España.

Workplace Risk Prevention Commission

Comprises workplace risk prevention representatives from those units at greatest risk. It is presided over by the Director of the Labour Relations and Employment Division. It meets every six months and its functions revolve around the effective development of policies, objectives and strategies approved by the Board of Directors

Health and Safety Committees

These are peer social representation bodies which monitor the actions of the company in terms of prevention of workplace risk. In Telefónica de España there are 51 committees (1 for each province, plus a central committee). The Chairman of the Central Health and Safety Committee is also the Coordinator of the Prevention Committee, thus closing the circle that interconnects the whole system.

Management of the Common Workplace Risk Prevention Service

This unit coordinates the Prevention System and also holds the secretariat of the Workplace Risk Prevention Commission. Its main function is to identify and assess workplace risks implicit in all work and activities carried out in the company

Coordination of business activities in Telefónica de España

To comply with RD 171/2004 of 30 January, which develops article 24 of law 31/1995 of 8 November on Prevention of Workplace Risks, in matters of coordination of business activities, Telefónica de España, as principal employer, carries out activities to ensure compliance in relation to employees of collaborators, and by way of coordination holds regular meetings with the representatives of same.

Monitoring external providers

With the aim of ensuring compliance with regulation on matters of workplace risk prevention by external providers, supervision is carried out during execution of work, involving specific periodic inspections carried out "in situ" to ensure the level of compliance with prevention regulations by said companies. These actions are carried out jointly with the interlocutor representing the external provider and representatives from the Contract Management Division and the Common Workplace Risk Prevention Service of Telefónica de España.

The action carried out and the deficiencies observed are summarised in a document drawn up for this effect.

The detection of inadequate actions may constitute an infraction which, depending on the scope and gravity of same in terms of the physical integrity or health of workers, may be classified as a minor, serious or very serious infraction and may lead to a range of penalties being applied to the external provider

Coordination meetings with providers

As a complement to such supervision activities, Telefónica de España has set up, as a means of coordination, a system of regular meetings between companies with the presence of the Common Workplace Risk Prevention Service. These reunions enable compliance with three of the measures established as "coordination measures" in article 11 of the aforementioned royal Decree: the holding of periodic meetings between competing companies, the passing on of instructions and the joint establishment of specific preventative measures or action protocols which might affect collaborators. Meetings discuss the following topics:

- Review and analysis of the results of the supervision inspections carried out.
- Analysis of accident rates recorded in this period.
- Prevention instructions, specific measures and coordination, actions to apply.
- Relevant facts envisaged.

Emphasis will be placed on the most serious events and considerations dealt with in said meetings and the corresponding document will be drawn up.

All the above is to promote prevention in external providers.

Evaluation and control of psychological and social factors in the Telefónica call centre

Risks deriving from exposure to damaging psychological and social factors are a constant source of concern, analysis and control in companies within the Telefónica Group, more so in the future given that, according to experts, factors such as mental load, time pressures etc. and the pathologies associated with same - depression, anxiety, stress and even muscular and bone disorders will be the illnesses of the XXI century not only in the workplace but in all areas of human activity.

As in other fields of workplace risk prevention, Telefónica has been a pioneer in the identification, evaluation and proposal of measures to correct psychological and social risks, as since the beginning of the century, 2001, said factors have been evaluated.

Specifically, during 2005 twenty psychological and social risk evaluations were carried out in Telefónica de España and Atento Teleservicios España, companies whose common denominator is that they have the largest workforce in the Telefónica group and part of their activity is focused on call centres. As an example of a series of actions, it is in Telefónica de España where the most evaluations and re-evaluations of this type have been carried out, reporting on results and proposals for improvement to both Health and Safety Committees and The Commercial Committee, which in the final instance must determine the most appropriate actions, as most preventative actions to implement are related to aspects of workplace organisation.

Stop smoking awareness campaign

Telefónica, through the Common Workplace Risk Prevention Service, has developed a stop smoking campaign, anticipating the entry into force of the Law regulating the Sale, Supply, Consumption and Advertising of Tobacco (Draft Law 121/000036) which will begin the prohibition of smoking in all workplaces. This campaign, available on the health and safety channel, offers guidance and advice in quitting: a course through a+, called "quit smoking" which is given by health personnel to help you give up; a mail box dealt with by the Common Workplace Risk Prevention Service where you can ask any queries you have with respect to this process, and which will be answered in a personalised and anonymous way, always via e-mail. There will also be information on how to get a medical appointment at clinics of the Common Workplace Risk Prevention Service, as the campaign is of national scope.

Work at height in Telefónica Móviles España and Telefónica de España

Maintenance personal in radio facilities and infrastructure personnel who in Telefónica Móviles España and Telefónica de España carry out work on towers and antennae will attend course on safety and safety practices at height.

The objective of training is for personnel involved to know how to handle personal protective equipment for work on towers, analyse risks of falling from a height from towers and high workplaces, master the principles of vertical movement when working on towers in the framework of individual protection, knowing the requirements for collective protection, confirming knowledge of safety matters for work at height in general.

These workers will carry out health checks at the beginning of their work and subsequently, annually and on a mandatory basis, in relation to the specific risks of work at height.

Determining each year medical aptitude for work at height is one of the most effective preventative actions to reduce workplace accidents.

Work with Biological Risks

Telefónica de España has defined a specific protocol on biological risks to protect its workers from infections, particularly from HIV. Health workers in the Common Workplace Risk Prevention Service are offered blood tests and examinations when they start their work and whenever there is a risk of HIV, HCV or HBV infections, as well as Hepatitis B vaccinations.

Likewise, there is a procedure in place in the case of a specific accident by health workers:

This includes protocols for the actions to carry out, considering both general and specific actions depending on the immunological status of the victim in terms of HBV and HIV as well as the source of the exposure.

Good Preventative Practices in Latin America

Argentina

Anti tobacco: Smoke free offices were launched, with expert talks on the matter.

Risk audit in all offices of the company. This considers improvements to processes, analyses of work stations, signposting of escape routes, etc.

Emergency and evacuation plans. These are carried out twice a year in CABA buildings, and once a year in others. This includes simulated evacuations, the make up of emergency crews, training of emergency coordinators.

Training in workplace risks.

Aimed at workers with greatest exposure to risk such as: working at height/ evacuation of buildings/ fire fighting/ electrical risk/ first aid/ safety in fuel stores/ use of personal protection equipment/ defensive actions/ risks on public highways etc.

Provision of personal protective equipment. This is protective equipment for workers in fuel stores or workers travelling around sites or carrying out work at height, or subject to a certain risk. Among the most common personal protective devices are: helmet, safety boots, gloves, dielectric gloves, lumbar support, harnesses for work at height, masks, ear defenders etc.

Brazil

The companies have a Joint Occupational Health and Safety Commission - CIPA).

In 2005 Atento Brazil carried out AIDS prevention campaigns. For one week during carnival, and also on World AIDS Day in December, Atento distributed leaflets with guidelines as well as condoms to employees.

Colombia

Work at height workshop for technical vice presidency personnel.

Medical examinations for executives.
Provision of protective equipment.
'Active pauses' program in different company divisions.

Health and Safety Week with anti-stress workshops, talks on medical care and checks for employees. Cardio-vascular risk campaign.

Flu vaccine day.

Sports medicine program, sight, hearing and voice conservation program, ergonomics program, updated risk outlook in all company headquarters.

Unification of industrial health and safety procedures on a national level.

Maintenance of fire fighting systems (FM200, hydraulic extinguishers).

Meetings of Occupational Health Peer Committee

Chile

ATENTO takes part in a program called "Empresa Competitiva 2.0" run by the Mutual de Seguridad (Chilean social security body for workplace accidents and occupational illness).

This program involves a range of activities during the year with goals to be reached as part of the same program. The PEC program has been approved by the management and has been registered with the Mutual de Seguridad. It is aimed at contributing to the improvements of member companies of the C.Ch.C Mutual de Seguridad, seeking to provide real protection for the physical integrity and health of workers.

Module 10 of the program deals with control of epidemiological illnesses. The program has received excellent ratings, with 97% compliance.

CTC and Móviles prepare an annual program pursuant to law 16744 and the employment code establishing objectives signed up to and in line with Chilean laws and the recommendations of the ILO. The program includes activities to be carried out, the persons responsible, the chronogram of visits and a special section on risk prevention management involving training, medical examinations, emergency plans, internal regulations, peer committee, telecommunications projects, environment.

Ecuador

Evacuation simulations were carried out in each building to update emergency plans.

Updating the safety committee and representatives by floor in the event of emergency.

Training of management in personal safety matters.

Implementation of a national flu vaccination program with the participation of family members.

Work focussed on providing information to

employees in health matters, in all matters relating to prevention of illness. Medical examinations carried out, laboratory tests and eyesight checks for 88% of employees nationally.

Summer sports programs launched so employees can participate in various disciplines.

Training of floor safety representatives in matters related to first aid.

Bi-annual contribution to the national blood donation program.

El Salvador-Guatemala

Workplace health and prevention courses. Evacuation volunteers program, evacuation simulations, first aid workshops, corporate anti-smoking program, currently implementation of ISO 14,000 certification processes, volunteer program for reconstruction of schools. Social contribution program (Proniño).

Panama

Together with the Health Ministry, a campaign of vaccination against tetanus and rubella for around 350 employees.

Health fair held, where around 300 persons benefited from medical and dental services such as: vaccination, blood pressure, weight and height, nutritional evaluation, massage, glucose, blood examinations, dental and optometry evaluation.

Peru

The company responsible for providing health and safety services to companies in the Telefónica Group in Peru is T-Gestiona. In 2005 25 simulations were carried out in different Telefónica premises in Peru. Once a year, evacuation simulations are carried

out with the participation of all personnel nationally. All premises have safety signage and certification from INDECI (Civil Defence Institute). They also have health and safety committees in all company divisions.

There is a chronogram of preventative and corrective maintenance for all safety teams in different company premises to ensure they function correctly.

Venezuela

In 2005, the Workplace Health and Safety Division focussed its efforts on:

Installation of signage (escape routes, electrical risk, fire extinguishers, among others)

Improvement of the fire detection and alarm system (migration to systems with intelligent devices - Radionic system).

Installation of extinguishers.

In health and prevention matters

- Vaccination days for prevention of illness
- Breast Cancer prevention day (September)
- HIV prevention day (December)
- Cholesterol/ Triglycerides / Glycaemia / Anaemia/ Obesity prevention days (July and September)
- Design and implementation of drug prevention program
- Design of primary health care service at Torre 42 Telefónica, S.A. 06

Employment claims

Despite the efforts made by the company to resolve claims brought by its employees, there are currently 3,247 claims brought by employees against the company (2,191 claims in 2004).

The two procedures opened in relation to alleged mobbing cases resulted in clear rulings in favour of Telefónica de España and Telefónica Móviles España.

Employment claims received (2005 total)

	Number of claims	% of workforce
Fixed Spain	306	0.9
Fixed Latin America	713	2.5
Telefónica Móviles	105	0.5
Directories	117	4.0
Content and Media	4	0.2
Atento	1,495	1.9
T gestiona	196	9.9
Others	2	0.9



Telefónica Volunteers, Notable facts in 2005.

Argentina	723 employees from the 18 business units and Group companies signed up 243 projects carried out during the year 2000 in the whole country.
Brazil	285 employees participated in the 'Incentivo Niño - Medida Legal' program. 12 Telefónica volunteer projects in the 11 Annual Project Competition.
Chile	Around 500 Group employees participated directly in the program. 240 social actions to celebrate 125 years of Telefónica in Chile.
Spain	Around 840 voluntary workers from different Group companies have signed up, and 3000 collaborating in different joint campaigns and initiatives. 11 large voluntary projects. 10,000 hours a year on average dedicated to said activities.
Mexico	366 employees participating in 16 different social programs.
Peru	150 employees participating in the program.
Venezuela	300 employees participating in 13 different social projects. 8 large volunteer programs.

Telefónica Volunteering

The Telefónica Group corporate volunteer program goes back to the year 2000 when a common network of Group employees was set up in Argentina. Said network has been established in other companies where Telefónica has a presence (Venezuela in 2002, Chile and Spain in 2003 and finally in Brazil, Mexico and Peru in 2005).

The Telefónica Group corporate volunteer program is a trans-national initiative open to active, pre-retirement and retired employees, as well as family members if they wish. Managed by Fundación Telefónica, its objective is to encourage and strengthen social actions, offering its members the necessary resources to meet its objectives and have a positive effect on society.

2005 saw a significant boost for the program. From a strategic viewpoint, this has become one of the corporate areas which are fundamental to the social action of the Telefónica Group. The objectives set for the 2006 financial year are as follows:

- Physical and online training for volunteers so they can suggest and undertake their own joint initiatives.
- Local committees as a driver of the program: Local volunteer committees are groups of employees, active or retired, who want to support specific social causes in cooperation with local not for profit organisations.
- Development of projects implemented at the initiative of volunteers themselves.

Of note among actions developed by Telefónica volunteers are:

- Educational programs: children, young people, adults with limited resources, immigrants, the elderly etc.
- Solidarity vacations: exchanges between volunteers participating in the different countries where Fundación has a presence.
- Participation in events held by social organisations: competitions and different sporting activities for disabled people, and sporadic initiatives aimed at children or the elderly.
- Support for the Proniño program: eradication of child labour in Latin America.
- Solidarity campaigns: collection of economic donations, articles and material such as clothes, foodstuffs and other goods.
- Volunteer for a Day: find out more about the work of an experienced volunteer in a not for profit organisation.
- Elderly companionship program:
- 'Teleoperador@s Solidari@s': joint campaigns and telethons in which the Telefónica Group participates .
- Projects for the recovery and support of the environment:

ATAM

ATAM was formed in 1973 through the decided effort of a group of Telefónica employees, together with the help of Medical Services and Social Assistance, the Telefónica Prevention Institution and employees' labour representatives. In 1974 the institution was included in Telefónica's collective bargaining agreement, becoming one of the first examples in Spain of the creation of a legal entity between a company and its workers. The Bylaws of the Association establish its own governing bodies and operational mechanisms.

ATAM's governing bodies are comprised of company and labour union representatives (in proportion to union representation).

The institution also has regional advisory groups that act by delegation of their governing bodies throughout the country and are coordinated by managers from the Human Resources area of the Company in each zone.

ATAM is financed largely by the willing and voluntary contributions of some 61,000 employees from 22 Telefónica Group companies. The workers contribute 2 per thousand of their fixed wages and the companies double this contribution.

During 2005 the total number of assistance actions subsidised by ATM was more than 2000, its own centres dealt with over 400 disabled persons, its clinical team dealt with over 3000 consultations and its Special Employment Centres employed 250 disabled persons.

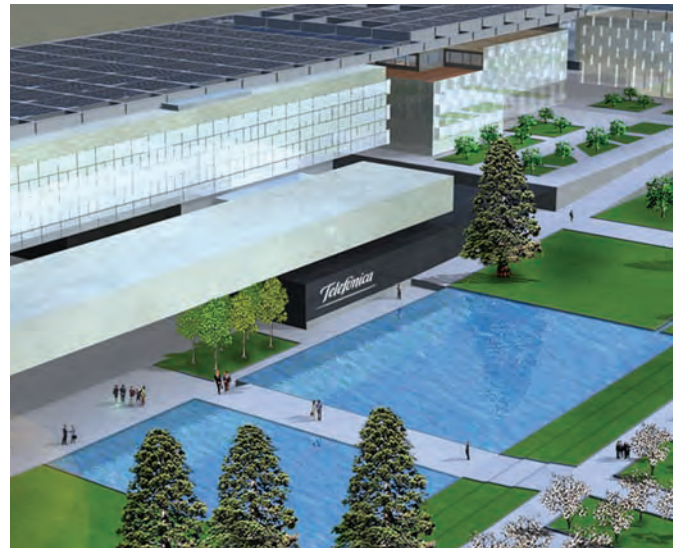
ATAM is currently one of the most solid and palpable initiatives of the Telefónica Group in corporate responsibility matters and the principal reference for Group companies in matters related to disabilities, as an expert and integrated association in that sector. Details of its activity can be found at the website www.atam.es and in its Annual Report, available at www.telefonica/publicaciones.

During 2005, Telefónica implemented a policy to encourage the employment of disabled people through the Telefónica accessible program, available on www.telefonica/accesible. Framed within this project, ATAM is the interlocutor between Telefónica and the disability sector. Through the Employment Integration Service (SILA), ATAM provides technical assistance to companies of the Group in Spain with the aim of increasing employment rates of disabled persons in Telefónica.



District C





CASE STUDY

District C: a new space for a new way of working

The campus covers an area of 200,000 square metres and will house around 14,000 professionals from the different companies of the Telefónica Group, who will be arriving between autumn 2006 and summer of 2007. It is located in the new neighbourhood of Las Tablas, to the north of the city of Madrid, bordering Alcobendas.

It is located at the confluence of three important highways: the M-40, the A-1 motorway and the M-603 from Fuencarral Alcobendas. As of April 2007 it will have a station on line 10 of the Metro, referred to as "District C".

An open space and a commitment to the environment

District C was designed as a space open to the city and its neighbours, a space to share with our customers and our partners.

The campus lacks barriers; it is integrated into its surroundings and will be a show case for an innovative, open, transparent and close Telefónica.

Telefónica's commitment to the environment means that District C was designed along the lines of "sustainable architecture", facilitating the reduction of CO₂ waste, the optimisation of climatic conditions and a more efficient use of resources.

Landscaping also plays an important role. The different shrubs and trees, together with waterfalls and a lake have been designed to improve humidity and freshness.

A significant commitment has also been made to a paper free office and the reduction and adequate treatment of waste.

The architecture and technology has been designed to facilitate a new way of working which will be characterised by more horizontal relationships, greater mobility, flexibility, team work and management by targets.

Directors and managers work alongside their teams and have access to a wide range of space designed to facilitate communication and collaboration.

The technological resources assigned to work stations are defined not according to the hierarchical position but rather professional profiles. Thus, mobile workers use advanced work stations, laptops and fixed-mobile connectivity making it possible to work in different locations both within and outside of the campus. Personnel having a traditional or basic profile have flat screens and a conventional computer, although integrated into shared use multiple function systems which substitute printers, scanners and faxes.

Technology and a new way of managing personnel have made it possible to implement the concept of "mobile working", with more efficient time management as well as a better work-life balance.

District C, a project for innovation and a factor for change.

District C exemplifies the new working culture at Telefónica.

Spaces, technologies and new ways of working are the three main levers for innovation and transformation, which are encouraged through policies and processes, progress being measured through the corresponding indicators and targets.

- Different types of work stations and spaces better suited to different needs. Key: the advanced workstations.
- Connectivity which favours mobility and flexibility and enables work from any location and in a range of situations.
- New leadership meaning progress in management by targets and performance; towards greater autonomy in time and activity management.

In summary, spaces and technologies to encourage talent, creativity and innovation, development, motivation and balance, generating efficiency and productivity.

Crédits

Departments that collaborated in the preparation of the report

Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
05 Shareholders	Shareholders' Office / Investor Relations / Secretariat General
06 Employees	Corporate Human Resources / Human Resources Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Communication / Health and Safety / Fundación Telefónica / ATAM / Fonditel
07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

Society
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Commitment with the countries

In Chapter 03 of this report it's presented the role of Telefónica as an engine of economic, technological and social development in the countries in which it operates. Without wanting to repeat the information in that chapter, Telefónica presents its explicit commitment to the various regions and countries where it is present.

Spain

In Spain, Telefónica is collaborating with the National Government and with the various Autonomous Governments in drawing up their respective Information Society plans, and particularly the initiatives that are part of the Plan Avanza. In addition, with the aim of responding more directly to the demands of the different autonomous communities, Telefónica has set up the Telefónica Consultative Councils.

If there is one service that is representative of Telefónica's commitment to investing in the whole territory of Spain in 2005, that service is Imagenio (television by ADSL). At the end of 2004, the service was commercially available only in Alicante, Barcelona and Madrid, but as from July 2005 it is available in all the provincial capitals and in more than 150 cities of Spain. Telefónica has set as its long-term aim that 60% of households should have broadband of up to 50 megas by 2010.

Latin America

In different countries of Latin America, Telefónica has also demonstrated its commitment through its long-term investments, and its willingness to become a strategic partner in their socio-economic development:

- In Argentina, Telefónica celebrated its 15 years of presence in Argentina with an institutional campaign and organising events and meetings to thank the collaboration of all those who have made it possible to reach this figure. In 2005, Telefónica also celebrated the arrival of optic fibre in Tierra del Fuego, managing to connect one of the most distant regions of the planet with the future.
- In Brazil, Telefónica has led the setting-up of the "Alianza Brasil-España", created to encourage cultural, economic and social relations between the two countries.
- In Chile, the celebration of 15 years of Telefónica in the country coincided with the 125th anniversary of the company Telefónica CTC.
- In Peru, Telefónica is taking an active part in the "Crece Perú" programme, aimed at the professionalisation and development of a powerful entrepreneurial network in the country as a key to its sustainable development. At the same time, given the large number of Peruvians resident in Spain, movistar was the sponsor of Peru Day in Madrid.
- In Mexico, Telefónica Móviles' commitment to invest was seen in the extension of its available coverage, by starting up almost 1,200 base stations during financial year 2005.

- In Colombia, the President of Telefónica conveyed to the President of the Republic the strategic importance of the country for the Telefónica Group. This message was put into effect with the commitment of investments of over 300 million dollars during 2005 and in the acquisition (in 2006) of Colombia Telecom, the state operator up to that moment.

Europe

In Europe, Telefónica's purchase of Český Telecom stands out, which received the unanimous recommendation of the Privatisations Commission of the Czech Republic. The Czech Prime Minister was present at the signing of the contract.

In addition, Telefónica's purchase of O2 helps it to balance its profile as both a European and a Latin American company. Its more than 26 million customers in the United Kingdom, Ireland and Germany, together with the dynamism shown by O2 in such competitive commercial markets, guarantee Telefónica's commitment to developing the information society in these markets.

China

Finally, an important event in the context of Telefónica's strategic alliance with China Netcom was the visit of the President of the Republic of China to Telefónica's National Supervision and Operations Centre in Spain. He was shown the procedures and tools for network control and was given a practical demonstration of how the communications networks function between Spain and China.

CASE STUDY

Telefónica leads the "Alianza Brasil-España"

Telefónica, the largest Spanish investor in Brazil, has asked more than 30 personalities from different sectors (culture, business, education, economics, international relations, media and tourism) from the two countries to take part in this project, with the aim of drawing up a report with working proposals about the existing potential for relations between Spain and Brazil. Telefónica's aim is to contribute to the building of bridges between the two countries.

In recent years, relations between Brazil and Spain have moved into a new phase, and have become broader and deeper. This is basically due to the existence of common interests in the area of international relations and to mutual trust. This has been reflected in the higher level of investments of Spanish firms in Brazil and in a huge potential for bilateral trade. A clear sign of this mutual trust is the risk taken on by Spanish firms that, in the last 15 years, have invested around 30,000 million dollars in Brazil. Foreign investment from Spain is thus second in volume after that of the United States.



CASE STUDY

Llaqt@red

Telefónica del Perú has launched the Llaqt@red project, to connect up rural areas of the country and to offer them access to information, meeting the needs and expectations of its citizens. The first stage of the plan linked 17 populations, providing permanent Internet access with a flat-rate tariff.

Llaqt@red is set up through alliances between Telefónica and local entrepreneurs who can invest in the installation of a tele-centre as a profession and as a tool in the service of society.

This project was awarded a prize for Business Creativity in Peru during 2004, in the category of Public Services and is one of the case studies of the "Connect the world" alliance.

For further information:
<http://www.telefonica.com.pe/llaqtared>

Digital inclusion

The concept of the digital divide is defined as the existing differences in access to new technologies. However, digital technology is not in itself the cause of the digital divide: the main factors causing it are the provision of communications infrastructure in all the territory, as well as income level and training in using the new technologies.

Telefónica, as a significant operator in its markets and meeting its commitments to proximity and trust, not only complies with the regulatory requirements associated with the universal service, but also takes on numerous initiatives aimed at reducing the digital divide in its zones of influence.

As an example of this commitment, in 2005, Telefónica joined the Connect the World initiative, launched by the International Telecommunications Union (ITU). Its main objective is to give access to Information and Communications Technology to the nearly 1,000 million people in all the world who cannot yet even make simple telephone calls.

The idea of the initiative is to stimulate the development of new projects and collaboration between public and private bodies, to make it possible to bridge the digital divide. Connect the World has 22 founding partners, among which are such global companies as Telefónica, the only integrated operator present, Alcatel, Intel and Microsoft, governments and other organisations.

As part of this commitment, Telefónica took part in the round table on Digital Inclusion held in the second phase of the World Summit on the Information Society in Tunis.

Main cost components of the Universal Service in Latin America 2005

	% Tef. revenue	Net amount of business figure	Universal services contribution
Brasil	1%	4,853	48,527
Peru	1%	1,031	10,314
Argentina	1%	891	8,909
Total			67,750

Universal Service

Spain

In Spain, Telefónica de España is taking on by itself the net cost of providing the Universal Service, even though its estimated quota of the market for access is 85%, that for voice traffic is 66% and for retail ADSL is 55%.

The net cost of the obligations of the Universal Service in 2004 was 131 million Euros according to Telefónica de España. This breaks down into the net cost in unprofitable areas (65 million Euros), special needs users (61 million Euros), and the cost of the information services and directories (5 million Euros).

The Telecommunications Market Commission (CMT) has yet to pronounce on the definitive amount of the Net Cost incurred by Telefónica in the year 2004. The net cost does not incorporate the whole of the real cost involved for Telefónica de España in meeting these obligations.

For methodological reasons established by the CMT, the losses are compensated associated with the maintenance of 18,949 cabins in places where their use does not cover maintenance costs, and this is around 62 million euros.

Latin America

In Latin America, the Telefónica companies collaborate with the various public initiatives for universalising the service, with a contribution of over 65 million euros to the universalisation funds:

- In Argentina, the Universal Service Fund, to which each operator is expected to contribute 1% of its invoiced income, has not yet been set up. The amount provided since 2001 reaches more than 42 million euros.
- In Brazil, the Telecommunications Services Universalisation Funds (FUST) are formed from 1% of gross operating billing; by the end of 2005, its funds had not been used by the government.
- In Chile, CTC on its own account carries out programmes promoting services and applications (for example, giving Internet access to 5,500 schools) which complement the programmes of the Telecommunications Development Fund (FDT) directly financed by the government.
- In Peru, a Telecommunications Investment Fund (FITEL) has been established, formed by the contribution from the operators that is equivalent to 1% of the total gross income billed.

Investments of Telefónica de España for migrating TRAC technology¹

Data in millions of euros

	Copper	GSM	LMDS	VSAT	Total Dec 2005
Regions EU ² OBJECTIVE ¹	92.52	13.42	22.75	3.87	132.57
Other regions	8.97	2.73	1.18	0.78	13.67
Total	101.49	16.15	23.94	4.65	146.24

¹including dismantling costs and repercussions of multi-provincial costs

²Telefónica received 31 million euros in FEDER funds

CASO PRÁCTICO

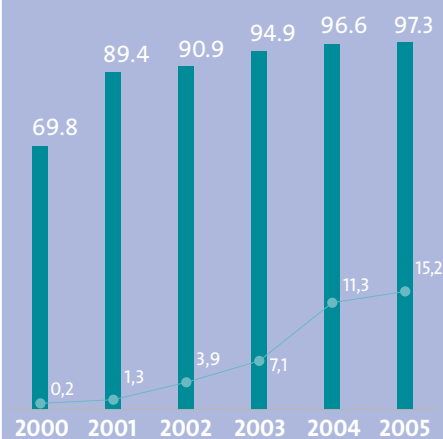
Geographic divide

The geographic divide can be described as the barrier that prevents individuals from accessing basic means of communication or broadband as a result of the physical location from which they wish to access them. This divide may be international (services that exist in some countries and not in others) or national (services that exist in some regions and not in others).

Development of population ADSL coverage by Telefónica¹

Total population coverage

Data in percentages



¹ Calculated by municipalities, considering that a municipality (and all its inhabitants) have coverage when one of the exchanges attending it is open for ADSL service. Not considering loop quality. For all the years of the series the inhabitants are considered as in INE (National Statistics Institute) 2001

Geographic divide

Spain

To meet its obligation to provide a universal service, Telefónica must offer a service in high-cost areas, and subsidise service provision in rural zones and underpopulated provincial capitals, as the service is available at the same price as in urban areas.

At the end of 2005, the number of TRAC access lines in operation was 169,512 (195,000 in 2004). This is the number of accesses that remain in service after having migrated a good number of them to various technologies, so that service supply in rural areas should not now be associated with only this type of access.

Telefónica de España is replacing the TRAC technology used to provide services in rural areas with other different technologies (LMDS, GSM/GPRS, satellite or especially copper), for which, up to December 2005, it has invested 146.24 million euros. The accesses belonging to provinces established as a European Union "Objective 1" receive EU subsidies to help in starting them up (31 million euros in FEDER funds).

This effort of investment by Telefónica de España means that the already significant ADSL coverage has increased to 96% of

lines and 97% of households, which places Spain in a position ever closer to total broadband accessibility. Financial year 2005 has been decisive for extending the availability of digital television to more than 150 cities of Spain, when it was available in only three of these in 2004. The long-term aim set by Telefónica is for 60% of households to have broadband of up to 50 megas by 2010.

In terms of mobile services, Telefónica Móviles was one of the two operators that, together with the Ministry of Industry, signed the Mobile Telephone Extension Plan, which will put national coverage at the head of the European countries with an objective value of 99%. The plan, linked to the concession of the contest of the 900 MHz GSM frequency band (June 2005), includes a joint investment of 833 million euros, with the following objectives:

- Coverage to 2,270 population centres with populations equal to or less than 1,000 inhabitants that up to the present do not have any.
- Improved coverage in 2,727 population centres with populations equal to or less than 1,000 inhabitants, with the starting-up of a second operator.
- Provision of coverage in strategic areas such as nuclear power stations or 16 petrochemical plants.

Broadband coverage in Latin America

Data in percentages

	TASA	TeleSP	CTC	TdP
Digitalisation 2005	100	100	100	97
ADSL Coverage 2005	90	97	96	97
ADSL Coverage 2004	88	95	90	95

- Improved coverage in major communication routes (motorways, highways, national routes, high-speed rail infrastructure).
- Priority actions for the municipalities involved in the emergency measures related to forest fires.

Latin America

The investment effort of Telefónica in Latin America to push forward broadband can be seen in the digitalisation of the telephone network that has reached 100% in Argentina, Brazil and Chile, and 96.8% in Peru.

This network digitalisation has made it possible to reach high coverage of broadband services over the fixed telephone network, reaching 97% in Sao Paulo (Brazil, TeleSP) and Peru (TdP), 96% in Chile (CTC) and 89.5% in Argentina (TASA).

In Latin America, Telefónica Móviles has strengthened its position as the main operator in the region, widening its coverage in all the countries in which it operates:

- Telefónica Móviles Argentina has carried out an important investment plan for extending the GSM network during 2005, giving coverage to cities and towns where up to then they did not have a mobile telephone service. In the North, GSM coverage was widened significantly, from 6.8 million inhabitants in 34 localities to 10.5 million inhabitants in 248 localities.

- After the merger with BellSouth, Telefónica Móviles Perú committed itself to implementing and improving the cellular communications service in 2,000 localities in Peru over a period of 3 years, making access to the mobile telephone available to one and a half million Peruvians. The first stage, that will take up to June 2006, consists in expanding coverage in 540 population centres of 17 departments in the country, including the department of Apurímac, thought to have one of the highest levels of poverty in the country.

- The spread of GSM by Telefónica Móviles México has been particularly significant in rural areas, reaching a total of 49,304 populations and extending the service along 60,634 kilometres of highway. In urban areas, coverage was extended to 155 cities, reaching a total of 401 (60% more cities than in 2004). This implies that practically all the important cities of the country are covered and that 96% of the possible interconnection points with the operator are available.
- Telefónica Guatemala ended the year covering 147 cities, which is equivalent to a total coverage of 63% of Guatemalan territory.
- Telefónica Móviles Nicaragua, as well as broadening its cellular coverage to reach 25% of the population of the country, leads the market in public telephones, installing 7,000 units in the whole of the national territory, and is the operator with the most public telephones installed in Nicaragua.

Mobile coverage in Latin America

Population coverage	2005
Argentina	92
Chile	95.7
Colombia	68
Ecuador	76.1
El Salvador	77.4
Guatemala	56
Mexico	69
Nicaragua	25
Panama	-
Peru	61.6
Uruguay	80
Venezuela	93.3

Prepaid lines and control consumption lines in Latin America

Data in thousands

	2004	2005	% of total lines ⁵
TelesP ¹	1,954	2,294	18.6
TASA ²	1,200	1,328	29.3
CTC ³	409	534	21.9
TdP ⁴	1,157	1,385	58.9
Total TISA	4,720	5,541	25.6

¹ Includes the Linha da economia

² Includes the Líneas Control, Cero and Recupero

³ Includes the línea económica and supereconómica, full variable, línea control, plan solución....

⁴ Includes the Fonofácil plus, popular, limited consumption, social lines...

⁵ Includes public telephones in the calculation

Public terminals, Latin America.

(Thousands)

	2003	2004	2005
Argentina	107	105	121
Sao Paulo (Brazil)	327	331	330
Peru	118	129	137
Chile	33	28	24

Economic divide

The special social rates, together with prepaid plans, the public telephone system and restricted line services, are the fundamental pillars on which Telefónica has based its array of services aimed at low income groups. According to studies made by the Group, such initiatives are essential to encourage digital inclusion, since social classes D and E (those with the lowest incomes) would hardly be able to meet the basic cost in any other way.

So it is vital to make products and services available that match the real social and economic situation of the countries in which Telefónica operates and thus meet the needs of the sectors that, for financial reasons, do not have access to telecommunications services.

Rates for low income groups in Latin America

The growth of the basic telephone service among the lower income segments in Latin America is based on developing and making available products adapted to the needs of the consumer and their financial capabilities.

The more than 5.5 million prepaid and restricted consumption lines in Latin America represent more than 25% of the total. If this proportion is compared with that of income generated by the lines, but also with the income generated from the sale of prepaid cards, it can be seen that this type of services is offering a real alternative for the lower-income strata of society.

The characteristics of this type of services include:

- Control of consumption by the users, limiting the number of calls that they can make or restricting the kind of calls to local ones.
- The possibility of making calls to mobiles, inter-city or international calls by buying prepaid cards (that can also be used in phone-booths).
- Debt repayment plans to avoid customers having the service cut off if they are late paying.
- Virtual mailboxes where messages can be recovered from a number not associated with a line.

Public telephones

The public telephone is an option instead of the home telephone that eases access to communications for all the population, avoiding the need to pay a connection or maintenance charge. Given the increase in the use of mobile telephones and the plans for low-income groups, it is a service that is used only by individuals with scarce resources. However, it is critical for these people that it should work well, and this requires a great commitment by Telefónica, due to the difficulties of dealing with repairs as a consequence of the acts of vandalism that the equipment suffers out on the street.

In Latin America, where penetration of telephones in the households is at lower levels, Telefónica offers access to telephones through more than 612,000 public terminals. In Spain, there are 56,065 telephone booths in the street, without counting the public telephones available in commercial establishments.

Mobile telephones

Generally, the billing system based on the prepaid system and the reduced cost SMS service have been determining factors in the spread of cellular mobile telephones to all social levels, as is seen in the usage figures of these services. The strategy of Telefónica Móviles, anyway, has always been to achieve the greatest client base without concentrating exclusively on the segments with higher purchasing power.

With this strategy, commercial policies have always been based on reducing the cost of terminals and on making a variety of billing schemes available which have enabled millions of users to choose the formula most suited to their communication needs or economic level. There has been a significant popularisation of the plans with a savings option that offer large discounts in calls to specific numbers chosen by the customers and that, in many cases, include not only calls to other “movistar” mobiles but also to fixed and even international telephones.

The commercial offers accompanying the launch of the new unified brand included a wide variety of products, making it easy for any customer profile to gain access to mobile telephones. Many customers thus took advantage of launch promotions or the popularisation of services to obtain terminals with more options or to have additional minutes of communication free.

At the same time as these commercial-type initiatives, Telefónica Móviles Perú studied various alternatives to make it possible for the segments with fewer resources in the country to have access to mobile

telephones. The cost of the terminal was identified as the main barrier for people with lower resources to have access to mobile telephones. The Rentas Bajas project evaluated traditional and alternative financing plans, the development of new, non-traditional direct distribution channels (door-to-door sales), special plans with more competitive rates on calls originating in low-income residential areas (Plan Conos), as well as the creation of virtual voice-mail boxes to receive messages and being able to acquire the terminal with special discounts, keeping the same telephone number. Some of these projects have been carried out in collaboration with financial bodies that provided micro-credits for purchasing terminals.

Abono Social (Social Plan)

Telefónica de España offers the Special Social Rate, in order to enable customers with financial difficulties to have access to basic telecommunications services in Spain. It consists in a discount of 70% of the current connection and installation charge of the network terminal equipment (PTR), as well as a 95% discount on the monthly telephone line fee (free of any maintenance contract). The number of lines benefiting from the Social Rate in Spain in December 2005 was 327,243 (386,430 in 2004).

CASE STUDY

Mundo Movistar': buy in Spain your mobile for Ecuador

In 2005, Telefónica Móviles launched 'Mundo movistar', a set of integrated mobile telecommunications services without borders between countries, which implied a new step in its policy of transferring to its customers the advantages of being part of the greater community of Spanish- and Portuguese-speaking mobile telephone services.

The first commercial programme of 'Mundo movistar' means that any movistar customer in Spain will be able to buy a terminal and a prepaid card with a balance in more than 3,000 sales points of the movistar network in Spain. And as from the following day, the same terminal and card would be available in Colombia or Ecuador.

The mechanism of the operation is very simple: the customer resident in Spain just has to choose the terminal that they want to “give” to their relative or friend in Ecuador or Colombia, and provide the personal data and a contact telephone number for that person. As from the following day, the receiving customer in Ecuador or Colombia will be able to contact the free telephone attention service to receive the terminal and the card.

It is not only technological barriers that can be the reason for the digital divide. There are skills and knowledge barriers that can be even higher than the technological ones, especially in developing countries and among older or disabled people. Telefónica, together with its Foundation, has been running programmes that aim to train people to use the new technologies.

CASE STUDY

Internet Educativa in Chile

Internet Educativa began in 1998 as a Telefónica project complementary to the "Red de Enlaces" of the Chilean Ministry of Education, to give Internet access to all the schools. In 2003, it began migrating from commuted access to broadband Internet under preferential conditions. As a result of this sustained effort, by December 2005, Telefónica CTC Chile was making broadband access available to 3,435 schools and commuted service to 2,265 schools, giving Internet access to 2.6 million pupils.

The Internet Educativa service is free for establishments that have commuted access and its preferential cost via multi-user broadband (1 Mbps) was 37.5 dollars (CH\$19,900) in 2005. In 2005, the contribution of Telefónica Chile to school Internet access was equivalent to US\$3.6 million, taking into consideration the commuted access lines, and the price differential of the educational broadband compared with its commercial price.

The Internet Educativa programme is enabling access to Internet and to new technologies for the young students of Chile as well as their teachers. This is encouraging their digital inclusion, so that Internet for them is an extra educational resource within their formation and in their possibilities for future development.

Education-training divide

Interest in the new technologies

In Spain, Telefónica took an active part in celebrating Internet Day, which aims to popularise the Internet and make it more accessible. The Day was promoted by the AUI (Internet Users' Association) and supported by the Secretary of State for Telecommunications and by the Information Society. It included demonstrations of the technology, free Internet access and commercial promotions.

The publicity strategy adopted by the Telefónica Group in Peru presents applications and concrete services that are transforming people's lives, with the slogan "We didn't notice, but life has become easier for us". Through this type of campaign and the availability of public booths, Peru is one of the countries with the greatest penetration in use of the Internet.

Since 1999, Fundación Telefónica Chile has been running an Internet Training initiative, with the support of Fundación Vida Rural of the Pontificia Universidad Católica de Chile. Fundación Telefónica has trained more than 40,000 people (6,652 in 2005) including students, educators, community agents, housewives, women micro-entrepreneurs, elderly people, etc.

Telefónica Móviles Panamá sponsors the Telecommunications hall of the EXPLORA Centre for Arts and Sciences, showing the advances in technology, their origin and development, and how telephones and communications work.

Getting in touch with new technologies in school

This is one of the strategies most used by Telefónica to encourage the use of technology among school communities in every country in which it operates. As well as EducaRed and "Internet en las Escuelas" we can point out:

- In Colombia, Telefónica Móviles collaborates with the Programme of the President of the Republic to provide computers and technology to educational establishments for young people with scarce resources. In 2005 a total of 2,040 machines were handed over.
- In Mexico, as part of the FuTuRo programme, Internet training classrooms have been equipped in different schools around the country.
- In Nicaragua during 2004 and 2005, as a result of a commitment made with the Regulatory Body and the Ministry of Education, Telefónica Móviles has been running a project to install computers with Internet in 700 public schools, benefiting more than 100,000 children throughout the country, as well as the school community.
- In El Salvador, Telefónica Móviles sponsors the CyberOlimpiadas initiative, aimed at encouraging the use of new technologies in many of the country's schools.
- In Peru, Telefónica is one of the organisations financing the Huascarán project, which aims to incorporate information and communication technologies in the Peruvian education system.

Difficulty of access to a computer

Another of the most common reasons for justifying the high or low penetration of broadband in a region is the figures about the number of computers available. Since 2004, Telefónica has made PC + ADSL packages available that have enabled many customers to get into IT with the aid of Telefónica.

As a complement to this initiative, in Argentina, Telefónica de Argentina joined in the “Mi PC Argentina” programme set up by the government. The objective set is to incorporate ten million PCs with the possibility of Internet connection within five years, and all the main companies in the technology sector, banks and service companies are taking part.

In Brazil, Telefónica is collaborating with the Ministry of Development, Industry and Trade of Brazil to set up 20 information and business tele-centres, with the aim of encouraging digital skills training in micro-firms in the region.

In Chile, Telefónica Móviles is collaborating with the literacy programme for rural communes in the IV Region of the National Training and Employment Service, providing the Mobile Internet service. The project works with an inter-city bus converted into a mobile classroom. At the same time, in Peru, as part of the MuniNet programme, a bus has been going around different areas of the country presenting the possibilities of Internet in remote localities.

Disability, age or gender divides

Disability is one of the barriers that the Telefónica Group is working hardest to overcome. Through projects such as Telefónica Accesible (described below in this chapter) Telefónica is offering products and services designed specifically to promote equality of opportunities.

Telefónica de España through the Elderly Group Association has given courses in information technology to elderly people and provides the premises, the telephone lines and a subsidy.

The data of new technology penetration by gender reflect its lower use by women. The possibility that there is a gender divide, and about the low proportion of women in the network high technology and Internet professions, were debated in a conference devoted “Women and the New Technologies” in the headquarters of Telefónica de España.

Lastly, the training sometimes concentrates not on technologies but on the development of entrepreneurial initiative or basic training that can help to reduce other social problems found in some of the countries in which Telefónica is operating.

CASE STUDY

Schools of Information Technology and Citizenship in Mexico

Since 2004, Fundación Telefónica has been providing support to the Committee for the Democratisation of Information Technology (CDI), a non profit-making organisation that promotes educational and professional activities with the aim of socially incorporating the members of underprivileged communities, mainly children and young people, reducing the levels of social exclusion they are immersed in, both in Mexico and in other countries of the world. The main activity of CDI is the creation of Schools of Information Technology and Citizenship (EIC), with the aim of facilitating the access of these people who have low purchasing power, in this case marginalised indigenous communities in the state of Oaxaca, to the techniques and use of the new information and communication technologies.

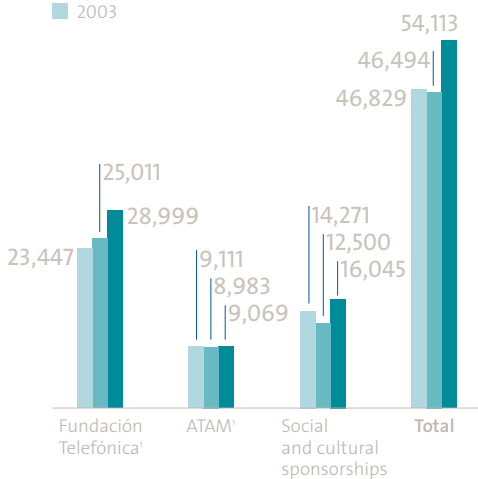
In the past year Fundación Telefónica has continued its contribution to the program “Systematisation of the Process of Digital Inclusion in Rural and Indigenous Communities in the State of Oaxaca”, by donating 20 computers with Internet connection to each of the 11 EICs that the CDI has installed on the Costa Chica of the state. Thanks to these schools or “technology hostels”, up to now 1,065 young people and adults have benefited. Likewise, the project has indirectly benefited nearly 30,000 inhabitants of this community, who use the installations to communicate with other neighbouring towns.

Social and Cultural Activity

Telefonica's investment in culture and social action

Data in thousands of euros

2005
2004
2003



* Contribution of Telefonica to the budget of Fundación Telefónica and ATAM

Social and cultural activity projects of the Telefónica Group

The companies of the Telefónica Group run various projects of social and cultural activity that complement the activities of Fundación Telefónica (budget above 16 million euros in 2005)

- Support from Telefónica Móviles to the Proniño Project of Telefónica.
- Projects of events to raise awareness about social problems, such as the Child Worker Programme of Telefónica Móviles in Ecuador or the Seminar on Terrorism and Security, Center on Law and Security, New York University School of Law.
- Collaboration with the Instituto Cervantes and the Real Academia Española.
- Sponsorship of the Elcano Royal Institute for International and Strategic Relations.
- Activities to promote digital inclusion and the progress of society such as the Digital Cities Forum.
- Support to Foundations and Awards, such as the Príncipe de Asturias Awards or the Argentine Award of the World Summit on the Information Society
- Programmes in support of the environment such as the Telefónica de España project: 1 Invoice - 1 Tree (2005-2007)
- Promotion of theatrical events (2005 season of the Teatro Real in Madrid, and of the Artistic Culture Society in Brazil).
- Artistic and cultural shows, such as the Juan Gris or Gaudí-Mompou exhibition in Venezuela.
- Support to research activities.
- Sponsorship of town feast-days.

ATAM

ATAM started in 1973, under the impulse of a group of Telefónica employees, with the collaboration of the Medical Services and Social Assistance, the Institución Telefónica de Previsión and the workers' union representatives. In 1974 the institution was incorporated into the Telefónica collective bargaining agreement, and thus became one of the first experiences in Spain of creating a legal body between a company and its workers for social purposes.

ATAM is largely funded by the solidarity and voluntary contributions of around 61,000 employees of 22 companies of the Telefónica Group. The workers contribute 2 per thousand of their basic salaries and the companies double the contribution. The amounts provided to ATAM by all the firms of the Telefónica Group in 2005 reached 9,069,072, directly benefiting around 4,000 people.

This amount includes both the contribution of 4 per thousand of the amounts paid by the member firms of the Association, and the contributions of the firm for pensioners, pre-pensioners and ex-employees of Telefónica de España as well as the contributions for working expenses of the government bodies included in the statutes.

The details of their activity can be found in the web-page www.atam.es and in its Annual Report, also available in www.telefonica/publicaciones, as well in the sub-section Employees Solidarity in the sixth chapter of this report.

Beneficiaries of Fundación Telefónica by Activity Area

Área of Activity	Collaborating Bodies ¹		Participant bodies / Beneficiaries ²		Participant Persons / Beneficiaries (estimate) ³		
	Nº of bodies Collaborating	%	Nº of bodies Particip./ Benef.	%	Nº of persons in internet projects (Thousands)	Nº of persons Other projects (Thousands)	total
Education	106	21.7	21,552	69.3	19,801	5,164	24,966
Telefónica Volunteers	38	7.8	266	0.9	0	66	66
Art, Culture and Heritage	128	26.2	2,957	9.5	7,580	4,924	12,504
Cooperation	149	30.5	4,564	14.7	833	1,180	2,013
Telemedicine, Helpline and Disability	68	13.9	1,769	5.7	493	1,556	2,049
Total	489	100	31,108	100	28,707	12,890	41,597

¹ Social and cultural activity bodies with whom a collaboration agreement has been signed.

² Educational (school and university centres), social and cultural bodies that have had direct relationships with any of the activities offered by the Fundación Telefónica programmes and projects during 2005

³ People who have had a direct relationship in any of the activities offered by the programmes and projects of Fundación Telefónica during 2005

Fundación Telefónica

During financial year 2005, Fundación Telefónica has completed a process of strategic review of its activity. With the idea of helping to improve life in society and bring its performance into line with the demands and needs of society, as from 2006 it will concentrate its activities on supporting education, the social integration of children in Latin America, the drive towards the knowledge society and the running of the corporate volunteer programmes.

Fundación Telefónica spent 29 million euros running 763 projects. These activities have taken place with the support of 489 collaborating bodies, to the benefit of more than 31,000 organisations and more than 41.5 million people. 69% of these beneficiaries are people who accessed contents, services or social information through Internet, which reflects the role of the new technologies as an engine of social development.

As well as the descriptions of the main projects realised in this chapter, all the detailed information about the projects run by Fundación Telefónica can be found in the Fundación Telefónica Annual Report 2005 or in www.fundacion.telefonica.com.

Total of Programmes Run by Fundación Telefónica by Activity Area¹

Activity Area	Nº Programmes	%
Education	17	24.3
Telefónica Volunteers	8	11.4
Art, Culture and heritage	15	21.4
Cooperation	15	21.4
Telemedicine, Helpline and Disability	15	21.4
Total	70	100.0

¹ Social and cultural action programmes run by Fundación Telefónica during 2005

Total of Projects / Initiatives Run by Fundación Telefónica by Activity Area¹

Activity Area	Nº Programmes	%
Education	114	14.9
Telefónica Volunteers	431	56.5
Art, Culture and heritage	55	7.2
Cooperation	107	14.0
Telemedicine, Helpline and Disability	56	7.3
Total	763	100.0

¹ Proyectos e iniciativas de acción social y cultural realizados por Fundación Telefónica durante el año 2005

Evolution of the EducaRed project

		2003	2004	2005
EducaRed España	Nº de Centres Registered	11,091	11,218	11,426
	Nº of visitors	2,717,975	4,733,312	9,195,516
	Nº de Pages Consulted	13,091,918	16,650,829	39,500,277
EducaRed Argentina	Nº of Users Registered	3,687	7,437	10,650
	Nº of visitors	132,803	742,275	5,738,619
	Nº de Pages Consulted	1,312,320	2,939,923	11,464,130
EducaRede Brazil	Nº of Users Registered	13,534	28,743	51,853
	Nº of visitors	469,664	739,910	1,354,670
	Nº de Pages Consulted	6,218,899	11,990,137	19,538,736
EducaRed Peru	Nº of Users Registered	-	-	8,884
	Nº of visitors	326,000	725,268	2,338,783
	Nº de Pages Consulted	1,252,352	3,113,227	12,433,496

EducaRed

Since it was founded in 1998, Fundación Telefónica has continuously given its firm support to the world of education through the creation of EducaRed, the fruit of collaboration between Fundación Telefónica, Telefónica and most of the organisations in the educational world, including the main professional associations, parents' associations and trades unions.

Its principal purpose is to contribute to improving the quality of education and to encourage equality of opportunities through applying the new technologies to teaching and learning processes. In Spain, Argentina, Brazil, Chile and Peru, EducaRed has made available to primary and secondary education the most advanced educational technology in terms of uses, applications, exchange of knowledge and intelligent information searching. These tools have brought pupils, teachers and researchers from the Latin American context together in virtual communities.

Throughout 2006, EducaRed will become the brand covering all the Foundation's education programmes. From now on, the strategy of EducaRed will concentrate on the following objectives:

- Concentrate the activities of Fundación Telefónica on infant, primary, secondary and high school teaching.
- Promote the educational use of the Internet in the classroom and the home through the EducaRed portal.
- Develop new activities in the EducaRed portal that can become face-to-face activities with wide participation and high visibility.
- Increase the on-line and face-to-face participation of teachers, educators, pupils and parents through mass events with considerable social projection.
- Launch mobile exhibitions on topics within the ambit of education.
- Create a network of model centres of academic excellence.
- Develop a plan of training in the educational use of Internet with various levels of intensity, aimed at teachers, educators and parents, with the aim of improving the quality of education.

The Fundación Telefónica Report describes the numerous initiatives that are specifically included within EducaRed, classified in the following activity areas:

- Innovation and Educational Use of ITC in the Classroom and the Home.
- Tools, Resources and Services to Facilitate Educational Tasks.
- Training for Teachers, Pupils and Parents in the Educational Use of Internet.
- Information and News about the Education Sector.
- Virtual Communities of Teachers, Pupils and Parents.

As a complement to EducaRed, Fundación Telefónica has realised programmes that have placed ICT at the service of educational efforts in especially difficult situations (street children, long-term hospitalised minors, etc.). Projects such as FuTuRo or Aulas Hospitalarias have found information technology and Internet to be a key element in their fight against social isolation and exclusion, and have helped to generate entertaining programmes for education in such values as respect for tolerance, fellowship and care for one's health.

- The FuTuRo Project forms a virtual network for meeting and working of 14 centres that welcome street children and young people in 7 countries. Some 400 children and young people benefit. 22 educators are involved in the project.
- The Aulas Educativas en Hospitales project, developed in Peru, has benefited more than 5,500 Peruvian children and young people in hospitals.

In recent months it has won the "Business Creativity" Award, and the "Peru 2021 Prize" for Corporate Social Responsibility and Sustainable Development.

As a complement to the EducaRed program, Telefónica has continued its efforts to connect the greatest possible number of education centres to the Internet, as is described in the sub-section on "digital inclusion" in this report.



Proniño



According to the ILO's International Programme on the Elimination of Child Labour (IPEC), there are nowadays about 250 million young and adolescent boys and girls in the world who are working. The situation is particularly dramatic in Latin America, where it is calculated that the figure is 19 million boys and girls between 5 and 14 years of age, with one in three performing one of the worst forms of child labour classified by the ILO.

Proniño aims at the elimination of child labour through quality schooling for children and adolescents. Defined this way, schooling of minors must be understood as their inclusion or remaining within the basic formal education system. In its fight against child labour, Proniño acts from the certainty that only a quality educational structure will manage to guarantee the fulfilment of the programme's mission.

The Proniño programme was created in 2001 by the mobile telephone operators in Latin America, with the aim of contributing to the elimination of child labour in the region. In 2005, the programme was incorporated into the strategy of Fundación Telefónica, which runs the project in collaboration with Telefónica Móviles. The aims behind every activity of the Proniño programme are:

- The progressive elimination of child labour that goes against children's rights.
- To successfully complete a basic education that meets minimum quality requirements.
- The opportunity to have access to and follow middle and higher education.
- The improvement of social skills.
- Access to knowledge of ICTs, generating new opportunities and avoiding new

Population Assisted in 2005 by the Proniño programe

Country	Nº Persons
Argentina	1,739
Chile	405
Colombia	3,138
Ecuador	1,187
Guatemala	1,100
Nicaragua	702
Panama	400
Peru	1,923
Uruguay	600
Venezuela	346
Total	11,540

forms of social exclusion

- Selective development of income opportunities for adolescents and/or families.

Fundación Telefónica not only provides each child with the funding necessary to receive a quality education. Its contribution also covers health monitoring and food that, in many cases, would not otherwise be covered. In addition, to make the schooling of the children possible, the family's commitment must be won over. Such a commitment presupposes a transformation, recognising the minor's rights and giving a new dimension to study as a strategy for individual and social progress.

For running the Proniño programme, Fundación Telefónica seeks the cooperation of educational bodies and the third sector, whose specialisation and closeness to the problems makes them the most appropriate local actors for each initiative.

Fundación Telefónica has set the year 2008 as the horizon for meeting a series of challenges in terms of quality schooling. One of the goals set for this new stage is to quadruple the number of beneficiaries and achieve a coverage of around 40,000 children assisted by the programme by 2008. In 2005, Proniño covered ten countries, but the aim is to bring it to all those of Latin America in which Telefónica operates by 2008. This extension will reach Brazil, El Salvador and Mexico, and Fundación Telefónica in Argentina, Brazil, Chile and Peru will take part.

CASE STUDY

Recognition of Proniño by the ILO

Proniño's model of working is a comprehensive intervention in the child's environment, thus managing to affect all the spheres of the life of the child (individual, family, school, community). The involvement of Fundación Telefónica and of the employees of the Telefónica Group in the programme also provides an example of social activity shared by all levels of the company.

For these reasons, in 2005, Proniño received the recognition of specialised international bodies such as the International Labour Organisation (ILO) and the Organisation of Ibero-American States (OEI).

Support programmes for groups in situations of risk

Pro-Direitos (Brazil).

Medida Legal (Legal Measures) (Brazil).

Information and Communication Technologies for the Street-Children Programme (Mexico).

IT classroom in the Child Education Centre of EDNICA (Mexico).

IT classroom in the I.A.P. Social Development Centre Promoting Youth Support (Mexico)

Multi-purpose hall in San Juan Ajusco (Mexico).

Family Violence Prevention Programme (Peru). Includes the “Telephone of the Aid to the Child and Adolescent at Risk Foundation (Teléfono ANAR)”, the “Pilot Plan of Support to Battered Women: Until When?” and “Technology within Reach of Street Children. Instituto Mundo Libre”



Cooperation

Fundación Telefónica knows that the Information and Communication Technologies are a tool with great potential for contributing to all the different dimensions and kinds of work carried out by Third Sector organisations, and therefore, from the beginning of its activity, the Foundation has worked to place the ICTs at their disposition as a resource for improving the processes and activities of social cooperation and promotion.

The new technologies and especially Internet are a prime instrument for obtaining resources, whether human or financial. Internet has become more and more a privileged means of communication for disseminating the organisations’ messages, generating and strengthening everybody’s commitment to their respective missions. The work of the International Solidarity Network Programme (Risolidaria) stands out in this context, a transnational platform whose aim is to facilitate the task of social organisations by bringing them together in a network that eases contacts and collaboration between them.

During 2005, Fundación Telefónica has collaborated more closely with the Third Sector, non-profit making organisations and all the agencies working on cooperation, in order to help them to work as effectively as possible, offering them training, technology and equipment, funding and methods for improving their relationship networks and the dissemination of their messages.

It should be mentioned that the overall activity of Fundación Telefónica in the context of Latin America pays special attention to groups related with childhood, young people, women or people with scarce financial resources whose social situation makes them especially vulnerable.

One of the lines of activity in this context is development aid through education and job training, using Information and Communication Technologies to try to reduce the knowledge divide in these groups, thus promoting equality of opportunities between people and their integration in society.

Fundación Telefónica also supports various production projects that involve the progress and financial independence of the most needy and of organisations supporting them. Details of all the programmes in which Fundación Telefónica is participating can be found in its Social Report 2005.

Art and culture

The development of Information and Communication Technologies (ICT) has had great impact in the area of contemporary culture and art.

In this context, Fundación Telefónica is working intensively in the area of contemporary art and culture, and the core of all the activities that the Foundation undertakes in this area is the transmission of culture and its values through the use of new technologies and the most advanced media.

Fundación Telefónica manages and maintains the artistic and cultural heritage of the Company. The collections making up the artistic heritage of the Telefónica Group are composed of works of various prestigious artists from different art movements, which the Foundation conserves, catalogues, increases with new pieces and shows in permanent exhibitions.

During 2005, Fundación Telefónica designed a programme of temporary exhibitions at international level for the spaces and halls open to the public in such cities as Buenos Aires, Santiago de Chile, Madrid or Lima. In this context, the Foundation has established important exchange and loan agreements with other national and international bodies so that these exhibitions could travel to different cities and countries.

Since it started this activity, Fundación Telefónica has also taken care of the growth and conservation of the Company's

historical technological heritage, made up of pieces and equipment that have made telephone service provision possible over so many years. This history, which stretches from the telegraph to the latest information and communications technologies, is communicated by the Foundation in an entertaining and educational form, especially for children, in the Telecommunications Museum in Spain and the Telephone Memory Centre in Brazil.

Fundación Telefónica supports the spread of Spanish language and literature in various initiatives that make known its principal works and the most important reference texts.

The Foundation also continues working on the project to place in Internet the most representative monuments of the art-historical heritage of its surroundings through arsVIRTUAL, a project that carries important works of architecture into everybody's homes through virtual reality techniques that are able to pick up even the smallest detail.

Since 1999 in Peru, Fundación Telefónica has been promoting and maintaining the "Peru Cultural" portal that aims to bring the wealth of Peruvian culture closer to the citizen. In 2005, this portal received more than four million visits.

CASE STUDY

Most visited museums in the city of Madrid

Data in thousands of visitors

	2004	2005
Museo del Prado	2,001	1,966
Reina Sofia	1.445	1,590
Thyssen	683	643
Arqueológico Nacional	251	159
Museo Telefónica	122	132
Sorolla	85	66





Teletónica Accesible: close to people with disability

In 2004, Teletónica set up the Accessible Teletónica programme as a comprehensive project for people with disability. The aim of this programme is to make Teletónica a Group that is fully accessible in all its processes and to actively contribute to full equality of opportunities for people with disabilities (as described in the chapter on society).

Alliances

Teletónica drew up the Comprehensive Accessible Teletónica Plan in collaboration with the Spanish Committee of Representatives of People with Disabilities (CERMI), the platform that brings together the main associations of people with disabilities, representing the situation of this population of 3.5 million Spaniards and their families.

Awareness-raising

The Teletónica Group shows great social capillarity and its channels of communication with the stakeholders reach a large part of the societies in which it is present. It has thus promoted and written various documents for improving people's training, with the aim of encouraging Design for All as a way of creating an inclusive society.

- In collaboration with the Spanish Committee of Representatives of Persons with Disability (CERMI) the "Manual of communication for all" has been published, examining current problems in accessibility of communication, the guidelines that should be followed to overcome these, the values that should

govern the activities, techniques and means for correcting accessibility problems, as well as the lived experience of people with disability themselves.

- Together with CEAPAT and coordinated by the Economic and Social Development Alliance, the guide "Ask me about Accessibility and Technical Aids" has been written, with the aim of helping to apply Design for All.
- In 2006 the Accessible Teletónica Collection will start circulation, with the aim of making known information of general interest related to disability, and which is included in the agreement signed with the CERMI. The first two titles are the "Manual of Psychological and Teaching Practices for Special Education Centres", and the "University and Disability Guide to Resources", both drawn up by ATAM.
- In collaboration with Feaps-Madrid, the publication "You and me alike" has been issued, to better understand people with intellectual disability, and a guide to special education has been published together with Ferececa.
- Teletónica Móviles, the Fundación Teletónica and the University of Comillas have carried out the study "New Technologies and Social Exclusion", an in-depth analysis of the potential of the ICTs in the struggle for social inclusion in Spain.

Products and services

The work done by the Telefónica Group in setting up Accessible Telefónica implies an improvement in everyone's quality of life, especially those with some kind of disability, through telecommunications for all. Telefónica works constantly to improve the accessibility of its processes, products and services, and to ensure that they are clearly an improvement in the social and workplace inclusion of people with disability.

Fundación Telefónica has published "Communication solutions for elderly people and those with disability", identifying barriers that hinder the existence of real equality of opportunities for elderly people and the disabled.

Mobile telephony

Telefónica Móviles España has also published the "Catalogue of mobile services for social integration", including more than 30 services already in operation to ease social inclusion and to improve the quality of living of people with disability, elderly people, victims of domestic violence, people with health problems and foreign residents in Spain.

In addition, the Movistar Accesible portal has been set up where information can be found about the more accessible services and telephones of Movistar. News about mobile telephone services, disability and Design for All can be found there.

Fixed telephony and broadband

Under the Design for All concept, Telefónica has developed products that enable all kinds of users to have access to fixed telephone and broadband services:

- The Teclón is a terminal that prevents coupling with hearing-aids, has large keys, rapid dialling, and lights to signal incoming calls. This model can help people over 65 and people with slight visual and/or auditory disability.
- The Video-telephone screen has been developed, that works with any conventional telephone adding images to the conversations, and aiding communication between people with auditory disabilities.
- Telefónica de España offers the possibility of delivering the telephone bill to the public in Braille, transcribed by the ONCE, for people who have sight problems. Invoices in Braille are also available in Chile and Argentina.

CASE STUDY

www.telefonica.es/accesible

Telefónica has developed the "Telefónica Accesible" portal, www.telefonica.es/accesible, as a tool available to society which shows what the Telefónica Group is doing in the area of disability, as well as anything that may be of interest to this sector of people and their families, like a formation and legislation centre, sector-related news, or access to specialised publications.



Applications and technical aids

The information and communications technologies (ICT) are a particularly suitable means to aid social and workplace integration and to enhance the quality of life of elderly people and those with disability. Telefónica, together with representative organisations in the disability sector, has developed solutions to aid the access of people with disability to computers and to communication.

- This is the purpose of the SICLA communicator (Communicator System for Alternative Languages), developed by the Fundación Telefónica, which enables people with cerebral palsy or with motor or reading and writing difficulties to have access to the computer and to communicate through an Alternative Communication System.
- Within the Framework Agreement of collaboration with the Ministry of Work and Social Affairs, through Imserso (Institute of Migrations and Social Services), and the Fundación Telefónica, the Adapted Equipment Demonstration Unit has been set up of the State Centre for Personal Autonomy and Technical Aids (CEAPAT), where there is equipment configured with adaptations for different kinds of disability.
- Telefónica Soluciones is developing the “Beethoven” artificial conversation system, which aims to implement and study the feasibility of a comprehensive telephone communication service (fixed network, mobile and Internet) between deaf and hearing interlocutors, working in real time and over the conventional telephone network.

- Telefónica Soluciones also provides labels with magnified characters for the keyboard in two versions, black characters on a white background, and white characters on a black background (high contrast), for people with visual disabilities.
- Lastly, a Keyboard Sweep Emulator has been developed, which is an IT application that enables writing on any application compatible with Windows, and a mouse emulator (improving the handling and writing of computer programmes for people with reduced mobility).

New technology accessibility observatories

With the aim of analysing the development and state of the Information Society and of, Information and Communication Technologies, Telefónica Soluciones reports on the accessibility of products through its New Technologies Accessibility Observatory.

Information technologies are complex and to understand them requires a high degree of specialisation, so not just one Observatory is offered but a set of Observatories, each focused on a different type of technology. Initially three observatories are available: an Observatory of Telephone Accessibility, an Observatory of Web Accessibility, and an Observatory of Technical Aids.

As well as keeping up with knowledge of the latest technology, Telefónica wants to be social ally, leading the debate on the social impact of technology and transforming itself from a product- and technology-focused Group into a Group focused on the customer and on quality of life.

- Telefónica I+D makes the manual of “Design of Accessible Web-pages: Procedures and Tools” available to users through the portal Telefónica Accesible.
- Telefónica Soluciones has taken part in improving the draft version of the norm “Guidelines for the use of Sign-language in the Web” within the Sign Language in the Web Group. The document complements the norm UNE 139803:2004, defining the specific requirements for the situation when Web contents are videos with sign language. A majority of deaf people, users of sign language, consider that with this language, information can be perceived more comfortably and reliably than in written language.
- Telefónica Soluciones takes an active part in AENOR Sub-committee 8 “Systems and Devices for Third Age and Disability Groups” for the “Standardisation of User Interfaces of Computer Applications for People with Disability”, and the “Standardisation of Internet Accessibility for Elderly People and those with Disability”, developing the procedures manual for applying the WAI (Web Accessibility Initiative) guidelines.

Workplace Integration

The Telefónica Group meets the legal obligation established by the Lismi (Disabled Persons’ Social Integration Law) of hiring two per cent of people with disabilities among the personnel.

Firstly, through the Mercadis portal, www.mercadis.es, advice, information and resources are offered, related with the employment of people who have some kind of disability, and the Workplace Integration Service of ATAM develops methodologies, activities and resources with the aim of encouraging the access to employment of people with disabilities.

The Telefónica Group has Special Employment Centres of SIAA (Comprehensive Help and Assistance Services) in Atento, specialising in customer attention services through multi-canal platforms or contact centres (telephone, fax, internet ...), and with EEC electronic components.

Servitelco devotes itself to management and support services for firms employing people with disabilities in special employment centres. Its activities are mainly connected with the use of information technologies and telecommunications.

Lastly, Laveco is a special employment centre of ATAM that runs industrial cleaning activities and laundry services for hotels, residences and hospitals, provides industrial cleaning services for buildings and, in general, auxiliary services for building conservation and maintenance. These services are directed towards the social and workplace integration of people with disabilities.

CASE STUDY

Sign language in the Shareholders Meeting

As a result of Telefónica’s commitment to accessibility for all its stakeholders, interpretation in sign language will be organised for everything that takes place in the Telefónica Shareholders’ General Meeting.

Crédits

Departments that collaborated in the preparation of the report

Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
05 Shareholders	Shareholders' Office / Investor Relations / Secretariat General
06 Employees	Corporate Human Resources / Human Resources Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Communication / Health and Safety / Fundación Telefónica / ATAM / Fonditel
07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

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Environmental commitment

OPINION

What do our stakeholders think?

As part of the RepTrak study, we investigated public opinion as to whether "Telefónica protects the environment".

The results obtained were as follows:

Spain	64.3
Argentina	54.6
Brazil	67.3
Chile	66.9
Mexico	68.6
Peru	58.0

Telefónica views a commitment to respect for the environment as an essential part of its corporate responsibility. To this end, the companies in the Telefónica Group have had a public commitment to the environment for several years.

Various companies of the Telefónica Group in Spain have been publishing environmental reports since the end of the 1990's. These reports have been transformed into corporate responsibility reports, which include the environment as one of their essential elements.

In 2002, the Telefónica Group signed the Global Compact of the United Nations, thereby undertaking as part of the principles of this pact to: maintain an environmental prevention focus, encourage initiatives promoting greater environmental responsibility and encourage the development and dissemination of environmentally respectful technologies.

2002 also saw the Telefónica Group join GeSI (Global e-Sustainability Initiative), an initiative fostered by the UNEP (United Nations Environment Programme) and the ITU (International Telecommunications Union) aimed at promoting the sustainable development of the Information Society. In addition, the Group has been a participant in the environment group of ETNO (European Telecommunications Network Operators Association), which in 2004 launched the "Sustainability Charter", since its beginnings.

In addition to this, various companies of the Telefónica Group have been putting this commitment into practice through their environmental policies. These policies have been implemented mainly by

companies carrying out operations in Spain and by mobile telephone operators in Latin America.

As Telefónica is progressing in the transformation process into an integrated global group, the objective has been established of passing a corporate environmental policy in 2006, so that this will become the general policy of all the operations. This policy will provide support to the "Minimum Environmental Requirements" put into place by Telefónica in 2004. The main commitments included in this policy would be as follows:

1. A guarantee of compliance with current legal requirements in the countries of operation, with the adoption of complementary regulations and internal directives in cases where no appropriate legal development exists.
2. The evaluation of the environmental impacts resulting from our activities and from the products and services that we develop, in order to reduce and prevent negative impacts and to promote the creation of telecommunications services that contribute to the sustainable development of society.
3. To make sustainable use of natural resources, using energy efficiently, minimising the consumption of raw materials, fostering the recycling of materials and the appropriate treatment of waste.
4. To communicate the applicable environmental procedures and requirements to the Group's suppliers and to ensure their fulfilment.

Telefónica's commitments to the environment

Year	Company	Commitment
1996	Telefónica de España	ETNO environmental commitment (European Telecommunications Operator Association) Telefónica joins the ETNO working group on the environment
1997	Telefónica I+D	Telefónica I+D environmental policy (revised 2003) AENOR certification Environmental Management System ISO 14001
1998	Telefónica Móviles España	Telefónica Móviles España environmental policy AENOR certification Environmental Management System ISO 14001
1999	Telefónica de España	Telefónica de España environmental policy
2002	Telefónica Group	United Nations Global Compact
	Telefónica Móviles España	Sustainability Excellence Club Founded with 15 other companies with the aim of fostering Sustainable Development amongst companies
2002	Telefónica Group	GeSI (Global e-Sustainability Initiative) Initiative supported by the UNEP (United Nations Environment Programme) and the ITU (International Telecommunication Union) Groups together manufacturers and operators in the sector with the objective of promoting the information society
2004	Telefónica Group	Corporate Regulations: Minimum Environmental Requirements that must be contemplated in the operations of the company subsidiaries
	Telefónica Móviles	Approval of an environmental policy applicable to operations undertaken in Argentina, Chile, Colombia, Ecuador, El Salvador, Spain, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela
	Telefónica Soluciones	Approval of the Company environmental policy
	Telefónica Gestión de Servicios Compartidos	Approval of the Company Environmental Statute, as a first step towards the implementation of an environmental management system
2005	Telefónica Group	Internal standardising of environmental management processes and protocols

5. To put continuous improvement into practice through the systematic and periodic evaluation of the environmental aspects concerned, together with the fostering of the implementation of management systems in each of the companies of the Group.

6. To establish the channels necessary to guarantee communication, awareness and training in environmental matters for all of the Group's employees.

7. To make the environmental activities carried out by the company public each year and to provide information on the objectives attained and work in progress.

In the majority of cases, these commitments are manifest not only in internal management, but also through collaboration with different bodies dedicated to environmental protection. One example of this is clear in the fact that in the financial year 2006, Telefónica is to sponsor the CONAMA (National Environment Congress) to be held in Madrid, thus continuing along the path begun in 2005 of collaboration with CONAMA in its Latin American event, which took place in Panama. This participation in CONAMA is particularly representative, as collaboration is not only financial; the company is also involved in the working groups and in the organisation of round tables.

Collaboration with different bodies

Country	Company	Collaboration with
Argentina	Telefónica Móviles	The Wildlife Foundation IDM (battery recycling)
Colombia	Telefónica Móviles	CECODES (Colombian Business Council for Sustainable Development)
Spain	Telefónica Móviles	Fundación Entorno (since 2002) Soria 21 Forum (since 2004) Ambientum (environmental legislation and jurisprudence for town councils of Andalusia) CONAMA
	Telefónica de España	Nature Foundation (reforestation linked to the promotion of electronic billing)
Mexico	Telefónica Móviles	Asociación Hombre-Naturaleza (environmental awareness campaign)
	Fundación Telefónica	"Reforestemos México" Foundation
Nicaragua	Telefónica Móviles	Earth Fair



Environmental management

Minimum Environmental Requirements

In the year 2004, the management of Telefónica voluntarily approved the regulations for the "Minimum Environmental Requirements", the objective of which is to advance in environmental management with a common methodology throughout the Group, ensuring behaviour that is environmentally responsible. In addition, the requirements make it possible to standardise practices between the different companies in the Group, regardless of their activity, the geographical area in which this activity is carried out and the applicable legal requirements. With these internal regulations, Telefónica moved ahead of the growing regulatory requirements that have been put into place in the different countries in which the Group operates.

In accordance with the principles of flexibility and adaptability, each company implements the regulation depending on the environmental impacts generated by its activities. To facilitate compliance with the regulations in the different companies of the Group, five broad steps for action have been established to ensure the correct medium term implementation of the regulations and the external certification of the environmental management systems.

Level of implementation of the regulations

A project of diagnosis of the state of advancement of the implementation of internal environmental regulation in each of the companies of the Telefónica Group was carried out in 2005, in collaboration with the Internal Audit Area.

The level of advancement varies greatly between the different companies and is greater in the case of Spain and in the case of those companies that have attained the objective of certification of their environmental management system in accordance with ISO 14001 Standard. This analysis will be repeated in the second semester of 2006, with the aim of having advanced at least one step in each of the companies.

To guarantee the sufficient implementation of the Environmental Requirements, regardless of whether the company has a certified environmental management system, the Internal Corporate Audit area carries out regular analyses with regard to their fulfilment. In 2005, audits were carried out in two Spanish companies (Telyco and Telefónica Telecomunicaciones Públicas), the companies of the TPI Group and the activities of ATAM. These audits were complementary to those that had been carried out in previous years in the main fixed and mobile phone operators in both Spain and Latin America.

5 steps for implementing the Environmental Requirements regulations

1	Environmental commitment	Communication of the environmental commitment, preliminary evaluation, environmental indicators, awareness-raising and training.
2	Identifying legal requirements	Identification, monitoring and fulfilment of the environmental requirements applicable to the organisation. Methodology.
3	Follow-up and measuring	Identifying and evaluating environmental aspects, establishing objectives and establishing operational controls.
4	Improving behaviour	Defining responsibilities, generating plans and registers, documenting processes resulting from environmental management, establishing channels of communication, capacity to respond to emergencies.
5	ISO Certification	Audits to verify the level of implementation, management system for those aspects that are off course.

Environment Committees

To encourage advances to be made in implementing the Minimum Requirements regulations, Environment Committees will be set up throughout 2006 in each of the main countries in which Telefónica operates, coordinated by a Corporate Environment Committee. These Committees will be led by the Internal Audit and Corporate Responsibility areas.

The Environment Committees are bodies intended for the regular and periodic consultation of Company actions concerning environmental matters and they will also serve as the body responsible for ensuring fulfilment of valid legal requirements and agreements that are adopted on environmental questions. In addition, they should study, agree and propose those measures that they deem appropriate in terms of environmental protection and the fulfilment of the Environmental Requirements.

Level of implementation of the Minimum Environmental Requirements regulations in Telefónica

		1 Environmental commitment	2 Identifying legal requirements	3 Follow-up and measuring	4 Improving behaviour	5 ISO certification
Argentina	Móviles	■	■	■	■	■
	TISA	■	■	■	■	■
	TGestiona	■	■	■	■	■
	Atento	■	■	■	■	■
Brazil	TISA	■	■	■	■	■
	TGestiona	■	■	■	■	■
Chile	Móviles	■	■	■	■	■
	TISA	■	■	■	■	■
Colombia	Móviles	■	■	■	■	■
Ecuador	Móviles	■	■	■	■	■
Salvador	Móviles	■	■	■	■	■
Spain	Móviles	■	■	■	■	■
	T España	■	■	■	■	■
	T I+D	■	■	■	■	■
	Soluciones	■	■	■	■	■
	TGestiona	■	■	■	■	■
Guatemala	Móviles	■	■	■	■	■
Mexico	Móviles	■	■	■	■	■
Nicaragua	Móviles	■	■	■	■	■
Panama	Móviles	■	■	■	■	■
Peru	Móviles	■	■	■	■	■
Venezuela	TISA	■	■	■	■	■
	Móviles	■	■	■	■	■

Finalised ■
 In progress ■
 Not started ■

Environmental Training in Telefónica Group

Country	Company	Description
Argentina	Telefónica Móviles	Training given to 12 employees who work directly with the environmental management system
	TGestiona	Training given to 100 employees in the logistics centre
Chile	Telefónica Group	Training as Environmental Management Systems Auditors given to 9 people with the aim of effectively developing the internal environmental audit tasks in the company.
Colombia	Telefónica Móviles	e-learning training
		Training in ISO 14001 (25 employees)
		Introduction to ISO 14001 (98 employees)
		General environmental training (83 employees)
Ecuador	Telefónica Móviles	Environmental skills training in the management of solid waste, non-ionizing emissions and the implementation of the Environmental Management System. (700 people, including outsourcing personnel and suppliers)
El Salvador	Telefónica Móviles	Courses in implementing environmental management systems, waste management (50 participants)
Guatemala	Telefónica Móviles	Courses in implementing environmental management systems, waste management (50 participants)
Spain	Telefónica Móviles	e-learning training intended to allow all employees to get to know the Company's environmental management system and who is responsible for its application (739 employees in 2005)
	Telefónica Soluciones	Training in Project Leader courses Communiqués and presentations on the Intranet (900 employees)
	Telefónica de España	Training courses on environmental audits, waste management and environmental legislation (37 employees) Tele-learning course on environmental management (61 employees)
	Telefónica I+D	Environmental training (14 employees)
Mexico	Telefónica Móviles	Environmental themes in inductions for new employees
		Self-study environmental manual on the Intranet
		Audio conferences on environmental subjects (420 employees)
Nicaragua	Telefónica Móviles	Seminar on identifying environmental aspect (25 employees)
Panama	Telefónica Móviles	Training on ISO 14001 Standard and on the identification and evaluation of environmental aspects (25 people)

Internal Training

The training and sensitisation of personnel is one of the necessary conditions for ensuring correct environmental management. During the course of 2005, 3,348 professionals in the Telefónica Group received training in environmental material.

Environmental requirements for suppliers

In addition to managing the environmental impact of its own operations, Telefónica also contributes to the promotion of responsible practices throughout its supply chain. For this reason, environmental clauses obliging the fulfilment of environmental legislation and particularly of legislation related to waste management are now being included in contracts for the purchase of goods and some services.

Telefónica de España includes general causes by which collaborating companies commit to fulfilling environmental legislation, together with specific clauses to ensure that waste generated is managed by authorised waste managers. It is also anticipated that in 2006, environmental criteria will be included in the audits of collaborating and maintenance companies, as until now only documentary monitoring of the information provided by these companies has been carried out.

Applicable environmental legislation is taken into account in the design of new products and services, defining environmental criteria in the development of products and services, which were provided to suppliers through the respective marketing areas.

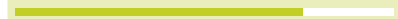
Special clauses are included for the different operators of Telefónica Móviles, depending on the activity of the supplier.

OPINION

What do our stakeholders think?

Within the supplier satisfaction questionnaire, a question was included regarding **“Telefónica is a company that is concerned about the environmental performance of its suppliers”**.

63% of suppliers answered in the affirmative, with an average mark of 3.8 out of 5 points.





Most relevant environmental aspects for telephony companies

	Fixed telephony	Mobile telephony
Electromagnetic emissions		██████████
Visual impact		██████████
Energy consumption	██████████	██████████
Waste lead batteries	██████████	██████████
Noise from electromagnetic equipment and/or air conditioning equipment	██████████	██████████
Discharges from generators	██████████	██████████
Masts consumption	██████████	

Identification of relevant environmental aspects

Throughout 2005, the majority of Telefónica’s fixed and mobile telephony operators carried out a preliminary environmental diagnosis with the aim of identifying the environmental aspects that are relevant to their activity. The preliminary diagnosis was based on three aspects: the legal framework to be applied for each line/country, an internal analysis of company management of environmental aspects, and the queries received from different groups of interests. This identification process helped to establish specific actions and control plans.

The following sections show Telefónica’s follow-up to the environmental impact of each of the environmental aspects, complemented by other aspects that are traditionally required by analysts and environmental reporting standards.

Electronic Emission Measurements in Telefónica Group companies

(Figures in units)

		Sites measured 2004	Sites measured 2005
Telefónica	Argentina	334	519
Móviles	Chile	532	2,348
	Ecuador	-	18
	España	4,214	3,262
	Panamá	15	-
	Peru	15	-
	Colombia	-	709
Telefónica Internacional	Argentina	-	44

Electromagnetic emissions

Dialogue with groups of interests showed electromagnetic emissions to be the main environmental worry for telecommunications companies. Society's concern for potential health risks from electromagnetic emissions, despite the lack of evidence in this regard from scientific research into this topic, originates from a general lack of knowledge concerning the operation of equipment that operates using electromagnetic waves.

In response to this situation, the companies of the Telefónica group take on a double role: firstly, to ensure that the levels of electromagnetic emissions from our installations comply with all international regulations and recommendations, and to ensure compliance with these regulations and recommendations in the acquisition of terminals. Secondly, Telefónica is carrying out a strong campaign to inform society about the operation of mobile telephony and its potential impacts on health.

Levels of electromagnetic emissions from antennae

Telefónica ensures the fulfilment of all regulations and the respect of all international and national limits for the countries in which it operates, with systematic checks, for legal reasons or on the request of interested parties, of the strength of emissions from its installations. In 2005, a total of 6,900 mobile telephony sites and 44 radio electric infrastructure sites for fixed telephony networks were measured. The number of measurements made showed an increase of 32% with respect to numbers for 2004. It is important to highlight that in 100% of the measurements taken, existing regulations were fulfilled by a broad margin.

It should be noted that these measurements took place for the most part in collaboration with the regulatory bodies of each country.

In Argentina, a total of 519 sites were measured in 2005 and of these, 436 were measured by Telefónica Móviles Argentina and 83 by CNC (the National Telecommunications Commission). In addition to this, Telefónica de Argentina measured 44 sites. All of the procedures were carried out in accordance with Resolution 3690/04 of the CNC and 100% compliance was shown.

In Chile, a total of 2,348 sites were measured, measurements in Chile being taken every 6 months. Measurements focus on new stations or on those that have been modified. The standards against which

CASE STUDY

what electromagnetic emissions are?

To transmit sound, mobile telephony uses radio waves, which are in fact electromagnetic waves of a similar nature to light rays. There are many, diverse uses for these emissions, such as television, radio broadcasting, microwave ovens or RADAR, to cite just a few examples. The only difference between them is the frequency and the power used in each case.

There are two types of radiation within electromagnetic waves: ionizing and non-ionizing.

- In very high frequency radiation, such as in the case of X-rays and gamma rays, the energy from the electromagnetic waves is such that it can produce what is known as an ionizing effect, that is, it can break chemical bonds. For this reason, this type of radiation is known as ionizing radiation (IR).
- Lower frequency radiation, the frequencies at which mobile telephony works, do not have sufficient energy under any circumstances to modify the molecules of living cells. They have only

enough energy to generate heat, but not to product the ionization of matter. For this reason, this type of radiation is known as non-ionizing radiation (NIR).

As can be seen in the figure below, which represents the electromagnetic spectrum, electromagnetic emissions can be classified according to their frequency. The waves used for mobile telephony throughout the world are included among what is known as radio waves, specifically of frequencies between 900 and 2,000 MHz. Light is also a form of electromagnetic radiation, but at a higher frequency. Lastly comes ionizing radiation, with frequencies greater than the frequency of light (millions of times higher than the frequencies used by mobile telephony).

Mobile services at present use the following frequency bands: the Global System for Mobile Communications (GSM), which uses digital technology and operates in the frequency bandwidth of 900 MHz and an extension of this system, the European Digital Cordless System (DCS-1800), which is very similar to GSM but which operates in the 1,800 MHz band, and lastly the Universal Mobile Telecommunications System (UMTS-2000).

measurements are taken are set by the FCC (Federal Communications Commission) and the ICNIRP (International Commission on Non-Ionizing Radiation Protection), with 100% compliance obtained.

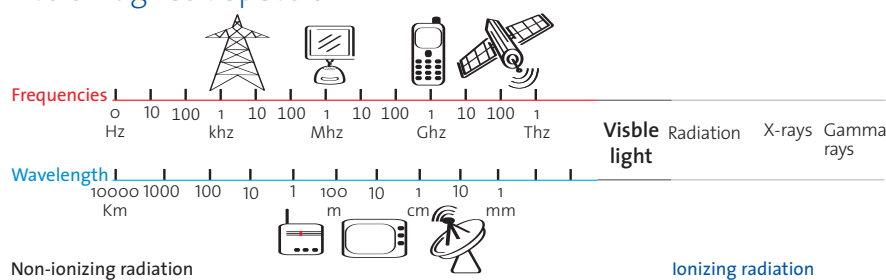
In Colombia, 100% of stations measured were in compliance with the set standards, with 709 sites measured.

In Ecuador, Telefónica Móviles measured 100% of stations internally, in accordance with national regulations, which sets permissible limits against which emissions throughout the country are measured and certified. 18 sites were certified in 2005.

In Spain, 100% of base stations comply with the limits established by current legislation. Throughout 2005, the company took a total of 3,262 measurements for different sites. The number of sites that were certified by external agents was 968 with site variations and 2,294 without variation.

In the Environmental Country Committees, the current annual Action Plan will be decided on depending on legislation, the demands of groups of interests and the internal requirements set by the company, so that there are certain minimum requirements for action that are common to all the countries.

Electromagnetic spectrum



Informing society

Although there is no scientific evidence to prove that antennae and mobile telephones, when they respect the established emissions limits, pose any health threat, the worries of some citizens suggests that it is wise to continue improving training and information available for both employees and the general public.

Continuing with the task of communication undertaken in previous years, a constant dialogue is maintained with the different groups of interests, providing information on the operation of mobile telephony, measurements taken, level of compliance, etc. Some of the activities carried out in 2005 in this respect are listed below.

The different websites of Telefónica Móviles in each country, along with the institutional portals, include information concerning the operation of mobile telephony networks and electromagnetic emissions. Complementary to this, on the Intranets to which all the Company's employees have access, information, studies and courses related to the theme are published periodically.

In Spain, Telefónica Móviles carried out the following actions throughout 2005:

- Training of all employees concerning electromagnetic waves and their impact on society. A one-hour session, available on the internet or via mobile telephone.
- Joint initiatives with AETIC (Spanish Association of Electronics, IT and Telecommunications Companies). Drawing up of a Code of Good Practice as a tool for improvement in relations with Local Administrations, reflecting the environmental awareness of operators in developing the network "reduction of the visual impact of telecommunications infrastructures".
- The task of providing information to groups of interests (town councils, residents' associations, landlords) continued throughout 2005, as a result of demand from the groups themselves, providing a response to their concerns about the operation of mobile telephony, the conclusions of official bodies in matters of health and telecommunications and the regulation and control of electromagnetic emissions.
- The process of obtaining authorisation before an installation is constructed is publicised to residents' associations, along with practical examples of technical projects, certified and approved by the Official Guild of Telecommunications Engineers.

CASE STUDY

Agreement with the Federation of Municipalities on the development of infrastructures

The Spanish Federation of Municipalities and Provinces (FEMP) and AETIC signed a collaboration agreement in 2005 setting the criteria governing the spread of mobile telephone antennae, which was signed by the mobile telephony operators Amena, Vodafone, Xfera and Telefónica Móviles España.

The Government was the driving force behind this agreement between administrations and operators, taking into account compliance with regulations guaranteeing the safety of emissions from antenna, environmental protection and town planning.

With this agreement, the operators undertake to draw up a Code of Good Practices for the harmonious development of infrastructures, along with the creation of a technical consultation information service.

- As part of the dialogue with groups of interests, a 24 hour telephone hotline for landlords has been set up, where, among other things, the doubts and worries of landlord or anyone else interested in matters of health and electromagnetic emissions are dealt with. Documentation is also sent to those interested with information concerning electromagnetic fields, authorisations and certificates of conformity with emissions levels of mobile telephony installations.

Other initiatives of this type carried out in Latin America have been:

Argentina:

Telefónica collaborated with CICOMRA (Chamber of Information Technology and Communication in the Republic of Argentina) on the publication of a book with information on electromagnetic fields and non-ionizing radiation.

- There are initiatives of communication with the Chilean Mobile Telephony Association (ATELMO), an institution with which Telefónica Móviles is affiliated.
- Through the association of companies of the guild in Colombia (Asocel), a series of initiatives are being designed to inform the community on the subject, using video, brochures, and a national campaign about telecommunications.

Mexico

A course was given to those suppliers responsible for obtaining permits for base stations on negotiation and subjects relating to health and electromagnetic fields.

Telefónica Móviles environmental impact studies

	Impact studies 2004	Impact studies 2005
Argentina	155	296
Chile	0	0
Colombia	-	66
Ecuador	-	236
El Salvador	-	83
Spain	34	29
Guatemala	247	350
Mexico	548	4
Nicaragua	-	0
Panama	5	5
Peru	15	28
Uruguay	-	0
Venezuela	-	1

Note: There are significant differences between the levels of development of mobile telephony networks in different countries, and also between the definition of an environmental impact study between different legislation.

Impact of installations

Telefónica maintains a commitment to making the extension of its services to the maximum area of the territory compatible with the minimisation of the impact of its infrastructures on the environment. As described above, the visual impact of and the generation of noise by infrastructures are two of the relevant environmental aspects identified both in terms of fixed telephony services and for mobile telephony activities.

Land occupation Mobile telephony

To offer the maximum, good quality coverage in the regions in which Telefónica Móviles has a licence to operate, it is imperative to develop networks of base stations and antennae that, although they occupy a small area of land, should be located at relatively high points in relation to their surrounding environment, usually in towers or buildings.

The Telefónica Móviles network had over 30,300 sites throughout the world at the end of 2005, 27% more than at the close of 2004. When it comes to developing these networks in natural areas or urban areas of special interest for their landscape or their historic and artistic heritage, Telefónica takes into account options such as camouflage in the surroundings, the reuse of existing infrastructures or the reduction in size of equipment.

The planning, construction, maintenance and operation of these installations implies environmental aspects such as visual impact, the occupation of land and acoustic impact, among others.

The evaluation of these aspects, prior to the installation of new equipment, takes place by carrying out an environmental impact study. 1,098 studies were carried out in 2005, thus fulfilling the legal requirements set by the different administrations or by voluntary requirements when installation is in protected areas or areas of natural interest.

16.8% of installations in Spain are located in zones delimited by Natura 2000 network.

Fixed telephony

The activities of Telefónica de España were carried out over a network of 6,515 buildings and network infrastructures at the end of 2005 (this figure was 6,256 in 2004) and over 9,222 telecommunications antennae (8,829 in 2004). Telefónica de España carried out one environmental impact study in 2005.

Telefónica Móviles sites throughout the world

	Sites 2004	Sites 2005
Argentina	1,647	2,423
Chile	950	1,398
Colombia	503	1,483
Ecuador	237	254
El Salvador	147	276
Spain	15,304	17,000
Guatemala	417	315
Mexico	2,854	5,780
Nicaragua	286	116
Panama	115	359
Peru	386	492
Uruguay	100	165
Venezuela	745	743

Telefónica de Argentina had 1,750 buildings dedicated to network infrastructures and 725 telecommunications towers at the end of 2005. It was not necessary to carry out any environmental impact studies in 2005.

TeleSP had 2,043 buildings dedicated to network infrastructures and 1,129 telecommunications towers at the end of 2005. During 2005, it was not necessary to carry out any environmental impact studies, as no new towers were installed. However, there is still one open procedure, due to the expansion of the network in a protected area.

At the end of 2005, Telefónica Peru had 913 buildings dedicated to network infrastructures and 779 telecommunications towers, of which 4 are in protected areas. 2 environmental impact studies were carried out in protected areas in 2005.

Visual impact

In addition to the above, during the phase of planning of the network, Telefónica Móviles España and Mexico apply their own methodology to provide an objective quantification of the visual impact of base stations. The parameter for evaluation is “Visual Fragility”, which measures alteration to the landscape. This value is the result of the analysis of different parameters, obtaining a final range of Visual Fragility that ranges from 1 (minimum) to 5 (maximum).

In this way, the company analyses the level of visual incompatibility that the installation causes to the environment, using different minimisation measures to correct this. Throughout 2006 and 2007,

this methodology will be adopted by all operators.

In 2005, in Telefónica Móviles as a whole, a total of 456 environmental adaptations were made to minimise visual impact, and 342 sites were shared.

Acoustic impact Mobile telephony

The noise generated by the air conditioning equipment of the huts and buildings containing equipment is one of the aspects that Telefónica monitors most strictly and on which it is working with its equipment suppliers. This monitoring takes place by means of acoustic measurements, which in 2005 were taken for 1,617 sites. The fundamental objective of carrying out these measurements is to verify compliance with valid legislation in matters of noise, with the aim of taking the appropriate corrective measures in those cases where non-compliance is found. In addition to this, throughout the whole of Telefónica Móviles, 113 citizen complaints have been received due to equipment noise, and 93% of these have been resolved.

Fixed telephony

In Argentina, the noise of 4 sites has been measured following complaints received about them and all of the complaints were satisfactorily resolved.

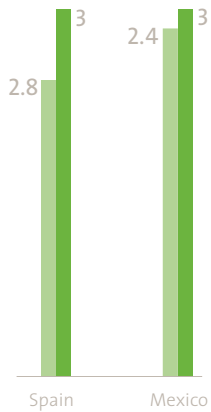
In Spain, there are 10 administrative procedures open at present due to noise pollution.

In Peru, the level of noise emitted has been measured for 40 sites, including 12 citizen complaints, of which 3 have been resolved.

Visual fragility of mobile telephony base stations

Scale de 1 to 5

- Urban areas
- Rural areas



Spillages

The fuel tanks that provide fuel for generators, together with possible leaks from these tanks, can imply a certain environmental impact related to soil pollution due to possible spillages, which are particularly serious, if an accident occurs.

It is therefore important to have a prevention policy in this respect and this has been part of the objectives of the Environmental Management System of both Telefónica de España and Móviles España. Actions taken resulting from this are outlined below:

- Identification of the situation of electricity generators, checking that tanks comply with current legislation.
- Periodic in situ visual inspection in order to check the state of the site.
- Implication of supplier companies in putting preventative measures into practice.
- Containment measures in order to control possible leaks.

CASO PRÁCTICO

Plan for visual and acoustic impact reduction and minimisation of the environmental impact of infrastructures (Telefónica de Peru)

In 2005, a new piece of environmental legislation was passed in Peru. Telefónica de Peru, as the largest company in the country, quickly put a plan to reduce the impact of infrastructures into place, which has already covered the following points:

1. Conservation Plan for metal structures and minimisation of their visual impact by painting the antenna support towers and the elimination of risks. Interventions took place on 130 towers at a national level.
2. Building Conservation Plan, through maintenance, focusing on the external facades of technical and administrative buildings to maintain an image that is appropriate to the surroundings.
3. Approval of paints and additives with manufacturers' accreditations, avoiding the use of zinc chromates, as these are carcinogenic. 4 products from 4 manufacturers have been certified.
4. Control of paint losses during maintenance, requiring greater efficiency from suppliers of materials and the workforce in their tasks in order not to affect the environment.
5. Netting of metal towers with nylon mesh in 4 sites nationally, following complaints from local residents concerning perching birds, which were making noise and depositing dangerous waste.

In addition to this, Telefónica de Peru has taken measures to reduce the acoustic impact of its installations to permissible levels. Some of the measures taken in 2005 were:

1. Investment in acoustic insulation of electrical generators in the Camino Real 208-San Isidro site, following notification by the Municipality.
2. Investment in the modification of the composition of air conditioning equipment in URD Las Causurinas, following complaints from residents.
3. Investment in the modification of the composition of air conditioning equipment in URD Cedros de Villa, due to the temporary closure of the site.
4. Investment in the modification of the composition of air conditioning equipment in URD Santa Patricia, due to the threatened closure of the site.
5. Implementation of operating hours in centralised high capacity air conditioning (Chiller) equipment in Surquillo, Basadre and Dean Valdivia locations due to complaints from residents.
6. Putting low capacity electricity generators with sound insulation capsules for low noise levels and for outdoor use into place in 22 sites where spaces with solar panel systems were saturated and migration was to take place to conventional energy due to the growth in services.

Waste managed at Telefónica Group companies

		2004		2005		
		Non-hazardous waste kg	Hazardous waste kg	Non-hazardous waste kg	Hazardous waste kg	Electrical and electronic waste
Telefónica Móviles	Argentina	ND	20,000	ND	71,682	36,000
	Chile	29,400	15,500	340,379	2,510	20,000
	Colombia	ND	ND	212,542	12,187	3,535
	Ecuador	ND	5,000	ND	800	ND
	El Salvador	ND	ND	50,144	232	500
	Spain	481	1,038	111,913	2,390	170,740
	Guatemala	ND	ND	66,197	332	ND
	Mexico	307,481	71,596	89,095	6,720	23,970
	Nicaragua	ND	ND	ND	1,363	ND
	Peru	29,600	48,000	ND	ND	ND
	Venezuela	20,090	ND	ND	ND	ND
Telefónica España	Spain	12,504,862	1,004,789	12,220,000	1,549,500	3,565,000
TeleSP	Brazil	247,665	474,705	4,052,190	868,575	3,500
TdP	Peru	ND	ND	245,304	90,290	ND
T-Soluciones	Spain	ND	ND	12,107	886	2,307
I+D	Spain	91,355	10,151	59,252	19,903	14,220
Atento	Argentina	ND	ND	24,000	NA	ND
T-Gestiona	Argentina	ND	ND	143,000	150	ND

Control and management of waste

The generation of waste is one of the main environmental aspects resulting from the activities of the Companies. Depending on the activities carried out by each Company, exclusively urban waste and office waste (paper, toner cartridges, automated office equipment, etc.) may be generated, or other specific types of waste may be generated by the activity, such as electrical or electronic waste. As can be seen from the figures shown, the waste associated with the activity of Telefónica is more representative by volume than the waste from the offices.

The occasional generation, in greater or lesser amounts, of waste containing certain compounds that makes it hazardous to the environment is not uncommon. Such waste is tested in order to ensure that it is managed appropriately.

Of the waste generated, 73% corresponds to non-hazardous waste and 11% to hazardous waste. The rest is electrical and electronic waste.

Spain

Once it has been selectively collected, the hazardous and non-hazardous waste is managed in accordance to the regulations established by valid environmental legislation (delivery to authorised managers, the use of the established documentation in this respect, etc.).

Telefónica España is the company in the Telefónica Group that manages most waste, due mainly to its 80 years of history and to the demanding environmental regulations it faces in Spain. The Company has evidence of the reuse and recycling of cable and paper waste and of a very high percentage of electrical and electronic apparatus waste, approximately 70%. Some of the characteristics of the waste management system are:

- Instructions regulating the administrative management of hazardous waste.
- Specific procedures for the management of static lead-acid battery waste and waste from the maintenance of electricity generators.

- Procedures regulating the inverse logistics of waste (from the client to the manufacturer).
- All those contracts involving waste management contain clauses to ensure that management takes place in accordance with legal requirements.

Telefónica Móviles España has an Integrated Waste Management System that enables the identification and removal of waste originating from both the construction and installation of base stations and of Company buildings, complying with valid legislation at all times. To facilitate this activity, containers are placed in Company buildings and stores for the management of urban/municipal waste (paper, card) and hazardous waste, such as cells, mobile telephone batteries and fluorescent lights.

The management of waste in Telefónica I+D is included in the operational control procedure of the environmental management system. Waste generated that is suitable for recycling makes up 79.2% of total waste sent for management by TID (Madrid and Boecillo).

CASE STUDY

Client waste

The operators of Telefónica do not only manage waste from their networks; they are also proactive in the collection and management of those terminals and items of equipment that clients no longer use, thus encouraging their correct recycling and minimising negative environmental impact.

Telefónica Móviles España participates in initiatives such as “Tragamovil” (“Mobile Swallow”) organised by the association ASIMILEC, the objective of which is the recycling of disused electrical and electronic equipment. To December 2005, almost 104,287 kg of waste mobile telephone items had been collected, reaching a total of 305,481 kg since the initiative was started in 2001. Telefónica Móviles España contributed 22% of the material received by the initiative for the year 2005.

Telefónica de España has recovered 1,325,000 kg of waste from clients, for the most part telephone equipment from clients’ homes. When a client wishes to get rid of a rented telephone, it is handed in to a Telefónica Store or sent to the Company’s installations. At present, all items of equipment removed from homes or businesses are taken to Telefónica’s installations or to the installations of collaborating companies and are managed appropriately, in some cases repaired and in the majority of cases delivered to an authorised waste manager. A large proportion of telephone equipment, particularly metal components, is recycled.

In 2005, Telefónica Móviles Argentina re-launched its Battery Collection and Recycling Programme, which has already recycled over 1,200,000 units. This programme, which is in collaboration with the Argentinean Wildlife Foundation, was of particular importance in 2005 due to the technological transition of many clients between CDMA and GSM standards.

The company began an adaptation process of over eighty containers installed in its commercial buildings and offices, in which clients and non-clients of the company could deposit their spent batteries, thus collaborating with the conservation and care of the environment.

Telefónica de Peru has recovered 1,500 kg of waste from public and home telephone use. This equipment is destined for reuse in other parts of the network, with the withdrawal process beginning with the removal of the connection cable, the recovery of the equipment and finally the intervention of specialised companies to provide the treatment and recovery of the equipment.

Latin America

The operators of the Telefónica Group in the different countries of Latin America are making progress in waste management in accordance with the Minimum Environmental Requirements laid down by the Telefónica Group. Waste management is carried out by authorised companies, which are controlled by public law regulations and which have all of the certificates to guarantee that the companies are in compliance with legal requirements. It is Telefónica's objective for 2006 to continue making progress in the implementation of homogenous procedures for waste management in all of the different countries.

In Argentina, terminal batteries are delivered to a supplier who deals with their final disposal. Accessories and terminals are sent to a service provider who is authorised to treat electronic waste and who proceeds to export the recycled and recovered materials. It is estimated that 40% of waste generated is recycled.

In Chile, cellular equipment (excluding batteries and chargers) together with electronic network operation equipment, is delivered to an electronic waste reduction company. The hazardous waste from batteries and chargers is delivered to an authorised service provider, who treats the waste so that it does not affect the environment.

In Mexico, the area responsible for the generation of waste, should manage and dispose the waste generated by its activity appropriately through authorised waste managers.

Energy consumption

Fuel

The consumption of fossil fuels linked to energy use is an aspect that, due to its repercussions on the environment, is subject to ever-greater attention in global, European and national policies. The telecommunications sector is not a sector that generates a great deal of direct demand for fuel consumption, with these associated mainly with tasks related to the creation and maintenance of the network, such as vehicle fleets or electricity generators. The latter are used for emergency actions or in places where access to other sources of energy is difficult.

Total fuel consumption in 2005 was approximately 30 million litres, 20 of these in vehicles and 10 in electricity generators. Consumption is constant with respect to the previous year if the increase in operations is taken into account.

Fuel consumption in the Telefónica Group companies

(Figures in thousands of litres)

Company	Country	Group fuel		Vehicle fuel	
		Thousands of litres 2004	2005	Thousands of litres 2004	2005
Telefónica	Argentina	-	126	-	123
Móviles	Chile	42	20	103	151
	Colombia	1,034	522	164	156
	Ecuador	100	296	140	159
	El Salvador	39	47	121	126
	Spain	4,868	4,735	504	378
	Guatemala	39	73	175	73
	Mexico	-	229	-	546
	Nicaragua	56	134	63	166
	Panama	101	71	54	109
	Peru	317	369	85	91
	Venezuela	-	2,137	-	723
Telefónica de España	Spain	570	31	7,515	7,260
TeleSP	Brazil	500	258	2,813	3,441
Telefónica CTC	Chile	184	340	127	1,222
Telefónica de Argentina	Argentina	220	-	3,348	3,000
TdP	Peru	134	895	-	1,992
Atento	Argentina	1,200	-	-	2
Tgestiona	Argentina	540	-	-	-
Telefonica I+D	Spain			-	11

Electrical energy consumption in the Telefónica Group companies

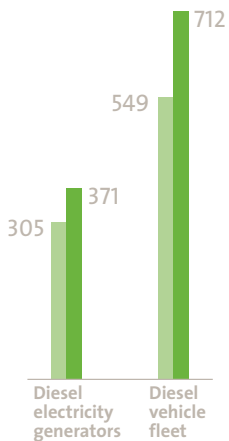
(Thousands of KWh)

Company	Country	Electrical energy consumed in operations (KWh)		Electrical energy consumed in offices (KWh)	
		2004	2005	2004	2005
Telefónica de España	Spain	648,504	554,969	235,045	231,836
TeleSP	Brazil	534,217	555,965	46,453	38,038
Telefónica del Perú	Peru	-	76,505	15,500	9,483
TASA	Argentina	140,550	158,766	-	-
Telefónica CTC Chile	Chile	70,253	117,191	4,436	-
Tsoluciones	Spain	-	-	-	2,678
Telefónica Móviles	Spain	307,003	354,632	47,766	47,420
	Argentina	-	113,946	6,008	22,639
	Chile	29,337	41,803	1,867	1,655
	Colombia	34,257	39,255	7,824	9,654
	Ecuador	7,709	87,301	1,263	36,403
	El Salvador	11,334	1,056	1,729	2,128
	Guatemala	10,881	11,970	1,108	12,196
	Mexico	-	42,842	10,621	16,140
	Nicaragua	2,550	3,443	1,863	2,411
	Panama	6,660	6,476	4,770	4,834
	Peru	21,623	43,940	5,998	4,293
	Uruguay	5,600	-	1,400	-
	Venezuela	-	84,598	20,986	28,382
Telefónica I+D	Spain	-	97,778	12,401	13,151
Telefónica	Spain	-	-	699	1,100
GSC ¹	Argentina	-	-	4,481	4,539
	Brazil	-	0,935	-	-
Atento	Argentina	-	-	-	3,852
Terra	Argentina	-	-	164	-
	Chile	-	-	336	-

¹ GSC: Gestión de Servicios Compartidos

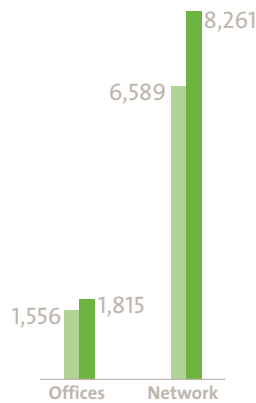
Fuel consumption

Figures in thousands of gal/year



Electrical energy consumption

Figures in thousands of gal/year



The company that consumes most fuel for vehicle fleets is Telefónica de España, which consumed 7.2 million litres in 2005 for a fleet of 6,081 vehicles. If these figures are compared to 2004, an absolute reduction can be seen of 0.3 million litres which, when consumption per vehicle is considered to have remained stable, comes from the reduction in the vehicle fleet. The total consumption of Telefónica Móviles resulting from its vehicle fleet is 2.8 million litres for a total mobile fleet of 1,115 vehicles. A reduction in consumption in Spain of around 25% must be highlighted.

The Company that consumes most fuel in electricity generators is Telefónica Móviles España, with 4.7 million litres, due mainly to the greater geographical spread and greater coverage of its network, which results in the need for alternative energy sources to the usual energy supply for emergencies or remote areas.

Electrical energy consumption

The power supply to communications networks involves the highest area of energy consumption for telecommunications operators. Energy consumption is one of Telefónica's main environmental concerns, as its reduction has a direct effect on saving scarce natural resources and on the reduction of pollution. During 2005, Telefónica advanced notably in putting measures into place for the reduction of energy consumption and for a greater control of energy consumption through its measurement.

Electricity consumption in network operations have increased by 8% and in offices by 16% with respect to the previous year.

Direct energy consumption of the Telefónica Group in 2005

Calculated according to the GRI Energy Protocol

Country	Direct consumption	Indirect consumption									
		Fossil fuels					Renewable energies/ other sources				
		Coal	Natural Gas	Oil products	Crude oil	Biomass	Solar	Wind	Geothermal	Hidroelectric	Nuclear
Spain	4,341	5,626	200	1,184	0	108	0	87	0	661	5,331
Argentina	1,080	67	1,853	200	0	8	0	5	0	387	386
Brazil	2,138	218	10	274	0	8	0	4	0	2,445	103
Chile	633	708	245	124	0	8	0	4	0	266	0
Peru	483	0	98	198	0	8	0	4	0	454	0
Other countries	1,574	199	612	505	3	8	0	4	43	1,453	95

Dates in Mega Joules

Relative energy efficiency indicators for Telefónica de España

Type of electricity	GJ	Reference size	Quantity	Relative unit	Ratio
Electrical TTelephony use energy consumption invoiced	2,183.126	Invoicing (€)	10,695.96	GJ(network/g	204.1
Electrical Administrative use energy consumption staff	834,612	Staff	32,116	GJ(management)/employee	26

Energy efficiency

The operators of the Telefónica Group have made significant improvements in the energy efficiency of their networks and offices throughout 2005.

Telefónica de España

To reduce consumption in offices, an internal awareness campaign was launched, which consisted of the placing of small stickers beside switches in those rooms where user intervention can have a more notable effect (equipment rooms, offices, warehouses, services and small buildings). A project was also undertaken of the substitution of switchboards for ferroresonant technology, manufactured in the 1980's, for other high-frequency technologies. The aim of this is to make significant savings in electricity consumption, as with the passing of time the yield from the rectifiers has declined, resulting in noticeable energy losses. The cost of this investment for 2005 was 1 million euros, for a total of 36 sets of equipment.

Telefónica Soluciones carried out internal awareness-raising campaigns by means of the Intranet, posters and stickers encouraging energy saving.

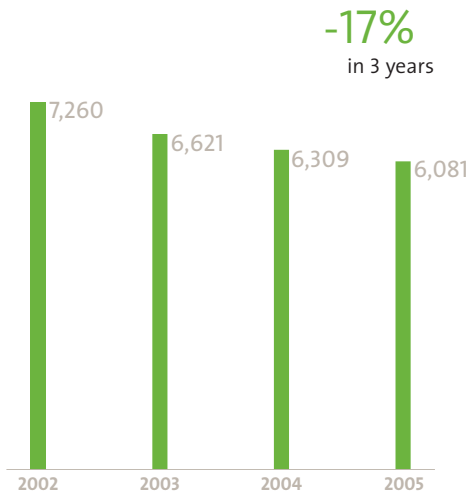
Telefónica Móviles

Telefónica Móviles España has made major advances in the implementation of energy efficiency measures throughout the network, by means of different prototypes:

- The manufacture of two prototype fuel cells and the conditioning of two base stations for their installation, with the aim of carrying out two pilot tests in 2006.
- Passive cooling: the number of prototypes has been increased to eight sites.
- Use of solar and wind power: to date there are 17 base stations operating with this combined energy supply system.
- Installation of 32 beacon systems based on LED technology.
- Reduction by 11 units of the number of generators installed to supply electricity to base stations.

In addition to this, Telefónica Móviles España has participated in the PNEUMA (Pneumatic Uninterruptible Machine) project, which is funded by the European Commission through the European Life Project for environmental protection. The objective of this project is to develop a product using compressed air as a source of clean energy to supply base stations should there be a cut in the usual power supply. At present, acid batteries are used, which generate an environmental impact in their recycling. The system developed as part of this project is intended to eliminate these batteries and to present a solution that is more environmentally respectful, more economical and that requires less maintenance and space. In Latin America, efforts were made to reduce the consumption of the networks through the use of renewable energies,

Vehicle fleet of Telefónica de España



with seven solar cell systems and two wind power systems put into place in Chile in 2005. On the contrary, in Peru the theft of solar panels means that this alternative is not viable, as in addition to the financial costs associated with replacement of the panels, there is also the cost of interruption to the service. Nevertheless the consumption of these sources is 4,636 GJ. Efforts to reduce consumption were based on the optimisation of control and of switchboards and the use of external temperatures to set the operating temperature of the rooms, thus optimising the use of air conditioning.

In other countries, such as Colombia and Venezuela, measures to optimise the network according to load were also taken, through regular measurement. In Mexico, on the other hand, efforts were focused on the installation of 1,000 air conditioning units with “free cooling” technology, which uses the ambient temperature for cooling. In addition, maintenance was scheduled and carried out of generators, transformers, batteries and other equipment with the aim of reducing losses.

Different measures were taken in the different operations of Telefónica Móviles in order to reduce energy consumption in offices:

- Communication campaigns to encourage the saving of electrical energy in offices (Chile, Mexico, Panama).
- Restriction of times in office buildings through the electric light or air conditioning (Chile, Peru).
- Automatic control devices for switching lighting on and off, together with the installation of low-energy lamps (Colombia, Venezuela, Nicaragua, Panama, Peru).

- Optimisation of air conditioning systems to reduce losses (Colombia, Mexico, Panama, Peru).

T Gestiona

T-Gestiona Argentina is the most advanced Company of the shared centres and services, as it has ISO 14001 certification. In 2005, it put certain measures in place intended to reduce consumption that may be transferred to other countries in 2006. These measures include the adjustment of demand contracted, the correction of power factors, the optimisation of air conditioning equipment, the progressive replacement of lighting in buildings with low-energy lighting, restricting the illumination of facades and posters, the restriction of times for air conditioning and heating, and staff training.

CASO PRÁCTICO

Telefónica will install the largest rooftop solar energy production park in Europe in Distrito C

Telefónica will install the largest solar energy production park in Europe and one of the largest rooftop solar energy parks in the world at its new headquarters which are under construction in Madrid (Distrito C), with the support of Iberdrola, the company that will construct and maintain the plant, as technological partner.

The park will have over 16,600 photovoltaic solar panels that will run the length of the entire office complex on the building rooftops. At over a kilometre in length, the rooftop will have an area of over 57,000 square metres, of which 21,000 will be occupied by solar panels. The power installed will be of approximately 3 MW peak, which will generate over 3.6 GWh per year. The project involves an investment of 21.8 million euros.

The “solar roof” is the final milestone in a project that has been conceived since its origins within the context of sustainable architecture, understanding this to be architecture that allows the reduction of atmospheric emissions of CO₂, the main cause of the greenhouse effect.

The electrical energy obtained from the solar roof will enable CO₂ emissions to be reduced by approximately 1,600 tonnes per year, in line with the objectives established by the Kyoto Protocol. The energy generated by the park will be sold to Iberdrola, which will incorporate it into its distribution grid. The income generated by

the project for Telefónica will be the equivalent to the total electricity consumption of Distrito C.

The installation of the panels will be completed towards the end of 2006. The project will be developed in 4 phases of approximately 3,520 panels per phase, plus a fifth phase, corresponding to the part of the project to go on the roof over the Corporate building, of approximately 2,540 panels.

Distrito C, located in the Las Tablas business park, to the north of Madrid, is to be Telefónica’s new operational headquarters. With a total area of 200,000 square metres, it will have space for 14,000 employees in a space for offices and for various services similar to a campus in concept: an open space, with services that will be shared with the local residents. The complex has been designed according to innovative concepts of both interior and exterior space.

Emissions into the atmosphere

The optimisation of fossil fuel consumption linked to the use of energy goes hand in hand with a reduction in the emission of greenhouse gases (CO₂, NO_x and CH₄, among others), thus contributing to a reduction in one of the main problems facing the planet today.

The Companies of the Telefónica group have for some years been taking improvement actions to reduce greenhouse gas emissions:

- Renewal and reduction of the vehicle fleet, replacing vehicles without catalytic converters with others that fulfil current legislation on emissions.
- Electrical energy saving measures, such as increasing the maintenance temperature in equipment rooms to 23°C, disconnecting underused rectifiers, reducing the hours of use of management buildings, reducing illumination in circulation areas in telephone centres, etc.
- Optimising occupied spaces in buildings, isolating unoccupied areas to remove the need for air conditioning in such areas.
- Internal energy saving awareness campaigns.
- The use of alternative energy sources to supply the networks. Of the total energy consumed by Telefónica de España, approximately 12,000 KWh come from renewable energies.

Some substances, used as coolants, solvents, propellants in fire protection equipment, etc. damage the ozone layer. These include CFC's, HCFC's and halons. The Companies of Telefónica are working on the progressive elimination of this type of material.

In Telefónica de España, all fixed and portable extinguishers containing halon 1301 and 1211 were eliminated. With regard to air conditioning equipment, it is anticipated that legislation for its elimination will be fulfilled before January 1, 2015.

Within the Telefónica Group, equipment using R22 gas will be gradually replaced with equipment using R-134.

Total energy consumption within the Telefónica Group

Type of energy	Quantity in (GJ/year)	
	2004	2005
Electricity generators	305,679	371,117
Vehicle fleet	549,060	712,096
Electrical energy	8,145,757	10,076,313
Total energy consumption	9,000,496	11,159,526

CASESTUDY

Telefónica Internacional energy efficiency programme

The Telefónica Internacional Energy Efficiency Programme, launched in 2004, consists of the optimisation of electrical energy management (reduction in price and consumption) by means of the identification and application of best practices within the group. This exchange of good practices has a direct impact on the energy accounts of the areas of operation of Telefónica de Argentina, TeleSP, Telefónica CTC Chile and Telefónica del Perú.

A multidisciplinary team identified 26 good practices in order to transfer them from one operation to others.

- Buying energy on the free market
- Self-generation of energy
- Adjusting the energy contracted
- Tariff adjustment
- Parallel measuring of demand
- Automatic control of demand
- Controlling abnormal consumption
- Correcting the power factor
- Reducing THD (Total Harmonic Distortion)
- Compacting centres
- Optimising continuous current systems
- Optimising air conditioning equipment
- Set point of room temperatures
- Energy diagnosis
- Action in administrative buildings
- Action on external points
- Prioritising the purchase of efficient equipment
- Substituting equipment
- Making the most of external temperatures
- Training the workforce
- Recovering outlay for the development of electricity networks
- Tele-measuring
- Verifying the measuring factor
- Segmentation (isolation of spaces)
- Hurrying accounts
- Obtaining preferential client status

Summary of emissions by the Telefónica Group (in t/year)

Summary of emissions (mT/year)

	Year 2004				Year 2005			
	Total consumption electrical energy (a)	Fuel consumption generators	Fuel consumption vehicle fleet	Total	Total consumption electrical energy (a)	Fuel consumption generators (b, c)	Fuel consumption mobile vehicle fleet	Total
SOx	14,426.135	4.938	8.870	14,439.944	17,845.151	5.995	11.504	17,862.650
NOx	4,439.437	261.023	154.213	4,854.674	5,491.591	316.902	200.005	6,008.497
COVNM	122.186	49.383	42.070	213.639	151.145	59.954	54.562	265.661
CO	268.810	112.875	159.662	541.347	332.518	137.038	207.072	676.628
CO ₂	1,403,448.739	22,151,686	39,408.664	1,465,009.088	1,736,068.184	26,893.805	51,110.539	1,814,072.528
CH ₄	24.437	1.411	1.521	27.369	30.229	1.713	1.972	33.914
N ₂ O	57.020	3.527	5.652	66.199	70.534	4.282	7.330	82.146
CO ₂ equivalent	1,421,638.214	23,274.790	41,192.571	1,486,105.575	1,758,568.591	28,257.338	53,424.154	1,840,250.083

a) Estimates based on the pollutant atmospheric emissions inventory corresponding to the year 2002 from the Ministry of the Environment on net production of electrical energy, printed in the Statistical Bulletin of Electrical Energy of December 2002 (Ministry of the Economy and Electrical Grid of Spain).

b) Source: Guía CORINEAIR

c) Estimate based on the sulphur content of fuel used

CASE STUDY

Paper figures for Telefónica de España

- Only 10% of documentation that is printed is read.
- If I print, I am being highly inefficient. The indirect costs associated with paper are 30 times greater than the cost of the sheet.
- During 2005, office paper consumption dropped by around 14%
- In Telefónica, 132 million A4 sheets were consumed in 2005.
- A Telefónica user prints an average of 14 sheets per day.
- 51% of paper purchased in 2005 was recycled.
- 7,269 personal printers were eliminated in 2005, although there are still around 4,600 left.
- 85% of Telefónica's paper consumption is divided between Fixed and Mobile business in Spain
- Each employee stores 0.6 m³ of paper in the office

Paper consumption

Paper consumption is another of the main environmental aspects related to the operations of Telefónica, with consumption for offices and billing traditionally considered separately.

Offices

In 2005, Telefónica put the "Efficiency in the Use of Paper and Electronic Information in the Workplace" project into practice. This was aimed at cutting the ties with paper in Telefónica offices. This had two fundamental objectives: on the one hand, to improve the mobility and efficiency of work and on the other, to contribute to a reduction in environmental impact. As a number of areas are implicated in the subject of paper and information, the Paper Efficiency Committee was set up and met 14 times throughout 2005.

The project began with the analysis of initiatives taken by other multinationals, reaching the conclusion that these initiatives could not be directly transferred to Telefónica's situation. During the first quarter of 2005, the report concerning the results of best practices implemented in over 30 units of the Telefónica Group was presented. This report proposed a drastic reduction of paper consumption in the office, while always maintaining efficiency of work, as with existing technology and the media available, it would not be wise to eliminate paper entirely. The following actions were taken throughout 2005:

- Consolidation of photocopying and printing equipment as multifunction equipment, which enables greater efficiency in the management of equipment. This type of equipment is contracted as an external service. Consolidation involves the removal of personal and networked printers. An objective was set of reducing the number of printers in offices in Spain by 5,000; thus from over 17,000 printers, the number was to be reduced to 12,000. By the end of the year, there were only 9,769 printers.
- Reduction in paper consumption by less printing (only 10% of material printed in the office is read) and encouraging double-sided printing and even the printing of 4 sides per sheet. In May 2005, the Companies set the objective of reducing the amount of paper consumed in the offices by 10%. In 2005, a reduction in the purchase of paper of 14% of the figure for the previous year was achieved.
- Increased purchasing of recycled paper, as the improved quality of this paper and the robust nature of new equipment means that this can be used in the same conditions as new paper. This action has a very positive environmental impact. At the start of the year, only 20% of paper used was recycled paper, with an objective of 40% set. By the end of the year, a figure of 51% had been reached.

- Monthly monitoring of paper consumption within the Companies, in order to produce a report enabling the contrast of objectives with expected results. Along with the reduction of paper use, activities are encouraged to avoid losses in productivity. It is agreed that the 12,000 professionals working in Distrito C will have 17" TFT monitors.
- Various communication actions were taken: an article on the subject in the extranet, a website and the preparation of a communication campaign to be run throughout 2006.

During 2006, the focus will be on encouraging the elimination of filed paper in the office, which will make use of the move to Distrito C as a reason to reduce filed paper, to run communication campaigns, the provision of common solutions for the management of digitalised information and carrying out paperless office pilot projects.

In other countries, isolated similar initiatives are getting underway. In Argentina, for example, the Apolo Plan has been put into practice. This consists of managing documentation in electronic format and using both sides of the paper in printers and photocopiers. For 2006, the objective is to transfer the good practices developed in Spain to the Country Environmental Committees.

CASE STUDY

The cost per sheet is not the cost of the paper I

Although expenditure on paper is not a spectacular figure (in 2005, Telefónica spent 600,000 euros on the purchase of paper), it has been shown that each sheet that is printed costs the company 30 times more than the price of the sheet of paper itself. In addition to direct costs of consumable materials and filing space, there is the proportion of indirect costs in wasted time on unnecessary activities.

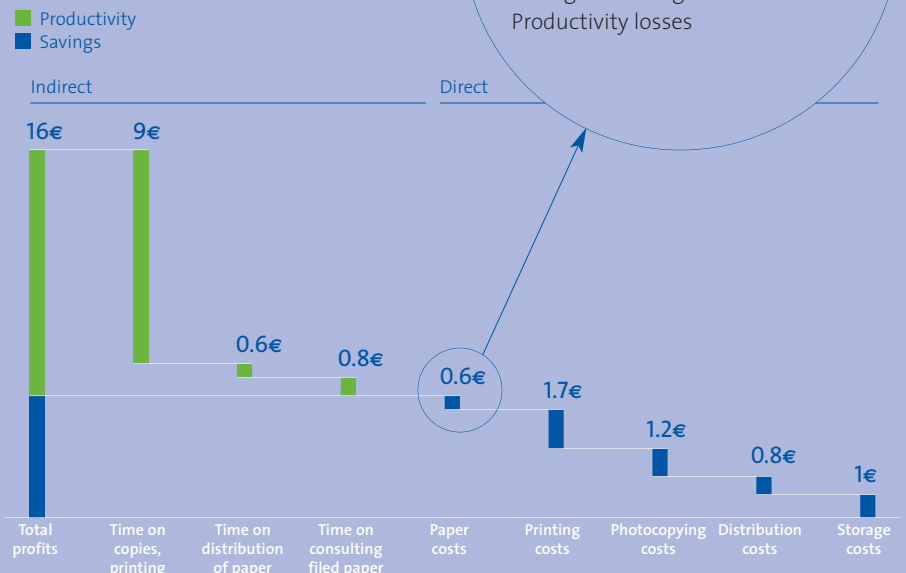
The cost of the paper is only 3% of the cost generated each time an employee uses a sheet.

Total costs from paper are 30 times more than the cost of a sheet.

Material costs of paper (3%)

- 97% of the costs:
 - Savings on printing
 - Savings on photocopies
 - Savings on distribution
 - Savings on storage
 - Productivity losses

Cost per 100 sheets





Billing

It is clear from the figures for Telefónica de España that the consumption of paper associated with issuing bills is far greater than the impact of paper in the offices. As a complementary measure to the double-sided printing of bills, in 2005 a campaign was launched to encourage Telefónica customers to contract "Paperless Billing". The e-billing service enables clients to consult, print and download their telephone bill on-line, with the same legal status as paper versions currently have. This service is free and the only cost to the client is the internet connection.

By the end of 2005, this service was used by almost 150,000 clients with an increase of 30,000 in 2005. It is therefore necessary to raise the awareness of clients of the environmental benefits of substituting the paper format of the information with electronic information.

As part of the "One bill, one tree" project, Telefónica de España intends to plant one tree for each client who signs up for the e-billing service. It is important to underline the environmental sponsorship linked to this concept, through which the saving on paper used for billing is redirected to the reforestation of riverbank woodland, in collaboration with the Natura Foundation. Both organisations will focus their efforts on projects for the recovery of riverbank woodland of the inland basins of Catalonia, Castilla la Mancha, the Basque Country and the Principality of Asturias. In all cases, reforestation will take place with native species, which take root easily in riverbank areas.

With this initiative, Telefónica is enabling its clients to play a special role, as the more clients sign up for e-billing, the more trees can be planted. If the almost 84 million paper bills that Telefónica will send to its clients in 2005 were to convert to e-bills, it would be possible to reforest an area equivalent to 840,000 football pitches. Moreover, since this is riverbank forest, the rivers carry the seeds all along their length, replanting them and thus maximising their effectiveness.

Breakdown of paper consumption by use 2005

	Country	Total consumption	Paper consumption for administration and operations	Paper consumption for billing	Paper consumption for advertising and leaflets
Telefónica Móviles	Argentina	1,158,625	220,800	457,825	480,000
	Chile	1,589,349	49,069	60,280	1,480,000
	Colombia	353,889	61,218	292,671	
	Ecuador	6,165	2,675	3,490	
	El Salvador	73,423	9,166	54,257	10,000
	Spain	120,086	120,086		
	Guatemala	42,075	30,000	2,075	10,000
	Mexico	18,181	18,181		
	Nicaragua	101,162	14,378	86,784	
	Panama	28,133	18,273	4,860	
	Peru	3,143,760	2,896,145	47,190	200,452
Venezuela	82,440	82,440			
TASA	Argentina	490,000			
Telefónica de España	Spain	4,127,986	453,999	3,673,987	
TdP	Peru	144,470			
TelSp	Brazil	1,465,608	174,440	1,291,168	
CTC	Chile	547,175	99,903	447,272	
Tsoluciones	Spain	24,293	24,293		
Telefónica I+D	Spain	31,194	31,194		
T-Gestiona	Spain	11,111	11,111		
	Argentina	46,480	46,480		
Atento	Brazil	39,525	39,525		
	Argentina	12,900	10,287	13	2,600

Water consumption

Water consumption in the telecommunications sector is of little significance in comparison with other industries or the service sector. Its greatest impact consists of water consumption in offices and by air conditioning systems.

However, given the importance of water in the context of the planet's environment, various specific awareness-raising actions have been developed in order to rationalise water consumption and sensors have been installed in toilets. In some cases, studies have been carried out on the water cycle in the buildings concerned in order to maintain those points most prone to leaks in perfect order.

Water consumption (thousands of litres)

Line of Business	Country	Water consumption	Water consumption
		2004	2005
Telefónica Móviles	Argentina	ND	ND
	Chile	23,019	30,393
	Colombia	19,035	ND
	Ecuador	1,808	ND
	El Salvador	1,679	151,120
	Spain	55,173	44,893
	Guatemala	12,544	46,897
	Mexico	ND	10
	Nicaragua	16,200	15,515
	Panama	600	13,633
	Peru	19,330	30,393
Venezuela	ND	69,231	
Telefónica de España	Spain	906,927	913,452
TeleSP	Brazil	1,165,045	1,057,225
Telefónica del Perú	Peru	327,521	133,241
Telefónica CTC	Chile	880,990	
Telefónica de Argentina	Argentina	421,241	1,280
Atento	Argentina	ND	29
Telefónica I+D	Spain	37,404	39,213
T-Gestiona	Argentina	ND	480,000

Masts Consumption

Masts are used for aerial hanging and are usually made from wood or concrete. At one time the main environmental problem associated with wooden posts was related to their periodic re-impregnation with creosote, in order to protect the wood from the action of beetles and to prevent the destructive effect of these on the Masts. Nevertheless, at present this process is not carried out by Telefónica de España and any maintenance is carried out by specialised companies in their own installations, with precautions taken that are in line with current legislation, and therefore there is no negative effect on the soil. This is considered to be a potential environmental aspect as it could have an effect on the soil.

Masts installed

Type of post	2001	2002	2003	2004	2005	Variation 05/04
Wood	3,679,915	3,704,434	3,747,032	3,804,187	3,838,658	+0.9%
Concrete	218,300	219,754	222,281	225,672	232,029	+2.8%
Total	3,898,215	3,924,188	3,969,313	4,029,859	4,070,687	+1.0%

Environmental impact of Telefónica's services

The telecommunications sector has a major influence on the environment. Nevertheless and in contrast to what is usually the case in other business sectors, this impact is mainly positive. Telecommunications contribute to efficiency and to savings in such valuable resources as energy, to the dematerialisation of products and to the optimisation of transport processes, making them more effective.

Some of the services traditionally considered to have a positive environmental aspect are tele-working, remote offices, audio and video conference, tele-education, e-commerce, personalised mobile information services, networked answer machines and call identifiers. The impact of these services is greater when transport and distribution services, energy efficiency in buildings, paper savings from on-line catalogues and electronic billing, or dematerialisation, are taken into account.

In addition to these things, advanced mobile telephony services can contribute to reducing environmental impact. For example, thanks to third generation (3G) mobile telephones, it is possible to send environmental monitoring figures in real time using UMTS mobile devices. These devices have a wide range of uses, such as pollen measurement, noise measurement, ozone level measurement, water quality measurement or fire control. Other uses for 3G in the environment are, for example, monitoring wildlife and the control of waste discharges.

In order to encourage the debate surrounding the role of telecommunications in the sustainable development of the planet, Telefónica has begun publishing a series of monthly articles on its website that analyse the relationship between the use of new technologies and sustainability.

Among the different studies outlining some of the positive impacts of some telecommunications services on sustainable development and the barriers preventing their widespread adoption by society, the following conclusions can be highlighted:

- New information technologies have an influence on what is known as “dematerialisation”. It is estimated that in the best case scenario, 50% of the energy used in manufacturing processes for products within the EU of the 15 would be saved by 2020, thanks to the possibilities offered by ICT to users of access a service instead of acquiring a product.
- The use of renewable energies, together with energy efficiency measures, can reduce the environmental impact of the energy consumption of ICT.
- Information technologies can contribute to the more efficient use of paper in the office, resulting at the same time in increased productivity and lower costs.
- Technology can help to protect and care for nature and to prevent its more harmful effects on humankind. Communication between measurement stations in the field, networks of environmental sensors and meteorological satellites enables the remote monitoring of important parameters that can affect our health or

CASE STUDY

Local PVR on IMAGENIO

A project aimed at the incorporation into Imagenio of a system to enable viewers to “pause” the television and continue to watch it, and to record television programmes. This would eliminate the need for video recorders as it would be accessible as a function of the TV itself. This is a clear example of dematerialisation, in which a specific functionality is provided by a software application and not by a piece of physical equipment, which would necessitate the use of resources for its manufacture, distribution and later disposal as waste, with the corresponding environmental consequences.

CASE STUDY

New facilities of the SG-2000 management system

This project is aimed at improving the Public Telephony System STP-2000. Among the new applications that this incorporates is the possibility of carrying out certain operations that are currently carried out manually by operators, via modem and with no need for human intervention. Moreover, it offers greater precision in detecting alarms, which means that repair operations can be optimised, eliminating unnecessary journeys by staff to points where terminals for public use are located, and thanks to remote control, atmospheric emissions, the consumption of fuel and other resources associated with the maintenance of public telephones can be reduced.

CASE STUDY

MaCS (Multimedia Communication Services)

The European MaCS project, in which Telefónica I+D is participating together with the University of Valladolid and other organisations (telecommunications operators, manufacturers, etc.) aims to put a new broadband telephone service into practice for the residential market, integrating multimedia communication services such as video telephony, multimedia messaging, presence and “reachability” services, etc.

Within the framework of this project, Telefónica I+D is developing a software telephone (softphone) known as Tifon, which allows the user to make multimedia calls (including video and messaging). This telephone makes videoconferences between individuals connected to different new generation platforms possible, without the need for additional equipment.

The possibilities for dematerialisation offered by this development are clear, as it enables improved communication between individuals without the need to use videoconference equipment or additional telephone terminals. The development of this type of software telephone is therefore an important contribution to the reduced consumption of resources in the “digital household”.

quality of life or can help to reduce the loss of human life and damage to property in the case of natural catastrophes.

The work carried out on this project has been awarded two prizes, the AUTELSI prize 2005 for the Project or Initiative for the care and protection of the environment and 2nd prize from the AHCIET Journal 2005, specifically for the article “The contribution of telecommunications to sustainable development: tele-working”, originally published on the Telefónica website and then in 2005 in the AHCIET journal.

Articles published in 2005

- “Energy use in the digital society”
- “Will the digital household be a sustainable household?”
- “The impact of e-administration on sustainable development”
- “Telecommunication for emergencies”
- “An information society for all”
- “Tele-education for development”
- “The reduction in paper consumption in the Information Society”
- “E-commerce applied to tourism”
- “Getting to know and watching over the earth better”
- “Do telecommunications contribute to business productivity?”

CASE STUDY

The environmental influence of new developments

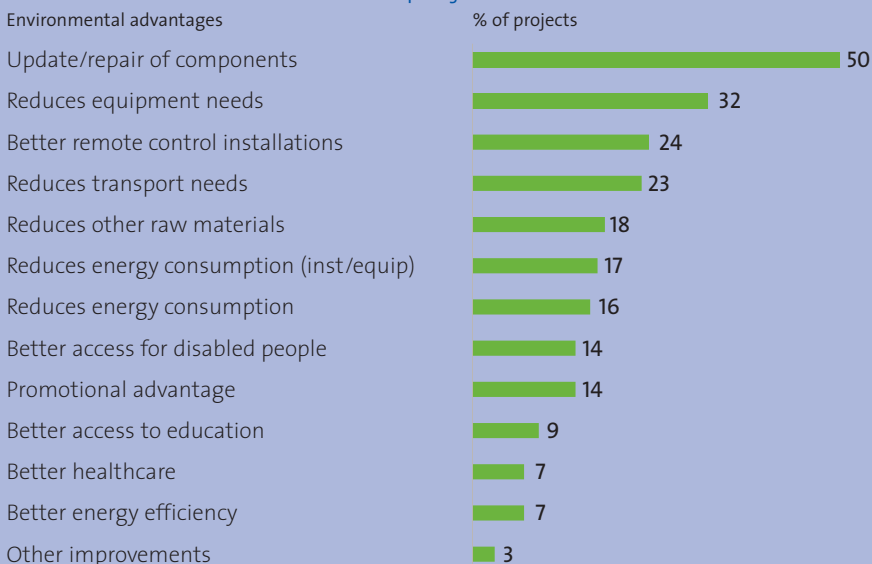
In January 2002, Telefónica I+D put a process into place that aimed to systematically evaluate the environmental influence of its new developments. To do this, a periodic evaluation is carried out of the environmental impact of the Company's projects, based on a questionnaire sent to supervisors, which also approaches the possible social benefits.

In 2004, the methodology was revised in order to be able to evaluate the implications of projects in the most objective way possible. To do this, an environmental evaluation was made of an Intranet application together with the collection of bibliographical information on the environmental evaluation of information and communication technologies.

In 2005, 364 projects were analysed, in comparison with 318 projects in 2004 and 353 in 2003. The most frequent environmental benefits were:

- The possibility of future updating or repair of components, which has a positive impact on the reuse of equipment and therefore on the reduction of mainly electronic waste. The updating of components also enables the best use to be made of technological advances that on occasion improve the energy efficiency of these elements.
- The reduced need for equipment, which is strongly linked to the point above concerning the reduction of waste.
- The improved remote control of installations, related to the reduction in transport needs and therefore with the advantages associated with lower fuel consumption and as a result lower emissions into the atmosphere.

Environmental evaluation of projects 2005



Credits

Departments that collaborated in the preparation of the report

Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
05 Shareholders	Shareholders' Office / Investor Relations / Secretariat General
06 Employees	Corporate Human Resources / Human Resources Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Communication / Health and Safety / Fundación Telefónica / ATAM / Fonditel
07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

09 Suppliers

Suppliers: equality
of opportunity and
mutual benefit

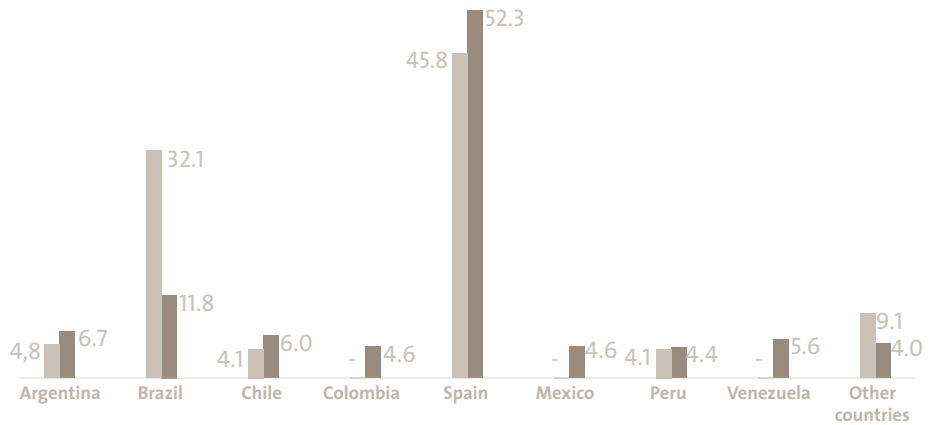
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Distribution of purchasing volume by countries

Data in percentage of total purchases



Purchasing volume¹

The purchasing volume awarded by the Telefónica Group in 2005 rose to over 13 billion euros (12 billion in 2004). Its distribution by country saw Spain remaining the country with the greatest volume of purchases with Brazil in second position.

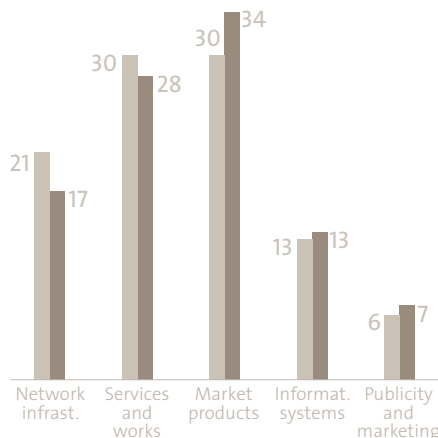
Said purchasing volume was awarded to over 18,834 suppliers throughout the world (15,539 in 2004). The ten main suppliers for the Telefónica Group worldwide were (in alphabetical order) Alcatel, Brightstar, Carat, Ericsson, IBM, Lucent, Motorola, Nokia, Siemens and Vitelcom.

Telefónica classifies its purchases into five major categories (network infrastructures, services and works, market products, information systems and advertising and marketing). Most of these are destined for the category of market products (including mobile terminals) which, together with the category of services and works, make up more than 60% of purchases. The remainder is distributed between network infrastructures, information systems and, to a lesser extent, advertising and marketing.

Telefónica is a company committed to the economic and social progress of the companies in which it is present. This commitment takes the form of a high percentage of awards to suppliers in the country itself, on average 90% in 2005 (92% in 2004).

Distribution of purchasing volume by product lines

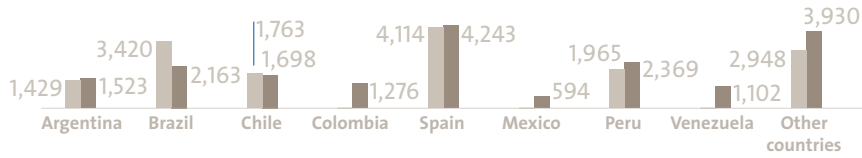
Data in percentages



¹ Data does not include Vivo or Telefónica companies in the Czech Republic.

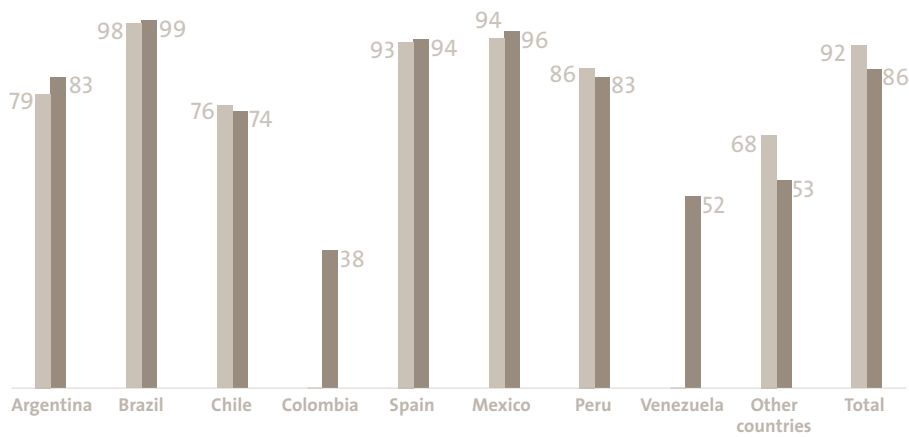
Distribution of awarded suppliers by country

Data in units



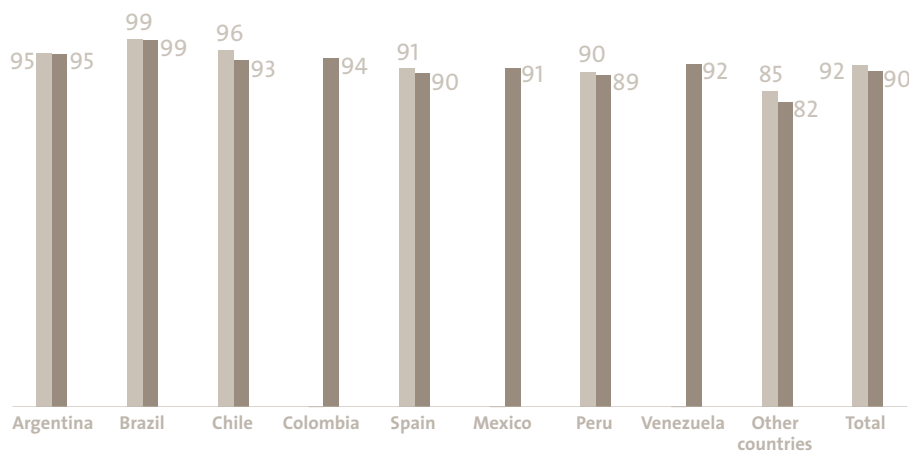
Distribution of local purchasing by country

Data in percentages



Local awards by country

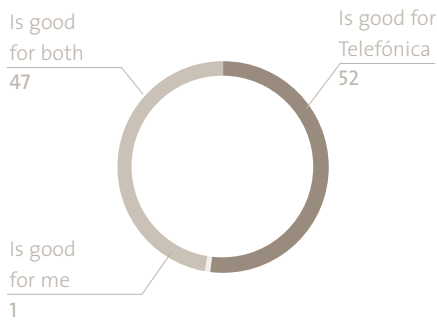
Data in percentages





Opinion of the supplier on the Telefónica purchasing model

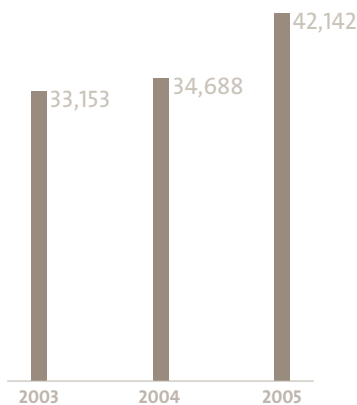
Data in percentages



Advanced purchasing Model

Suppliers registered in the Telefónica Catalogue suppliers

Data in units



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

In December 2005, the purchases of 141 Group companies, distributed throughout the 19 main countries where Telefónica is present, were all managed through this model. The purchase process, according to the model, centres on Purchasing Boards, forums where the various areas involved analyse the purchase, establish their target prices for the same and finally decide unanimously on the award. There are currently nine Purchasing Boards located in Madrid, São Paulo, Rio de Janeiro, Lima, Buenos Aires, Santiago de Chile, México D.F., Bogotá and Caracas, enabling a global or local management of purchases depending on the most suitable model.

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

- The opportunity for global registration in the Telefónica Catalogue of Suppliers is open to all those firms interested in working with Telefónica. This catalogue is valid for all the Group companies and registration is done through the Supplier website. At the end of 2005, there were 42,142 suppliers registered as possible bidders in the Telefónica Catalogue of Suppliers.

- All the areas affected by the purchase participate in the Purchasing Boards, and decisions are made unanimously.
- Telefónica has a Style Manual that describes the general principles and rules of conduct to be fulfilled by all those who participate in the purchase process. Among such principles, the most noteworthy is the equal opportunity afforded to all bidding suppliers.
- Furthermore, the e-business applications used and developed by the Telefónica Group also allow the automation and optimisation of the processes, as well as greater transparency in the management of suppliers' bids.

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

Distribution of Purchasing Volume by Product Lines

	e-Sourcing		Auctions	
	Purchasing volume (million euros)	N° Purchasing processes	Purchasing volume (million euros)	N° Purchasing processes
Argentina	755	2,303	49	126
Brazil	1,527	2,661	324	229
Chile	544	1,450	60	56
Spain	4,272	10,174	193	372
Mexico	506	870	8	27
Peru	492	3,154	52	138
Total	8.099	20.612	685	948

Electronic commerce

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

In this respect, through Adquira España, Telefónica has already implemented a global ebusiness platform for the management of the purchase and supply process. Adquira España is a leading company in negotiation and supply of solutions and services, in which four large Spanish corporations hold stakes: BBVA, Iberia, Repsol-YPF and Telefónica. This e-business platform enables:

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

Electronic management of bids for certain products and services is currently a reality in Spain, Brazil, Argentina, Peru, Chile and Mexico. The purchasing volume negotiated in 2005 through the electronic market amounted to 8,264 millions of euro (399 in 2004), corresponding to 20,612 purchasing processes (12,675 in 2004).

The format of purchase negotiation through electronic auctions used since 2004 offers greater transparency and objectivity in the purchase process and full equal opportunity to all bidding suppliers, as well as making the process more agile and simplifying purchase management. In 2005, 685 million euros was awarded through this system, through 948 purchasing processes.

It is worth emphasising the significant improvement in results obtained for electronically negotiated purchases compared with conventional means.

Also, 2005 saw a continuance of the implementation of e-procurement in companies of the Telefónica in Spain, Brazil and Peru. An electronic invoicing solution was also implemented in Spanish companies. Finally, during 2005 an electronic contracts tool was setup in companies in Spain, Peru, Mexico, Colombia, Venezuela and Ecuador, involving 756 million euros

CASE STUDY

Supplier website

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

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



Satisfaction surveys

Satisfaction surveys

Telefónica wishes to establish long term relationships with its suppliers, in which both Telefónica and its suppliers are satisfied. To assess the satisfaction levels of suppliers with Telefónica, in 2005 the first online survey was carried out, confidential and sent to all providers registered providers in the Telefónica catalogue.

Confidentiality of responses was guaranteed by using Atento intermediary suppliers and the absence of an individualised record of each response.

Over 2,700 response were received, forming a significant results base for Spain, Argentina, Brazil, Mexico, and Peru

Purchasing Model

The main strengths of the Telefónica purchasing model according to providers can be found in the establishment of an ethical and unambiguous purchasing process where the divisions involved have clearly defined roles and work in cooperation (7.4 points on a scale of 10 points).

The time spent on each purchasing model was seen by providers as an area which would be improved, although it was generally deemed adequate (6.6 points)

Electronic Commerce:

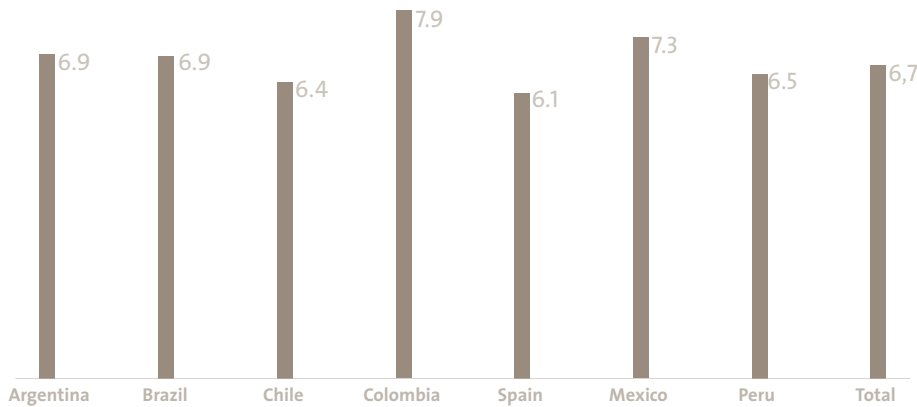
More than eight out of ten suppliers think that Telefónica e-commerce tools have added dynamism to the purchasing process (7.8) and greater transparency (6.8) and that they encourage competition and equality of opportunity between suppliers (7.4).

In relation to auctions, 51% of suppliers feel that products and services sold could be contracted through this negotiation model (5.6)

Most providers liked the idea of expanding e-commerce tools for electronic management of invoices (93% of suppliers like its implementation), for electronic management of orders (93%) and for electronic signing of contracts (88%).

Level of satisfaction of suppliers for the Telefónica Group

Data in units



The Purchaser

Purchasers had a high opinion of the suppliers' ethics and honesty (8.6) and its defence of the interests of Telefónica (8.8). Training as an interlocutor in the technical aspects of purchasing also received positive assessments (7.6)

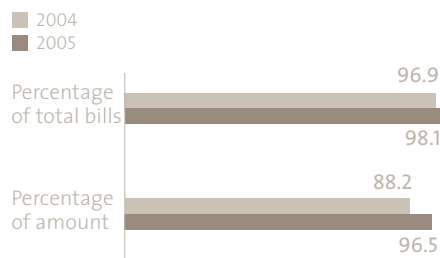
An area which could be improved (a mark of 6.6) is the purchaser's concern as to the quality of the product and not just the price, as well as a greater understanding of the situation of the suppliers in the negotiation (6.8 out of 10).

Administrative Processes

Fulfilment of Scheduled payment conditions to suppliers received positive assessments (7.8 out of 10)

Suppliers consider that there is a suitable communication process about purchasing outcome (7.8), although they request more information regarding the reasons in case of not being selected (5.6). Order placing in time and form received also positive assesment (6.6)

Compliance with payment terms for third party bills



Data corresponding to over 700,000 bills of Telefónica de España and Telefónica Móviles España for an amount over 9,389 million euros

Encouraging ethical standards

OPINION

What do suppliers think about Corporate Responsibility?
(from 0 to 5)

It is important for companies to exercise corporate responsibility 4,6

Generally, I would be very pleased to see Telefónica establish a purchasing code 4,5

I consider the activity the suppliers carry out should be considered 4,4

I consider that Telefónica requires compliance of minimum employment standards at an international level 4,2

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

- In the case of suppliers from the telecom sector (typically “market product”, “network infrastructure” and “information systems” product lines”), of note is the company’s work with the GeSI supply chain working group.
- In the case of local and smaller suppliers (typically suppliers of “services and works”), Telefónica directly draws up specific conditions with its suppliers to ensure responsible behaviour by same.

As part of the supplier satisfaction study, they were asked about the appropriateness of introducing corporate responsibility codes and standards, a proposal which received a high level of acceptance among Telefónica suppliers.

GeSI Supply Chain Working Group

Many companies in the ICT sector (Information and Communications Technology) share the same suppliers throughout the world. Aware of the fact that joint actions carried out by several companies are more effective than the same carried out individually, in 2003 GeSI (www.gesi.org) established a working group on the supply chain. This was unique in that both Telefónica and O2 participated in same.

Said working group has been collaborating since 2004 with a range of American companies, signatories to the EICC, “Electronic Industry Code of Conduct”, with the aim of cooperating with a wider range of companies and thus ensuring more effective action.

The main achievements of this working group in 2005 were:

- Drawing up a methodology for the identification of risks associated with the RSC in the supply chain, based on products and services, size and location of supplier facilities.
- Development of a self assessment questionnaire for suppliers, so that they can indicate their level of compliance with employment, ethical, health and safety standards. Said questionnaire was published in English, Spanish and Mandarin in 2005.
- Design of an etool so that different industry suppliers and purchasers can fill in questionnaires, with clear savings of time and effort for the whole sector. Said tool should be implemented in 2006.
- Establishment of tools to audit the performance of companies, with respect to the declarations made in their self assessment questionnaires.

Requirements of suppliers in employment and human rights matters

In the General Conditions for the Supply of Goods to Telefónica SA, Telefónica requires compliance of legislation in force in relation to employment conditions, health and safety at the workplace and the environmental impact of its suppliers.

Criteria are of general application, notwithstanding the possibility of additional criteria in some countries or companies. Likewise, in the case of specific products and services, contracts may include additional aspects more directly related to the product or service being purchased.

Additionally, as a measurement of improvement deriving from the employment audit in the Telefónica Group and the risks detected in same, in 2005 Joint Corporate Action Criteria for the Control of Employment risks in the Contracting of Works and Services were drawn up and approved.

This is an internal regulation which includes:

- A list of pre-contract requirements (standardisation of suppliers and contracts)
- A list of the information to be provided at the beginning of the contract
- Obligations in matters of prevention of employment risk for the main company and the contracting company.
- Obligations in matters of information to be given to legal representatives of workers.
- Measures to be adopted during the contractual period
- Measures to be adopted after the termination of the contract
- Supervision and control mechanisms

Another of the corrective measures taken during 2005 was the obligation of training in Human Rights for employees of the security companies that work for Telefónica.

Requirements of suppliers in environmental matters

The most notable initiatives in environmental matters are described in chapter 08 of this report. They include training activities for employees of collaborating companies, the positive weighting given to environmental management certificates in the contract award phase or activities of evaluation and control of suppliers having an environmental impact.

Requirements of suppliers in matters of equality of opportunities

As a notable initiative in terms of integration, Telefónica requires compliance with the Law on Integration of Disabled persons of all suppliers who render services in District C. For those companies which do not comply with requirements, the ATAM Employment Integration Service is offered.

In 2006, Telefónica aims to establish a policy of purchasing from “social or minority” suppliers which may involve groups which have traditionally had difficulty accessing the employment market.

Credits

Departments that collaborated in the preparation of the report

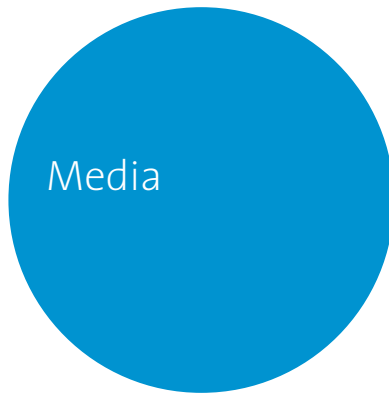
Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
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07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
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09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

10 Media

Media: Information and transparency

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Press Coverage of the Telefónica Group in Spain

Year	News	Reports	Opinion	Interviews	Letters to the Editor
2005	92.7	3.1	3.1	0.2	0.9
2004	87.4	7	1.8	0.5	1.7
2003	79	15	2	2	1

Distribution of Telefónica Group Press releases in Spain by Topics

	2004	2005
Telefónica S.A.	55	71
Telefónica de España	206	53
Telefónica Móviles	1,313	1,747
Telefónica Latinoamérica	765	1,045
Fundación Telefónica	65	70
TPI	25	21
Cesky Telecom*	-	130
Eurotel*	-	53

* Both Cesky Telecom and Eurotel became part of the Telefónica Group in June 2005.

CASE STUDY

Online Press Room

In order to foster transparency and make information more accessible, the Telefónica Group offers journalists and the media an Online Press Room (www.telefonica.es/saladeprensa) with the following services available:

- Publication of all the press releases since 1997.
- Press release search, classified by country, business line and dates, including a direct search service.
- Download of more than 300 photographs, management organigram, graphs and results.
- Real-time consultation of Telefónica share prices.
- Link to websites of the Telefónica Group companies.
- Contact list for journalists.

This channel received 176,052 visits from users in 2005 (82,073 in 2004) which shows the increasing interest.

Information and Transparency

The Telefónica Group encourages a policy of communication based on truthfulness and transparency, with constant interaction with the media. Its relationship with the media is an important tool for the Telefónica Group as a means of open communication with all its audiences: customers, shareholders, professional team and society in general. Telefónica, aware of its corporate responsibility, thus maintains a communications policy based on closeness to the media, and on rigour and transparency in information.

The Corporate Communications area has the task of coordination in order to ensure the coherence of the strategic, financial and operations messages. It works closely with the Communications areas of all the subsidiaries, and all together maintain a policy of continuous, planned and agreed communication, that means that information flows regularly and constantly between the Company and the media. As a fruit of this close communication strategy, the Telefónica Group in Spain has held more than 300 meetings with the media, including news conferences, breakfast briefings, and social events -organised through Fundación Telefónica.

Noteworthy among the more than 3,000 press releases issued by the Telefónica Group to the media in 2005 is the dissemination of information about the products and services offered by the Company (42.2%), followed by financial information (20.1%) and strategic and related to the Company's investment capacity (10.8%). Agreements with third parties, whether suppliers or technology partners, among others, are also the subject of press releases.

Regarding the journalistic treatment of the information from the Telefónica Group in Spain by the media, a 92.7% of the press coverage of the information issued by the Telefónica Group in Spain is in the form of news. Other forms such as reports (3.1%) and opinion (3.1%) occur at similar levels, but far from that of news.

Investment in publicity

Telefónica is a company that has intense publicity activity, making it one of the main investors in the media. All the investment activity is channelled through the corporate media area, following criteria of maximum publicity effectiveness.

For this a unified policy of negotiation and hiring of publicity media has been established in the Group, with the technical area of the Departments of Marketing and of Purchases in each country working together on this.

By media type, television is the means most used with 47% of the Group's investment in publicity, followed by the press (19%), external support (18%) and radio (10%). By country, given the highly commercial character of publicity, Spain concentrates 56.5% of the publicity investment, followed by Brazil with 10.2%, Mexico with 8.9%, Argentina with 5.6% and Chile and Venezuela with 4.6% each. The chapter on customers contains more information about the intense publicity activity of Telefónica.

CASE STUDY

The Telefónica website as a means of communication with society

The telefonica.country model of portal has become the single point of access to the Company in each country, offering the visitor a broad view of the Company, not only commercially, but in its economic, social and technological impact.

To develop this model, more than 200 projects have been carried out in the past three years in 13 countries under the "Alquimia" project. This portal model is currently set up in Germany, Argentina, Brazil, Chile, Colombia, El Salvador, Spain, United States, Guatemala, Morocco, Mexico, Peru and Puerto Rico.

The end result is that it makes a range of products and services available to customers suited to their needs, and offers specific solutions aimed at private individuals, professionals and companies. At the same time the portal helps interaction with other groups such as shareholders, investors, suppliers, partners, employees and communications media. The model has now become a benchmark for the sector.

- The Telefónica S.A. website won the prize of websites for Investor Relations and Online Annual Reports (known as the MZ Awards) in February 2005: First prize in Spain for the Shareholders and Investors page of Telefónica S.A. and that for Best Annual Report Online in Spain for the Telefónica online report.
- In October, 2005, www.telefonica.es was the website that won the highest points for its handling of its social impact, in the report "Social action in the websites of large companies and savings banks", written by Empresa y Sociedad based on a comparative analysis of 65 large companies and 10 savings banks.

The telefonica.country websites have become the means by which citizens consult information of interest about Telefónica, as seen in the fact that the number of visits (single sessions) received in 2005 was over sixty million in Latin America and three million per month in Spain.

Credits

Departments that collaborated in the preparation of the report

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01 Corporate Governance	Secretariat General / Internal Auditing Department
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Annex 1: About the Report

Dialogue with Stakeholders

Reporting Principles

Boundary of Consolidation of Included Information

Information Consolidation Process

Participating organisations in the panels on Telefónica's CR Report

1. UN (United Nations)

Employees

2. CCOO, (Comisiones Obreras Trade Union)
3. Asociación Mayores de Telefónica (Association for Telefónica's Elderly)
4. Federación Española de Hostelería (Spanish Hotels and Catering Federation)
5. Fundación + Familia,
6. Conexión Social (Auditor)

Consumers

7. CECU, (Spanish Confederation of Consumers and Users)
8. Federación de Consumidores y Usuarios Independientes (Federation of Independent Consumers and Users)
9. Federación Española de Hostelería (Spanish Hotels and Catering Federation)

People with Disabilities

10. CERMI, (Spanish Committee of Disability Representatives)
11. Fundación ONCE

NGOs for Development

12. Fundación CODESPA
13. Red Cross
14. Fundación Carolina

NGOs for the Environment

15. Fundación CONAMA, (National Environment Commission)
16. ECODES, (Ecology and Development Foundation)
17. Fundación Entorno

Finance Sector

18. FTSE
19. Triodos Bank

Corporate Responsibility Analysts

20. Observatory of Social Responsibility
21. AECA (Spanish Business Accounting and Management Association),

Academia

22. Fundación Social Universidad Francisco de Vitoria,
23. ICADE
24. IESE
25. Instituto de Empresa
26. UNED
27. Universidad Complutense de Madrid

Business Organisations

28. AETIC (Spanish Association of ICT Companies)
29. CEOE, (Spanish Confederation of Business Organisations)

Dialogue with Stakeholders

Participants in the dialogue

In March 2006, Telefónica called meetings of two panels of corporate responsibility experts representing Telefónica's different stakeholder groups in order to find out their opinion with regard to the "Corporate Responsibility Annual Report 2004", and gather any suggestions and comments.

Over 40 experts in corporate responsibility took part in this dialogue process, from almost thirty relevant organisations and institutions within Telefónica de España's stakeholder groups. This dialogue was organised by CR experts from the Noós Institute, an organisation that had already worked with Telefónica on the adaptation into Spanish of the "Good Practice Guide for Relations with Stakeholders".

The participants in the panels expressed high regard for the transparency of the company, who subjects itself openly to the criticism and opinion of its stakeholders.

Telefónica thanked all the panel participants for their collaboration, especially for their careful analysis of the reports and the spirit of constructive criticism underlying all the comments made.

According to the stakeholders, the CR Reports should achieve a balance between



Main conclusions regarding Telefónica's CR Reports

Structure and Format of the Report

Opinion	Comment
😊	Quality, completeness, structure and degree of detail provided in report. The report appears to offer a good general view of Telefónica and its stakeholders The stakeholders valued the case studies because of their anecdotal value and also because they specifically reflect more or less widely recognised complaints, as well as the reality of the countries of Latin America
😞	The report is excessively long and not easy to read for the non-specialised public The report lacks transversality in those horizontal issues that go beyond one single stakeholder (the way in which Telefónica is positioning itself, both internally and externally with regard to different Social Responsibility aspects, or which are its key values) Scarce use of new multimedia technologies that would allow a higher degree of flexibility and speed in reading and handling with the report The report does not have a numbered contents page

General Contents of the Report

Opinion	Comment
😊	The report includes data and degree of performance of CR policy in all countries where it operates, in spite of which there is still room for improvement The “executive summary” of the infography “You Come First” External verification of the report Comparatively, the Report is one of the best in its business sector
😞	Selection of stakeholders of the annual report. While some participants considered that the Report adequately reflected the reality of Telefónica, other participants requested that more stakeholders be included (e.g. governments, competitors...) or others be excluded (e.g. media). Inclusion in the report of aspects where improvements should be made, as well as addressing the “myths” that society has about Telefónica. This way the company would present itself as a more “human” company
😞	The report should include a table of achievements of Telefónica within the field of CR, as well as its future aims. These aims should also appear in the course of the text of the report and should better reflect what Telefónica intends to achieve with the Report Criticism was voiced with regard to a certain self-congratulating tone of the Report and a unilateral vision of the company. Lack of transparency with regard to the points of view of the stakeholders and little attention paid to the more conflictive issues Include more historical results data, in order to gain better insight into the company's performance over time, as well as data regarding the degree of fulfilment of the aims established the previous year Accompany the company information with information regarding the sector

Telefónica seeks to adapt the content of its Corporate Responsibility Report to the expectations of its stakeholders. For this reason, it holds an open dialogue with them and has tried to address most of the demands expressed by its stakeholders.

In the meetings with the stakeholders, the content of each of the chapters was analysed. What follows is a summary of the main criticisms and requests expressed, without including positive aspects for conciseness purposes. Telefónica's commitment was to try to apply the recommendations in its 2005 Report, and the fulfilment of this commitment is presented in these pages. Demands that have not been included for reasons of time constraints in the preparation of the report have been set as goals for 2006.

Criticism to the content of the different chapters

General Aspects of Sustainable Development

Opinion	Comment	page
☹️	Information regarding the impact on results of Telefónica's sustainable development strategy	15, 34-35
	Higher degree of classification into sectors of the different collectives in society (senior citizens, people with disabilities, etc.)	234-237
	References to the role of the company as a "global citizen" with regard to the great world problems / challenges (e.g. Millenium Development Goals, Climate change...)	40, 100-101
	Reference to ethics and practices against corruption and bribes	54-55

Corporate Government

Opinion	Comment	page
☹️	Response to the main information demands from readers (e.g. Board Member's remuneration)	26
	More emphasis on the way in which information transparency is achieved from the Company to the Board, and from the Board to the shareholders	28

Identity

Opinion	Comment	page
☹️	Clarify whether the values that Telefónica claims to abide by are the same ones as those perceived by society	38

Innovation

Opinion	Comment	page
☹️	Information regarding Telefónica's alliances for joint innovation	88-89, 92-95, 98-99
	Information regarding R&D activities outside Spain	84

Clients

Opinion	Comment	page
☹️	Telefónica's customers do not identify with the content of the Report	106, 112
	More specific information regarding Telefónica's policies for customer relations	106, 110-111
	More specific information regarding service quality and fulfilment, customer rights and customer service (claims)	118-119, 126-129
	More information on customer satisfaction	108-109
	Information regarding the degree of compliance with the goals established by the regulating authorities	154-165
	Address excessive use of automatic response systems, rather than personal customer service	127
	Reflect the efforts in terms of dialogue that Telefónica is developing with users and consumers associations	110-111
	Information regarding Telefónica's efforts to improve quality and solve conflicts with other operators	132-135
	Information about competitive and regulatory situation of Telefónica in the markets where it operates	150-165
	Information on evolution of rates	74-75
	Information on data protection	142-143

Employees

Opinion	Comment	page
☹️	A debate arose as to whether a company should include voluntary work activities of its employees as part of its CR Report	220
	Include case studies of those groups of employees with highest turnover rates (e.g. call centres) or who work in conflictive countries (e.g. Morocco, Colombia...)	182-183
☹️	Specific information regarding complaints, claims, fines, strikes...	219
	Information regarding the reconciliation between private and professional life, as well as models for compensating and avoiding extra hours	206
	Breakdown of results of work climate by level, company...	184-185
	Include more information on diversity (gender, disabilities, age...)	209-210
	Information regarding generation of indirect employment by Telefónica	87, 180
	Goals for improvement following the employment audit carried out in previous years	201
	Global health and safety statistics	211-212
	Information on degree of implementation of telecommuting	207
	Information on the way Telefónica manages its staff reduction plan and on the relationship it holds with former employees	39, 182
	Subcontracting of activities to third parties	180

Society

Opinion	Comment	page
☹️	Telefónica's relationship with NGOs (Despite this information being available in the Fundación Telefónica Report) It would be desirable for there to be a higher degree of interrelation between both reports	244
☹️	Information about Telefónica's contribution to the promotion of access to telecommunications among all social classes, especially in Latin America (e.g. phone line fee before, and phone line fee now)	234-235
	Information about the contribution of Telefónica (and its services) to the social integration of people with disabilities	237, 246-249
	More information about how Telefónica works to bridge the digital divide affecting the elderly	236-237
	Information about how Telefónica helps to solve the immigration phenomenon from Latin America to Spain	235

Environment

Opinion	Comment	page
☹️	Establish a priority of issues dealt with in the chapter on the basis of their actual impact on the environment	260
	More emphasis on the development of specific policies and degree of compliance with environmental goals of the Company	257
	More emphasis on the design of products and services with a positive effect on the environment, as well as Telefónica's activities with its customers to this regard	286
	Information on the degree of progress in environmental management in the company	257

Suppliers

Opinion	Comment	page
☹️	More emphasis on the implementation of codes of ethics and requirements regarding suppliers, as well as mechanisms to prevent corruption and bribery	300-301
	Include more information about control of compliance with the terms and conditions of supply established for its suppliers	296
	Include further information about how the information regarding compliance with human rights and environment criteria is used in the preparation of the report	300-301
	Information regarding the degree of fulfilment by Telefónica of its payment commitments	299

Media

Opinion	Comment	page
☹️	Include information regarding Telefónica's activities as an advertising investor	307

In the drafting of its 2005 Corporate Responsibility Report, Telefónica has applied the principles proposed by the GRI for decisions regarding the contents and structure of the report.

Reporting Principles

Principles for Defining Report Content

Inclusivity

The reporting organisation should identify its stakeholders and explain how it has responded to their issues in the report.

Tests recommended by GRI G3	Telefónica's Response	Fulfilment
The organisation can describe the stakeholders to whom it considers itself to be accountable, and identifies the stake-holders that it expects to use the report	All the report structure is based on the main stakeholders of Telefónica	●
The report content draws upon the outcomes of stakeholder engagement processes used by the organisation to manage its activities	The report includes the results from different studies, surveys and focus groups carried out by Telefónica regarding their stakeholders	◐
The report content draws upon the outcomes of any stakeholder engagement process undertaken specifically for the report	Dialogue with stakeholders for the preparation of the report	●
The stakeholder engagement processes that inform decisions about the report are consistent with the scope and boundary of the report	The dialogue processes with regard to the Report have been carried out with Spanish stakeholders (there are specific reports in each country)	◐

Relevance and Materiality

The information in a report should cover issues and indicators that would substantively influence the decisions of the stakeholders using the report.

Tests recommended by GRI G3	Telefónica's Response	Fulfilment
Major sustainability interests/ issues raised by stakeholders	Dialogue with stakeholders for the preparation of the report	●
Principales problemas del sector, tal como informan las by peers and competitors	Use of GRI sector supplement for telecommunications	●
Reasonably estimable sustainability risks identified by people with recognised expertise or by expert bodies with recognized credentials in the field	Communication for progress of the United Nations Global Compact Information regarding compliance with legal aspects in different countries	●
Reasonably estimable sustainability risks identified by people with recognised expertise or by expert bodies with recognized credentials in the field	Analysis of corporate responsibility opportunities and risks, as a first phase of the corporate responsibility project	◐
Internal Factors -Key organisational values, policies, strategies, operational management systems, goals and targets -Major risks -Critical factors for success -The organisation's core competencies and the manner in which they contribute to sustainable development	Chapter 02 describes Telefónica's identity and Corporate Responsibility strategy. Each chapter associates Telefónica's values with the stakeholders	◐
The report prioritises material issues and indicators	Executive Summary Report Data	◐

The assesment include in this section, column "Fulfilment", is exclusively from Telefónica and it hasn't being include in the independent verification section of this Report.

● Very High ◐ High ◑ Medium ◒ Low ○ Not applied

Sustainability Context

The reporting organisation should present its performance in the wider context of sustainability, where such context has significant interpretative value.

Tests recommended by GRI G3	Telefónica's Response	Fulfilment ¹
The organisation presents its understanding of sustainable development and draws on the best available information and measures of sustainable development for the issues covered in the report	Presentation of the role of Telefónica as a driving force behind economic, technological and social progress Articles of telecommunications and sustainable development	●
The organisation presents its performance with reference to broader sustainable development conditions and goals as reflected in recognised local, regional and/or global publications.	The key issues in sustainable development are included (GRI, sector supplement, dialogue with stakeholders...) but no objective and quantitative data	◐
The organisation presents its performance in a manner that attempts to communicate the magnitude of its impact and contribution in appropriate geographical contexts	Data regarding the influence of Telefónica on the local economies, as well as the influence of the company on the local telecommunication markets	◑
The report describes how major sustainability issues relate to long-term organisational strategy, risks, an opportunities, including supply-chain issues	Corporate Responsibility at Telefónica Suppliers	●

Completeness

An organisation should make public its performance with sufficient detail as to allow stakeholders to evaluate the information. Completeness covers mainly its scope, boundaries and time period.

Tests recommended by GRI G3	Telefónica's Response	Fulfilment ¹
The report covers issues and indicators prioritised on the basis of materiality, sustainability context, and stakeholder engagement, and was developed taking into account taking into account the whole value chain.	The report covers the entire value chain (chapter by chapter) but does not establish a priority of some aspects over others	◐
The report includes all entities controlled or significantly influenced by the organisation unless otherwise declared	Boundary of information included	●
The information in the report includes all significant actions or events in the period reported on, and reasonable estimates of significant future impacts of past events when those impacts are reasonably foreseeable and may become unavoidable or irreversible	The report includes historical quantitative impact data, but does not include projections of said data.	◐
The report does not omit relevant information that would affect stakeholders' decisions	As with Dialogue with Stakeholders, there were some stakeholders who demanded further information with regard to the 2004 report. The same could occur in 2005.	◑




The assessment include in this section, column "Fulfilment", is exclusively from Telefónica and it hasn't being include in the independent verification section of this Report.

● Very High ◐ High ◑ Medium ◒ Low ○ Not applied

Quality of Reported Information






Balance

The report should provide a balanced and reasonable presentation of the reporting organisation's performance.

Tests recommended by GRI G3	Telefónica's Response	Fulfilment ¹
The report discloses both favourable and unfavourable results	The 2004 report was criticised in this sense. We believe that the 2005 report offers a much more balanced view.	
The information in the report is presented in a format that allows the user to see positive and negative trends in performance.	The report includes many data charts and tables	
The emphasis on different contents of the report is proportionate to the relative materiality of the issues or information.	The report includes more material issues, in spite of there being no direct proportionality between emphasis and materiality	






Comparability

The information reported should remain consistent and be compiled and presented in a manner that enables stakeholders using the report to analyse the changes in the organisation's performance over time, as well as relative to other organisations.

Tests recommended by GRI G3	Telefónica's Response	Fulfilment ¹
The report and the information contained within it can be compared on year-to-year basis	The structure followed in the 2005 report is the same structure of reports since 2002	
The organisation's performance can be compared with appropriate benchmarks (comparative analysis). Toda variación significativa en los contenidos básicos de la respect to boundary, cope, length of reporting period, or information covered year-to-year, can be identified and explained.	The benchmarks are not included in the report. The report contains the indicators of the main international standards.	
Where they are available, the reporting organisation applies generally accepted protocols for compiling information, including the GRI Technical Protocols for indicators contained in the Guidelines.	All the data included in the report has a clear reference to its reference boundary.	
The report uses GRI Sector Supplements, where available	The report has used the technical protocols recommended for the GRI G3, although not in an exhaustive manner	
	A sector supplement of the telecommunications sector has been used	

Accuracy

The reported information should be accurate and sufficiently detailed for stakeholders using the report to make decisions with a high degree of confidence.

Tests recommended by GRI G3	Telefónica's Response	Fulfilment ¹
The report indicates what data has been measured	GRI Tables of the Corporate Responsibility Report	
The report indicates what data has been measured. for calculations are adequately described, and can be replicated with similar results.	Explanation of processes of consolidation of information.	
The margin of error for quantitative data is not sufficient to substantially influence conclusions on performance	Decisions regarding the boundary and processes of consolidation of information have been made to ensure this	
The report indicates what data has been estimated and what assumptions and techniques have been used to produce the estimates.	Explanation of the processes of consolidation of information	
The qualitative statements in the report are valid on the basis of other reported information and other available evidence.	The report has been verified by Ernst&Young, with the scope detailed in their report.	

The assesment include in this section, column "Fulfilment", is exclusively from Telefónica and it hasn't being include in the independent verification section of this Report.

 Very High  High  Medium  Low  Not applied

Timeliness

The information is presented in time, and on a regular schedule, for stakeholders using the report to be able to make informed decisions.

Tests recommended by GRI G3	Telefónica's Response	Fulfilment ¹
Information in the report has been disclosed while it is recent relative to the reporting period	The report is published in the semester following the end of the financial year	●
The sustainability reporting schedule is aligned with the financial reporting cycle	The Annual Report covers the same period	●
The collection and availability of key performance information is aligned with the sustainability reporting schedule	Data collection is carried out once the financial year subject of the report has concluded	●
The information in the web-based reports clearly indicates the time period to which it relates, when it will be updated and when the last updates were made	All corporate responsibility reports are available on the website	●

Clarity

Information should be made available in a manner that is understandable by and accessible to stakeholders using the report.

Tests recommended by GRI G3	Telefónica's Response	Fulfilment ¹
The report contains the necessary level of information for the needs of report users, but avoids excessive and unnecessary detail.	The report includes an executive report, and is presented in extended format in the online and CD version	●
Report users can find the specific information that they want without unreasonable effort through tables of contents, maps, links, or other aids.,	The preparation of the report has taken into account the recommendations for the presentation of the information expressed by their stakeholders	●
The report includes a glossary or explanation for technical terms, acronyms, jargon or other content that is likely to be unfamiliar to report users	There is a glossary available on Telefónica's website	◐
The data and information in the report is available to major stakeholders including those with special accessibility needs (differing abilities, languages, technology..)	The report is published on paper in an executive version, in three languages. The electronic format is published in two languages in the extended version	◐

Assurability

Information and processes used in the preparation of a report should be recorded, compiled, analysed and disclosed in a way that can be subject to review and assurance.

Tests recommended by GRI G3	Telefónica's Response	Fulfilment ¹
There is a statement from management taking responsibility for the content and process of preparing the report	The Report credits state that the Subdirectorato General of Reputation, Brand a CSR is the unit responsible for the content and and preparation of the report	●
The scope and extent of assurance, and the stakeholders expected to use the report are identified	Information about the boundary of the report, and dialogue with stakeholders with regard to the report	●
The original source of all the information in the report can be identified by the organisation	Traceability of all the information has been confirmed in the preparation and verification process of the report	●
The organisation can attest to the reliability of the original source, and, if not, this fact is disclosed	In some cases, it is necessary to improve the definition of indicators to ensure their homogeneity	◐
Representation is available for the original data or information owners, attesting to its reliability or accuracy within acceptable margins of error	The statements of reliability of the sources of information are implicit in the inclusion of all the information in the report	●
There is external evidence available from reliable sources for supporting assumptions or approaches to technically complex calculations	The reliability of the calculation methods is externally verified by the external auditor, in accordance with the scope detailed in their report	●

The assesment include in this section, column "Fulfilment", is exclusively from Telefónica and it hasn't being include in the independent verification section of this Report.

● Very High ◐ High ◑ Medium ◒ Low ○ Not applied

Telefónica considers itself to be a global company, with presence in Spain, Europe and Latin America. The 2005 Corporate Responsibility Report includes the performance of the fixed and mobile telephony operators in Spain and Latin America under Telefónica's control.

Consolidation Boundary of the Information Included

Multinational Company

Since the publication of its first corporate responsibility report in 2002, Telefónica has strived to present itself before its stakeholder groups as a multinational company. This is why, since this first report, it has always included data of its operations outside Spain.

This commitment to transparency was a determining factor in the application of the same corporate responsibility criteria in all countries, thereby avoiding double standards.

Telefónica's interest in accurately reflecting its impact on society has led to taking three actions in the last financial years:

- Participation in the GRI work group devoted to the study of information boundaries of companies (Boundaries Working Group).
- Preparation of local corporate responsibility reports in Latin America (Argentina, Brazil, Chile and Peru). These reports constitute a tool for closer communication with local communities and allow Telefónica to share the responsibility regarding information provision and consolidation.
- Use of corporate information consolidation tools, available throughout the Telefónica Group, where and when possible. This applies to financial, customer, employee, shareholder, supplier and innovation information. The rest of information regarding society, the environment or the media is compiled by means of specific tools.

Definition of consolidation boundaries

In order to define the scope of Telefónica's report, the following decisions were made.

Impact of companies on their environment

The analysis of the impact of the different business lines on their stakeholders concludes that the fixed telephony and mobile telephony business units have the highest impact on the Group's stakeholders.

According to this criterion, the Telefónica de Contenidos Units (Endemol, Telefe, Telefónica Servicios de Música or Telefónica Servicios Audiovisuales), Atento, TPI, Telefónica I+D or t-gestiona are not included in the scope of this report, unless explicitly mentioned.

However, for each stakeholder group, there has been an analysis as to whether any units within the Telefónica Group could have a significant impact on them, concluding that this is the case with the following:

- Telefonica I+D in the innovation section.
- Atento in the chapter on employees.
- T-gestiona in the chapter on the environment.
- Telefonica SA as the corporate centre in the chapters on shareholders and the media.

Control over activities

Telefónica's corporate responsibility report includes the units where a high level of impact has been identified, and over which the Group has control, being companies where Telefónica holds a share of over 50%.

The only exception in this sense is the European companies. Cesky Telecom is the company that provides telecommunications services in the Czech Republic and was acquired by Telefónica in 2005. After the acquisition of O2 at the beginning of 2006, Cesky Telecom and Telefónica Deutschland will be managed by O2, and the performance of these companies will be included in the 2006 report. O2 will publish its own report corresponding to FY 2005, as it has done in recent years, without including the activities of Cesky Telecom and Telefónica Deutschland

There are some telephony operators whose information is not included in the report due to the fact that Telefónica's shareholding percentage is under 50%:

- Vivo: mobile telephony company in Brazil, managed as a "joint venture" with Portugal Telecom, on a 50% share basis. This company has been publishing its own Corporate Social Responsibility Report since 2004.
- Meditel: joint venture with Portugal Telecom, in which Telefónica holds a 32.18% share.
- China Netcom, company where Telefónica holds a strategic 5% share.
- Portugal Telecom, with which Telefónica holds an alliance that has led to it holding a stable share of 9.84 percent of its capital.

Lastly, it is important to mention that in spite of the fact that in 2005 TPI was a Telefónica Group company; the divestiture of this business unit has since been announced. For this reason, it is believed that the degree of control over the unit in future will be lower than that at present.

Unless explicitly mentioned in the Report, Telefónica does not include the above-mentioned companies in its 2005 report. Other companies Telefónica does not report on are Sogetel (23.83% share), Lycos Europa (32.1% share) or Amper (6.10% share).

Influence on activities

Telefónica can have influence on the behaviour of its suppliers and clients with regard to certain sustainable development aspects. That is why its 2005 Corporate Responsibility Report reports in a qualitative manner on:

- The establishment of environmental, employment and human rights requirements for Telefónica suppliers.
- Recommendations to clients as to how to use Telefónica's products and services correctly.
- Adoption of corporate responsibility criteria in the investment of pension funds of Telefónica employees.

With a view to encouraging maximum transparency, Telefónica explains the way in which the information is consolidated in the different chapters and aspects included in the report.

Consolidation Process of the Information

The economic and financial information included in the report is taken from the same sources used for the preparation of the Annual Report for shareholders and investors. In this information, the boundary corresponds to all the companies of the Group, as is specified in the financial information.

The information regarding innovation is consolidated through the corporate department of Innovation of Telefónica SA, in collaboration with Telefónica I+D. The investment data for innovation are taken from the purchasing systems and are consolidated without applying any proportionality criterion. Given that they are financial data, the boundary corresponds exactly to that of the financial information.

The information regarding customers is taken from the quality control and operational systems of Telefónica de España, Telefónica Internacional and Telefónica Móviles. The information is presented individually for each operation, and where there is consolidation, it is carried out using revenue as a proportionality factor.

The information on employees is taken from the Human Resources management systems, and in this Report, the concept of “person” is used, rather than the equivalent concept of “employee” that is normally used in the financial reports. Where the information is presented in a consolidated manner, the number of employees is used as the proportionality factor.

The information regarding digital inclusion is taken from the management and regulation control systems of Telefónica de España,

Telefónica Internacional and Telefónica Móviles.

The information regarding social and cultural action is taken from Fundación Telefónica, ATAM and the sponsorship unit of Telefónica SA. The only consolidated data are the financial data, which are aggregated by simple sum.

The information on the environment is taken from the department of environment or quality of each of the operators. This information is gathered by means of forms that are distributed electronically to the different companies and is consolidated by means of simple sum.

The information regarding suppliers is taken directly from the contract awarding system through the purchasing department. The consolidation of the information is carried out without applying any criterion as a proportionality factor, presenting the information broken down by country or line of business. As in the previous cases, this chapter includes all the financial boundary of the Telefónica Group.

The information on media is from the departments of communication of the different lines of business.

In the preparation of the report, news items published across the internal communication media of the company have been used. It is considered that all sensitive information liable to be included in corporate responsibility reports must have been communicated to the employees, as a guarantee that the information is relevant.

Independent Assurance

The Audit and Control Committee of the Board of Directors of Telefónica SA approved the verification of the 2005 Report on Corporate Responsibility of the Telefónica Group. This process includes the following:







- Verification under standard AA1000/AS of the Telefónica Groups's behaviour towards its stakeholders in Spain and on a corporate scale.
- Verification of GRI indicators included in the report for all the boundary of data included (Spain and Latin America)
- Verification of GRI indicators included in the report on corporate responsibility of Argentina, Brazil, Chile and Peru.

The verification work was commissioned from Ernst&Young, following the criteria that the corporate responsibility information should be verified by the same Firm that is in charge of the financial information audit. In selecting this Firm, the fact that it used the international standard ISAE3000 and that it is the checker of O2, the company acquired by Telefónica. in 2006 and selected "best-in-class" in the DJSI Evaluation carried out in 2005, were factors that influenced the decision to choose Ernst&Young.

This commitment to external verification of the Reports on Corporate Responsibility reflects Telefónica's commitment to continue increasing the transparency and veracity of the information included in the reports.

In order to guarantee stakeholders the exactness of the information, Ernst&Young was asked to verify the report.

Evolution of the verification of Reports of Corporate Responsibility

	2002	2003	2004	2005
Telefónica CR Report	 Not verified	 Verification by AENOR of the GRI report	 Verification by Deloitte de datos GRI	 Audit by E&Y AA1000/AS of data for Spain Verification by E&Y of GRI data
Country CR Report	-	-	 Not verified	 Verification by E&Y of GRI data



United Nations Global Compact Table of Communications on Progress

Telefónica signed the Global Compact Principles in 2002. Since it joined, the Company has reported annually on its commitment to this initiative, on the application of its 10 Principles, and on the evaluation of the results obtained in the policies implemented for its compliance.

In 2004, the United Nations Global Compact Office published the Integrity Measures. The aim of these measures is to safeguard the credibility of the initiative and of the signing companies. Thus, the signing companies are requested to publish the “Communications on Progress”, that is, to make public through their annual reports, websites or other means, the progress of the implementation of the Principles in their company strategy.

The Communications on Progress must include the following three elements:

- A declaration of the continuity of support to the Global Compact in the opening letter, statement or message from the CEO, Chairman, or other senior executive.

Letter from the Chairman

- A description of the practical measures adopted by the participants in order to apply the principles of the Global Compact during the previous FY.
- A quantification of the results obtained or projected, using, where possible, indicators or systems like those developed by the GRI (Global Reporting Initiative).

This section includes the main milestones in the progress of the implementation of the Global Compact Principles in 2005. For more detailed information and details of the indicators associated to the compliance with the Principles, please refer to the GRI tables and their verification.

Communication on progress in the United Nations Global Compact

Aspect GC Principle Principles 1-2	Most relevant GRI indicator	Milestone in 2005	Challenge for 2006
Human Rights 1-2	HR1, HR2, HR3, HR4, HR8 Q1.1, Q1.2, Q3.4, Q3.17, PA1, PA2, PA3, PA4, PA5, PA6, PA7	<ul style="list-style-type: none"> • Manual for non-discriminatory communication with disabled people . derivadas de auditoría laboral. • Increase in number of products and services accessible to disabled people • Increased number of services aimed at people with low income • Human Rights training in companies providing security services • New social responsibility requirements for suppliers: corrective measures derived from labour audit 	<ul style="list-style-type: none"> • Definition and Approval of Corporate Integration Policy for people with disabilities (Spain) • Definition and Approval of Internal Regulations for minimum Requirements for Accessibility (Group) • GeSI Supply Chain Work Group: extension of activities to suppliers. • Definition and Approval of Purchasing Policy with regard to Suppliers who work towards social integration. • Definition of a Global Plan of Digital Inclusion (Latin America)
Labour standards Principles 3-6	HR5, HR6, HR7, HR8 HR9, HR10, HR11, LA3, LA4, LA5, LA6, LA7, LA8, LA10, LA11, LA14, LA15, IO3, IO4, IO5, IO6, IO7, IO8	<ul style="list-style-type: none"> • An average of 49.32% of Telefónica Group's employees are women • 21.83% of women are in management and middle management in the Company. • Schooling of over 11,000 children, victims of child labour, through the Proniño Programme • Decrease in rate of accidents per million hours worked (4.99 vs. 7.01) • 10% increase in number of people with disabilities employed by the Telefónica Group in 2005, with over 1,000 disabled employees • Over 45,000 employees of the Telefónica Group are Trade Union members 	<ul style="list-style-type: none"> • Definition and Approval of Internal Regulations of Minimum Requirements regarding Health and Safety at Work • Definition and Approval of Internal Regulations of Minimum Requirements Life Environment
Environment Principles 7-9	EN1, EN2, EN3, EN4, EN5, EN6, EN7, EN8, EN9, EN10, EN11, EN12, EN13, EN14, EN15, EN16, EN17, PA8 Q1.1, Q3.13	<ul style="list-style-type: none"> • Implementation and Internal Audit of Minimum Environmental Requirements • Efficiency Programme in paper and energy consumption 	<ul style="list-style-type: none"> • Common Environmental Policy (Group) • Country Environmental Committees • Definition and Approval of Management and Control Regulations regarding the Environment
Anti-corruption Principles 10	SO2, SO3, SO5, SO6, SO7	<ul style="list-style-type: none"> • Implementation of Telefónica Móviles Code of Ethics • Approval of Telefónica Group's Code of Ethics • Definition and Approval of Policy regarding responsible use of Internet • Responsable de Internet • Definition and Approval of Regulations on Adult Content Management 	<ul style="list-style-type: none"> • Implementation across the Group • Alignment with O2's Business Principles • Implementation of Responsible Use of Internet Policy • Implementation of Adult Content Management Regulations

**ASSURANCE REPORT ON THE ANNUAL CORPORATE RESPONSIBILITY REPORT
TELEFÓNICA, S.A. 2005
(ORIGINAL VERSION IN SPANISH)**

To the Human Resources and Corporate Reputation Commission of the Board of Directors of Telefónica, S.A.:

In accordance with the terms of our Engagement letter dated February 1, 2006, we have verified, using the agreed-upon scope and procedures listed below, the *Annual Corporate Responsibility Report: Telefónica, S.A. 2005*, the preparation of which is the sole responsibility of Telefónica, S.A.

Our responsibility with respect to providing this professional service is solely and exclusively to the Management of Telefónica, S.A. under the terms established for the assurance of their *Annual Corporate Responsibility Report*.

Scope

In compliance with the scope requested, we verified the *Annual Corporate Responsibility Report: Telefónica, S.A. 2005* using a double perimeter:

- Global perimeter of the Telefónica Group under the Global Reporting Initiative (GRI) standards.
- Perimeter of activities carried out in Spain in accordance with the principles established by the AA1000 Assurance Standards issued by AccountAbility, Institute of Social and Ethical Accountability.

Additionally, we followed the guidelines established in ISAE 3000 applicable to the assurance of non-financial reports, along with the generally accepted principles relating to agreed-upon procedures in Spain.

The verification, thus, consisted of the following:

- **Verification of compliance with GRI standards**

1. Adaptation of the structure and content of the Report to the principles and guidelines established in the GRI Reference Guide (version 2002).
2. Adequate traceability of information and data corresponding to core and additional indicators and the Telecommunications Sector Supplement, as well as the reasonability of the criteria followed in its classification of indicators, where appropriate, as not applicable.

- **Verification under AA1000 Assurance Standards**

The verification procedures were developed in order to evaluate the *Corporate Responsibility Report* with respect to the scope of activities performed in Spain, in accordance with the following principles:

1. Materiality of the information provided according to the needs and requirements of the stakeholders.
2. Completeness in identifying, understanding and managing impacts through systems and processes, including commitment processes with stakeholders.
3. Responsiveness to the objectives and expectations of the stakeholders and the appropriate and timely communication of plans addressed at said groups.

Verification procedures

The procedures performed were as follows:

1. Interviews with a selection of managers and key personnel in the Corporation and from the main operating units of each of the countries (hereinafter Telefónica or the Group, unless one of the companies is expressly mentioned) in order to understand the objectives for corporate responsibility established in the Group with respect to social, ethical or environmental aspects. Additionally, information was collected on the follow-up and internal assurance of these objectives.
2. Review Telefónica's relevant documentation, such as literal transcriptions of minutes of the meetings of the Board of Directors in which resolutions were adopted relating to Corporate Responsibility, as well as excerpts from copies of the minutes corresponding to aspects on the same subject dealt with in meetings held by the Human Resources and Corporate Reputation Commission.
3. Review of the processes and systems through which the Telefónica Group establishes its commitments with stakeholders, along with the identification and establishment of key issues to include in the Report.
4. Review of a sample of news published in 2005 relating to any of the aspects linked to Telefónica's corporate responsibility or connected to its stakeholders in order to verify proper handling of this news in the Report.
5. Review of the preparation of the Telefónica, S.A. Report in accordance with the 2002 GRI standards, verifying that:
 - It contains information relating to the vision and strategy, profile, governance structure and management systems.



- It includes a table of contents.
 - It includes information concerning each of the indicators established by GRI or justifies their omission.
 - The criteria by virtue of which an indicator is classified as "not applicable" is reasonable.
 - The information contained in said Report is consistent with GRI principles.
 - It contains a declaration signed by the Group President confirming that the Report was prepared in accordance with GRI standards.
6. Interviews with a selection of managers and key personnel in the Spanish entities representing business lines in wire telephone and mobile telephone service, in order to learn how corporate objectives and policies are put into practice and included in the entities' strategies with respect to the AA1000AS.
7. Both the quantitative and qualitative information contained in the Report was verified using samples. The test on samples was performed with information relative to the following entities in Spain (Telefónica de España, S.A.U., Telefónica Móviles España, S.A., Telefónica I+D, Telefónica Móviles, S.A.; Telefónica, S.A., Atento Teleservicios España, S.A), Argentina (Telefónica de Argentina, Telefónica Móviles Argentina, Atento Argentina), Brazil (Telesp, Atento Brasil), Chile (Telefónica CTC Chile, Telefónica Móviles Chile, Atento Chile) and Peru (Telefónica de Perú, Telefónica Móviles de Perú, Atento Perú), in accordance with its relevance for each of the indicators.

Additionally, when it was considered necessary for relevancy purposes, information corresponding to other countries in which Telefónica operates was verified.

8. Verification with supporting documentation for justification purposes through external sources whenever possible and otherwise through internal sources of other types of information, not required by the GRI, included in the Report.

Level of Assurance

Since currently the AA1000 Assurance Standards do not establish regulations on verification or assurance levels, we have planned and designed the procedures applied for obtaining the information and explanations deemed necessary to ground our conclusions under said standards within the terms agreed upon with the Management of Telefónica, S.A., while also taking into account the ISAE 3000 guidelines for limited-scope verification.

Limits of our review

- The scope of our work consisted of verifying the samples obtained according to the description in sections 7 and 8 above for data relating to 2005. The information from previous years in the Report was not included in the scope of our procedures; this information was only checked against the data included in the 2004 Report prepared by Telefónica, S.A. which was assured by another independent entity.
- Ernst & Young has not participated in the dialogues that Telefónica has held with its stakeholders. For this reason, our conclusions on the principles of materiality and responsiveness are based on a review of the documents (provided to us by Telefónica) resulting from said interaction.

Our conclusions

Based on the results obtained from the verification procedures performed, here are our conclusions and most relevant points for improvement relating to each one of the AA1000 principles, as well as with compliance with GRI guidelines. These conclusions must be considered with the limitations described above.

a) Materiality

Principle: The CR Report presents relevant matters concerning economic, social and environmental performance.

The 2005 Annual Corporate Responsibility Report provides balanced information on Telefónica's actions in this area, including matters requested by stakeholders during dialogues, as set forth in "Dialogue with stakeholders" in Chapter 11 of the Report.

With respect to certain indicators from the 2002 GRI Table attached, which forms a necessary part of this Assurance Report, the unavailability of the information for some countries or activities carried out by Telefónica is reflected. It would be a logical step forward to progressively and systematically include this information for the perimeter of the Telefónica Group.



b) **Completeness**

Principle: The organization has mechanisms and systems to obtain information on stakeholders' expectations and to identify the relevant information to be included in the CR Report.

Based on our review:

We did not detect incorrect statements in the Report or relevant material matters excluded other than those mentioned in section a) above. In developing the procedures performed, we did not detect any missing information relating to social or environmental actions by significant business units, with the exception of those mentioned above.

We received information or explanations to provide evidence for the statements reflected in the Report and which we chose to include in our verification.

The following actions are recommended to consolidate the processes and procedures implemented by Telefónica:

- Progressively extend the model for dialogue and communication with its stakeholders to all countries and business lines which comprise its activities.
- Continue to integrate the objectives relating to Corporate Responsibility into the strategic objectives of the various Areas and Group countries through unique management systems and indicators.
- Reinforce the systems installed to manage the traceability of the data reported.

c) **Responsiveness**

Principle: The organization has effective processes to manage and provide information on answers given in response to its stakeholders' expectations

Based on our review:

The *Annual Corporate Responsibility Report: Telefónica 2005* includes material matters relating to the expectations expressed during dialogues with stakeholders held throughout the year, the results of which were provided to us. For the purposes of this conclusion, section a) above must be taken into consideration.

Over the course of its report, Telefónica includes the policies, internal regulations, programs and activities approved and developed throughout 2005. In each of the chapters, the report mentions the situation or level of development or implementation in each case.

In relation to the previous paragraph, the following actions are recommended:

- Extend the progress of implementing the Code of Ethics in Telefónica Móviles to the rest of the Group. This will imply developing and approving new, specific policies to allow the appropriate development and implementation of the principles included in this Code, as well as other requirements from its stakeholders.
- Optimize procedures for standardized and systematic fulfillment, follow-up and reporting for all policies and internal regulations already approved by Telefónica.

Agreement between the Annual Report on CR and the GRI standards

Based on the results obtained from the procedures performed on information published and available, according to section a) above, we consider Telefónica, S.A.'s Annual Report on Corporate Responsibility to be prepared in accordance with the 2002 GRI Sustainability Reporting Guidelines and the Telecommunications Sector Supplement.

Our work consisted of performing specific procedures described in this report. If other procedures had been performed than those indicated or had the size of our samples been increased, significant matters may have been detected in addition to those mentioned herein.

Our Independence

Ernst & Young's independence policies are applicable to the Firm, its partners and its professionals. These policies prohibit any financial interest in our clients that might compromise our independence. Each year, partners and personnel are required to confirm their compliance with the Firm's policies.

In addition, as auditors of Telefónica, S.A.'s annual accounts, the provision of our services was approved by the Audit Committee to guarantee our independence as stipulated in the Group's procedures and described in the chapter on Corporate Governance of the Annual Corporate Responsibility Report.

THIS REPORT IS A TRANSLATION OF THE ORIGINAL DOCUMENT IN SPANISH. IN THE EVENT OF ANY DISCREPANCY, THE SPANISH TEXT SHALL PREVAIL.

PLEASE ALSO NOTE THAT THIS REPORT IS BEING ISSUED ON THE VERSION IN SPANISH OF THE ANNUAL CORPORATE RESPONSIBILITY REPORT: TELEFÓNICA 2005; WE HAVE NOT REVIEWED THE ENGLISH VERSION PREPARED BY SWORN TRANSLATORS.

ERNST & YOUNG, SERVICIOS CORPORATIVOS, S.L.

José Luis Solís Céspedes
Partner

Madrid, May 15, 2006


GRI REPORT CONTENTS ACCORDING TO 2002 GRI GUIDELINES

1. VISION AND STRATEGY		
GRI	Description	Pages
1.1	Statement of the organisation's vision and strategy regarding its contribution to sustainable development.	4-5, 6-7, 15, 34 48-55, 63, 68-101, 228-249
1.2	Statement from the CEO (or equivalent senior manager) describing key elements of the report.	4-5

2. PROFILE

ORGANISATIONAL PROFILE		
GRI	Description	Pages
2.1	Name of reporting organisation.	1
2.2	Major products and/or services, including brands if appropriate.	10-17, 58-61
2.3	Operational structure of the organisation.	13-14
2.4	Description of major divisions, operating companies, subsidiaries, and joint ventures.	13-14
2.5	Countries in which the organisation's operations are located.	13
2.6	Nature of ownership; legal form.	22-29, 174-175
2.7	Nature of markets served.	13, 150-165, 228-249
2.8	Scale of the reporting organisation.	6-7, 10-17
2.9	List of stakeholders, key attributes of each, and relationship to the reporting organisation.	6-7
REPORT SCOPE		
GRI	Description	Pages
2.10	Contact person(s) for the report, including e-mail and web addresses.	328
2.11	Reporting period (e.g., fiscal/calendar year) for information provided.	1
2.12	Date of most recent previous report (if any).	43
2.13	Boundaries of report (countries, services)	320-321
2.14	Significant changes in size, structure, ownership, or services.	11-13
2.15	Basis for reporting, partially owned subsidiaries.	43, 312-322
2.16	Explanation of the nature and effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement.	NA
REPORT PROFILE		
GRI	Description	Pages
2.17	Decisions not to apply GRI principles or protocols in the preparation of the report.	316-319
2.18	Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits.	239
2.19	Significant changes from previous years in the measurement methods applied to key economic, environmental, and social information.	322
2.20	Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability of the information.	323
2.21	Policy and current practice with regard to providing independent assurance for the report.	328
2.22	Means by which report users can obtain additional information.	www

3. GOVERNANCE STRUCTURE AND MANAGEMENT SYSTEMS

STRUCTURE AND GOVERNANCE		
GRI	Description	Pages
3.1	Governance structure of the organisation, including major committees under the board of directors that are responsible for setting strategy and for oversight of the organisation.	24-27
3.2	Percentage of the board of directors that are independent, non-executive directors.	24-27
3.3	Process for determining the expertise board members need to guide the strategic direction of the organisation, including issues related to environmental and social risks and opportunities.	225
3.4	Board-level processes for overseeing the organisation's identification and management of economic, environmental, and social risks and opportunities.	29
3.5	Linkage between executive compensation and achievement of the organisation's financial and non-financial goals (e.g., environmental performance, labour practices).	26
3.6	Organisational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social, and related policies.	25, 35
3.7	Mission and values statements, internally developed codes of conduct or principles, and policies relevant to economic, environmental, and social performance and the status of implementation.	23, 50-53
3.8	Mechanisms for shareholders to provide recommendations or direction to the board of directors.	174



STAKEHOLDER ENGAGEMENT		
GRI	Description	Pages
3.9	Basis for identification and selection of major stakeholders.	2-3, 6-7
3.10	Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group.	56-57, 108-111 184-185, 298-299, 312-355
3.11	Type of information generated by stakeholder consultations.	108-111, 184-185 298-299, 312-355
3.12	Use of information resulting from stakeholder engagements.	108-111, 184-185 298-299, 312-355

OVERARCHING POLICIES AND MANAGEMENT SYSTEMS		
GRI	Description	Pages
3.13	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	37
3.14	Externally developed, voluntary economic, environmental, and social charters, sets of principles, or other initiatives to which the organisation subscribes or which it endorses.	44-45, 92-95 110-111, 238-239, 255
3.15	Principal memberships in industry and business associations, and/or national/international advocacy organisations.	98-99
3.16	Policies and/or systems for managing upstream and downstream impacts.	136-149, 300-301 306-307
3.17	Reporting organisation's approach to managing indirect economic, environmental, and social impacts resulting from its activities.	36-42
3.18	Major decisions during the reporting period regarding the location of, or changes in, operations.	228-229
3.19	Programmes and procedures pertaining to economic, environmental, and social performance.	36-42
3.20	Status of certification pertaining to economic, environmental, and social management systems.	134-135, 257

4. GRI CONTENT INDEX		
GRI	Description	Pages
4.1	A table identifying location of each element of the GRI Report Content, by section and indicator.	330


2002 GRI INDICATORS

ECONOMIC PERFORMANCE INDICATORS						
CUSTOMERS						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	EC-01	Net sales.	10, 16-17 69, 72-73	G	<input checked="" type="checkbox"/>	CA
C	EC-02	Geographic breakdown of markets.	13, 69	G	<input checked="" type="checkbox"/>	CA
SUPPLIERS						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	EC-03	Cost of all goods, materials, and services purchased.	6-7 72-73, 294	G	<input checked="" type="checkbox"/>	SI / FE
C	EC-04	Percentage of contracts that were paid in accordance with agreed terms.	299	TdE / TME	<input checked="" type="checkbox"/>	AI
C	EC-11	Supplier breakdown by organisation and country.	70-71 294-295	G	<input checked="" type="checkbox"/>	SI
EMPLOYEES						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	EC-05	Total payroll and benefits (including wages, pension, other benefits, and redundancy payments).	6-7 72-73 188	G	<input checked="" type="checkbox"/>	CA
PROVIDERS OF CAPITAL						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	EC-06	Distributions to providers of capital broken down by interest on debt and borrowings, and dividends on all classes of shares, with any arrears of preferred dividends to be disclosed.	72-73	G	<input checked="" type="checkbox"/>	CA
C	EC-07	Increase/decrease in retained earnings at end of period.	16-17 72-73	G	<input checked="" type="checkbox"/>	CA / CC
PUBLIC SECTOR						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	EC-08	Total sum of taxes of all types paid broken down by country.	68 70-73	G	<input checked="" type="checkbox"/>	CA
C	EC-09	Subsidies received broken down by country or region.	91, 232	TID / TdE	<input checked="" type="checkbox"/>	SI
C	EC-10	Donations to community, civil society, and other groups broken down in terms of cash and in-kind donations per type of group.	6-7, 15 238	G	<input checked="" type="checkbox"/>	SI / AT / PA
Q	EC-12	Total spent on non-core business infrastructure development.	238-245	FT	<input checked="" type="checkbox"/>	IP
INDIRECT ECONOMIC IMPACTS						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	EC-13	The organisation's indirect economic impacts. Identify major externalities associated with the reporting organisation's products and services.	76-77	G	<input checked="" type="checkbox"/>	SI
ENVIRONMENTAL PERFORMANCE INDICATORS						
MATERIALS						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	EN-01	Total materials use other than water, by type.	280-283	G	<input checked="" type="checkbox"/>	FE
C	EN-02	Percentage of materials used that are wastes from sources external to the reporting organisation.	281	G	<input checked="" type="checkbox"/>	FE



ENERGY						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	EN-03	Direct energy use segmented by primary source.	271-273 277	G	<input checked="" type="checkbox"/>	FE
C	EN-04	Indirect energy use.	273, 278	G	<input checked="" type="checkbox"/>	CC
Q	EN-17	Initiatives to use renewable energy sources and to increase energy efficiency.	6-7 274-276	G	<input checked="" type="checkbox"/>	SI / FE
C	EN-18	Energy consumption footprint.	NA	NA	NA	NA
C	EN-19	Other indirect energy use and implications.	ND	ND	ND	ND
WATER						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	EN-05	Total water use.	284	G	<input checked="" type="checkbox"/>	FE
Q	EN-20	Water sources and related ecosystems/habitats significantly affected by use of water.	NA	NA	NA	NA
C	EN-21	Annual withdrawals of ground and surface water as a percent of annual renewable quantity of water available from the sources.	NA	NA	NA	NA
C	EN-22	Total recycling and reuse of water.	NA	NA	NA	NA
BIODIVERSITY						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	EN-06	Location and size of land owned, leased, or managed in biodiversity-rich habitats.	265	TMV	<input checked="" type="checkbox"/>	CC
Q	EN-07	Description of the major impacts on biodiversity.	6-7 265-267	G	<input checked="" type="checkbox"/>	SI / FE
C	EN-23	Total amount of land owned, leased, or managed for production activities or extractive use.	NA	NA	NA	NA
C	EN-24	Amount of impermeable surface as a percentage of land purchased or leased.	NA	NA	NA	NA
Q	EN-25	Impacts of activities and operations on protected and sensitive areas.	265-267	TMV	<input checked="" type="checkbox"/>	SI / FE
Q	EN-26	Changes to natural habitats resulting from activities and operations and percentage of habitat protected or restored.	NA	NA	NA	NA
Q	EN-27	Objectives, programmes, and targets for protecting and restoring native ecosystems and species in degraded areas.	NA	NA	NA	NA
C	EN-28	Number of IUCN Red List species with habitats in areas affected by operations.	ND	ND	ND	ND
Q	EN-29	Business units currently operating or planning operations in or around protected or sensitive areas.	265	TMV	<input checked="" type="checkbox"/>	SI / FE
EMISSIONS, EFFLUENTS AND WASTE						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	EN-08	Greenhouse gas emissions.	277-279	G	<input checked="" type="checkbox"/>	CC
Q	EN-09	Use and emissions of ozone-depleting substances.	277	G	<input checked="" type="checkbox"/>	SI
C	EN-10	NOx, SOx, and other significant air emissions by type.	279	G	<input checked="" type="checkbox"/>	CC
C	EN-11	Total amount of waste by type and destination.	268-270	G	<input checked="" type="checkbox"/>	FE
Q	EN-12	Significant discharges to water by type.	NA	NA	NA	NA
C	EN-13	Significant spills of chemicals, oils, and fuels in terms of total number and total volume.	267	G	<input checked="" type="checkbox"/>	SI / FE
C	EN-30	Other relevant indirect greenhouse gas emissions.	277	G	<input checked="" type="checkbox"/>	CC
C	EN-31	All production, transport, import, or export of any waste deemed "hazardous".	ND	ND	ND	ND
Q	EN-32	Water sources and related ecosystems/habitats significantly affected by discharges of water and runoff.	NA	NA	NA	NA



SUPPLIERS						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	EN-33	Performance of suppliers relative to environmental components.	259, 301	G	<input checked="" type="checkbox"/>	PP / SI / FE
PRODUCTS Y SERVICES						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	EN-14	Significant environmental impacts of principal products and services.	265-289	G	<input checked="" type="checkbox"/>	SI / FE
C	EN-15	Percentage of the weight of products sold that is reclaimable at the end of the products' useful life.	NA	NA	NA	NA
COMPLIANCE						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	EN-16	Incidents of and fines for non-compliance with all applicable international declarations/conventions/treaties, and national, sub-national, regional, and local regulations associated with environmental issues.	266	TdE TelesP	G	SI / AJ
TRANSPORT						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	EN-34	Significant environmental impacts of transportation used for logistical purposes.	NA	NA	NA	NA
OVERALL						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	EN-35	Total environmental expenditures by type.	ND	ND	ND	ND
SOCIAL PERFORMANCE INDICATORS: LABOUR PRACTICES AND DECENT WORK						
EMPLOYMENT						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	LA-01	Breakdown of workforce, where possible, by region/country, status, employment type, and by employment contract.	180-181	G	<input checked="" type="checkbox"/>	FE
C	LA-02	Net employment creation and average turnover segmented by region/country.	70-71 182	G	<input checked="" type="checkbox"/>	FE
Q	LA-12	Employee benefits beyond those legally mandated.	6-7 188-193	G	<input checked="" type="checkbox"/>	PP / FE
LABOUR / MANAGEMENT RELATIONS						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	LA-03	Percentage of employees represented by independent trade union organisations.	202-205	G	<input checked="" type="checkbox"/>	FE
Q	LA-04	Policy and procedures involving information, consultation, and negotiation with employees over changes in the reporting organisation's operations.	187, 200 202-205	G	<input checked="" type="checkbox"/>	PP / FE
Q	LA-13	Provision for formal worker representation in decision-making or management, including corporate governance.	NA	NA	NA	NA



HEALTH AND SAFETY						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	LA-05	Practices on recording and notification of occupational accidents and diseases.	212	GE	<input checked="" type="checkbox"/>	PP
Q	LA-06	Description of formal joint health and safety committees comprising management and worker representatives.	212-213 217-218	G	<input checked="" type="checkbox"/>	PP / FE
C	LA-07	Standard injury, lost day, and absentee rates and number of work-related fatalities.	212	GE (1)	<input checked="" type="checkbox"/>	FE
Q	LA-08	Description of policies or programmes (for the work place and beyond) on HIV/AIDS.	216, 217	GE	<input checked="" type="checkbox"/>	PP
Q	LA-14	Evidence of substantial compliance with the ILO Guidelines for Occupational Health Management Systems.	211-218	G	<input checked="" type="checkbox"/>	PP
Q	LA-15	Description of formal agreements with trade unions or other bona fide employee representatives covering health and safety at work and proportion of the workforce covered by any such agreements.	200 202-205	G	<input checked="" type="checkbox"/>	PP / FE
TRAINING AND EDUCATION						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	LA-09	Average hours of training per year per employee by category of employee.	194-196	G	<input checked="" type="checkbox"/>	SI / FE
Q	LA-16	Description of programmes to support the continued employability of employees and to manage career endings.	180 182-183 203	TdE (2)	<input checked="" type="checkbox"/>	FE
Q	LA-17	Specific policies and programmes for skills management or for lifelong learning.	197-199	G	<input checked="" type="checkbox"/>	PP / SI
DIVERSITY AND OPPORTUNITY						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	LA-10	Description of equal opportunity policies or programmes.	209-210	G	<input checked="" type="checkbox"/>	PM / CE
C	LA-11	Composition of senior management and corporate governance bodies.	209	G	<input checked="" type="checkbox"/>	FE
SOCIAL PERFORMANCE INDICATORS: HUMAN RIGHTS						
STRATEGY AND MANAGEMENT						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	HR-01	Description of policies, guidelines, corporate structure, and procedures to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results.	52-55 200-201	G	<input checked="" type="checkbox"/>	PM / CE
Q	HR-02	Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers/contractors.	300-301	G	<input checked="" type="checkbox"/>	PP / PM / CE
Q	HR-03	Description of policies and procedures to evaluate and address human rights performance within the supply chain and contractors, including monitoring systems and results of monitoring.	52-55 300-301	G	<input checked="" type="checkbox"/>	PP
Q	HR-08	Employee training on policies and practices concerning all aspects of human rights.	ND	ND	ND	ND
NON-DISCRIMINATION						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	HR-04	Description of global policy and procedures/programmes preventing all forms of discrimination in operations.	209-210	G	<input checked="" type="checkbox"/>	PM / CE



FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	HR-05	Description of freedom of association policy and extent to which this policy is universally applied.	202-204	G	<input checked="" type="checkbox"/>	PM / CE / FE
CHILD LABOUR						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	HR-06	Description of policy excluding child labour.	208 242-243	G	<input checked="" type="checkbox"/>	PM / CE / FE
FORCED AND COMPULSORY LABOUR						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	HR-07	Description of policy to prevent forced and compulsory labour.	206-207	G	<input checked="" type="checkbox"/>	PM / CE
DISCIPLINARY PRACTICES						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	HR-09	Description of appeal practices, including, but not limited to, human rights issues.	ND	ND	ND	ND
Q	HR-10	Description of non-retaliation policy and effective, confidential employee grievance system.	55	TMV	<input checked="" type="checkbox"/>	SI
Q	HR-11	Human rights training for security personnel.	201	G	<input checked="" type="checkbox"/>	PP
Q	HR-12	Description of policies, guidelines, and procedures to address the needs of indigenous people.	ND	ND	ND	ND
Q	HR-13	Description of jointly managed community grievance mechanisms/authority.	ND	ND	ND	ND
C	HR-14	Share of operating revenues from the area of operations that are redistributed to local communities.	72-73	G (3)	<input checked="" type="checkbox"/>	CC
SOCIAL PERFORMANCE INDICATORS: SOCIETY						
COMMUNITY						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	SO-01	Description of policies to manage impacts on communities.	110 137-141 146	G	<input checked="" type="checkbox"/>	PP / SI / FE
Q	SO-04	Awards received relevant to social, ethical, and environmental performance.	46-47	G	<input checked="" type="checkbox"/>	FE
BRIBERY AND CORRUPTION						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	SO-02	Description of the policy, procedures/management systems, and compliance mechanisms for organisations and employees addressing bribery and corruption.	54-55	G	<input checked="" type="checkbox"/>	PP / CE
POLITICAL CONTRIBUTIONS						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	SO-03	Description of policy, procedures/management systems, and compliance mechanisms for managing political lobbying and contributions.	54-55	G	<input checked="" type="checkbox"/>	PP
C	SO-05	Amount of money paid to political parties and institutions.	NA	NA	NA	NA



COMPETITION AND PRICING						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	SO-06	Court decisions regarding cases pertaining to anti-trust and monopoly regulations.	154-156 158-165	G	<input checked="" type="checkbox"/>	AJ
Q	SO-07	Description of policy, procedures/management systems, and compliance mechanisms for preventing anti-competitive behaviour.	154, 162	G	<input checked="" type="checkbox"/>	PP / CO

SOCIAL PERFORMANCE INDICATORS: PRODUCT RESPONSIBILITY						
CUSTOMER HEALTH AND SAFETY						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	PR-01	Description of policy for preserving customer health and safety during use of products and services.	136-147	G	<input checked="" type="checkbox"/>	PP / SI / IP / FE
Q	PR-04	Number and type of instances of non-compliance with regulations concerning customer health and safety, including the penalties and fines assessed for these breaches.	143-144	G	<input checked="" type="checkbox"/>	AJ / FE
C	PR-05	Number of complaints upheld by regulatory or similar official bodies to oversee or regulate the health and safety of products and services.	143-144	G	<input checked="" type="checkbox"/>	AJ / FE
Q	PR-06	Voluntary code compliance, product labels or awards with respect to social and/or environmental responsibility that the reporter is qualified to use or has received.	NA	NA	NA	NA
PRODUCTS AND SERVICES						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	PR-02	Description of policy, procedures/management systems, and compliance mechanisms related to product information and labelling.	137-141 146-147	G	<input checked="" type="checkbox"/>	PP / IP / SI
Q	PR-07	Number and type of instances of non-compliance with regulations concerning product information and labelling, including any penalties or fines assessed for these breaches.	114	TMV	<input checked="" type="checkbox"/>	AJ
Q	PR-08	Description of policy, procedures/management systems, and compliance mechanisms related to customer satisfaction, including results of surveys measuring customer satisfaction.	106-109 126-129	G salvo TME G	<input checked="" type="checkbox"/>	PP / SI
RESPECT FOR PRIVACY						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	PR-03	Description of policy, procedures/management systems, and compliance mechanisms for consumer privacy.	136-144	G	<input checked="" type="checkbox"/>	PP / SI
C	PR-11	Number of substantiated complaints regarding breaches of consumer privacy.	143-144	G	<input checked="" type="checkbox"/>	AJ / FE
ADVERTISING						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	PR-09	Description of policies, procedures/management systems, and compliance mechanisms for adherence to standards and voluntary codes related to advertising.	114	G	<input checked="" type="checkbox"/>	PP
C	PR-10	Number and types of breaches of advertising and marketing regulations.	114	TMV	<input checked="" type="checkbox"/>	AJ


GRI INDICATORS TELECOMMUNICATIONS SECTOR

INTERNAL OPERATIONS						
INVESTMENT						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
C	IO-01	Capital investment in telecommunication network infrastructure broken down by country/region.	72-73 232-233	G (4)	<input checked="" type="checkbox"/>	CA / IP
C	IO-02	Net costs for service providers under the Universal Service.	231	G	<input checked="" type="checkbox"/>	CA / CC
HEALTH AND SAFETY						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	IO-03	Practices to ensure health and safety of field personnel involved in the installation, operation and maintenance of masts, base stations, laying cables and other outside plant.	215-216	TdE TME	<input checked="" type="checkbox"/>	PP
Q	IO-04	Compliance with ICNIRP standards on exposure to radiofrequency (RF) emissions from handsets.	NA	NA	NA	NA
Q	IO-05	Compliance with ICNIRP guidelines on exposure to radiofrequency (RF) emissions from base stations.	261-262	G	<input checked="" type="checkbox"/>	SI / FE
Q	IO-06	Policies and practices with respect to Specific Absorption Rate (SAR) of handsets.	NA	NA	NA	NA
INFRASTRUCTURE						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	IO-07	Policies and practices on the siting of masts and transmission sites including stakeholder consultation, site sharing, and initiatives to reduce visual impacts. Describe approach to evaluate consultations and quantify where possible.	263-267	G	<input checked="" type="checkbox"/>	SI
C	IO-08	Number and percentage of stand-alone sites, shared sites, and sites on existing structures.	263-267	G	<input checked="" type="checkbox"/>	SI
PROVIDING ACCESS						
ACCESS TO TELECOMMUNICATION PRODUCTS AND SERVICES: BRIDGING THE DIGITAL DIVIDE I						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	PA-01	Policies and practices to enable the deployment of telecommunications infrastructure and access to telecommunications products and services in remote and low population density areas.	231-233	G (5)	<input checked="" type="checkbox"/>	IP
Q	PA-02	Policies and practices to overcome barriers for access and use of telecommunication products and services including: language, culture, illiteracy, and lack of education, income, disabilities, and age.	236-237 246-249	G	<input checked="" type="checkbox"/>	FE
Q	PA-03	Policies and practices to ensure availability and reliability of telecommunications products and services and quantify, where possible, for specified time periods and locations of down time.	118-123 134-135	G	<input checked="" type="checkbox"/>	PP / SI / CO
C	PA-04	Quantify the level of availability of telecommunications products and services in areas where the organisation operates.	120-128	TdE	<input checked="" type="checkbox"/>	SI
C	PA-05	Number and types of telecommunication products and services provided to and used by low and no income sectors of the population.	234-235	G	<input checked="" type="checkbox"/>	SI / FE
Q	PA-06	Programmes to provide and maintain telecommunication products and services in emergency situations and for disaster relief.	ND	ND	ND	ND



ACCESS TO CONTENT						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	PA-07	Policies and practices to manage human rights issues relating to access and use of telecommunications products and services.	145-147	G	<input checked="" type="checkbox"/>	PP / SI
CUSTOMER RELATIONS						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	PA-08	Policies and practices to publicly communicate on EMF related issues.	263-267	G	<input checked="" type="checkbox"/>	SI / IP / FE
C	PA-09	Total amount invested in programmes and activities in electromagnetic field research.	ND	ND	ND	ND
Q	PA-10	Initiatives to ensure clarity of charges and tariffs.	124-125	G	<input checked="" type="checkbox"/>	IP / CO
Q	PA-11	Initiatives to inform customers about product features and applications that will promote responsible, efficient, cost effective, and environmentally preferable use.	149 263-264 286-289	G	<input checked="" type="checkbox"/>	SI / IP / FE
TECHNOLOGY APPLICATIONS						
RESOURCE EFFICIENCY						
Ind Type	GRI	Description	Pages	Information Scope	Verification Scope	Verification Procedure
Q	TA-01	Provide examples of the resource efficiency of telecommunication products and services delivered.	286-288	G	<input checked="" type="checkbox"/>	SI / FE
Q	TA-02	Provide examples of telecommunication products, services and applications that have the potential to replace physical objects.	286-288	G	<input checked="" type="checkbox"/>	SI / FE
Q	TA-03	Disclose any measures of transport and/or resource changes of customer use of the telecommunication products and services listed above.	289	G	<input checked="" type="checkbox"/>	SI
Q	TA-04	Disclose any estimates of the rebound effect (indirect consequences) of customer use of the products and services listed above, and lessons learned for future development.	ND	ND	ND	ND
Q	TA-05	Description of practices relating to intellectual property rights and open source technologies.	137	G	<input checked="" type="checkbox"/>	PP / SI

- (1) Data on accidents is only provided for Spain.
- (2) No information is provided regarding procedures for continued employability of employees.
- (3) The information included in the CR Report includes global redistribution according to stakeholders and not local communities.
- (4) The quantitative information is provided in a global manner and not broken down by country or region.
- (5) The CR Report includes information on actions taken but not on policies.



VERIFICATION PROCEDURE PERFORMED

CA	Verification with the audited Consolidated Annual Accounts and Management Report of Telefónica, S.A. for 2005.
AT	Verification with the audited Consolidated Annual Accounts and Management Report of the Asociación de Telefónica para el Apoyo a las Personas con Discapacidad (ATAM) for 2005.
PA	Verification, for a sample, of the approval of sponsorships.
CE	Contrasted with the Code of Ethics for the Telefónica Group approved in 2005.
FE	Contrasted with external sources, for a sample, of the quantitative or qualitative information from internal systems in the Telefónica Group companies. Depending on the indicator, the external sources used have included, among others, press releases, access to non-Company Internet pages, invoices, payroll slips, contracts.
SI	Verification of adequate gathering of information reported with internal information systems and/or contrast the qualitative information with supporting documentation provided by the areas or companies in charge.
IP	Quantitative and qualitative data contrasted with public information reported by the Telefónica Group to markets or on Company Internet pages.
PP	Verification that Internal Regulations, Systems and Procedures exist.
CC	Verification of the calculations performed following the methodology applied by the Telefónica Group.
AI	Conformity with the communication/documentation received from the Assistant General Director for Corporate Intervention, Inspection and Internal Audit.
AJ	Conformity with the information received from each country's legal services.
CO	Contrasted with notifications made to the corresponding official public bodies.
PM	Verification of membership in the Global Compact.
NA	Verification of the reasonability of the criteria used to classify as "not applicable" to the activities performed by Telefónica.
ND	Indicators applicable to Telefónica activities for which information is unavailable or unreported.

SCOPE OF REPORTED INFORMATION

G	Grupo Telefónica
GE	Grupo Telefónica en España
TMV	Grupo Telefónica Móviles
TdE	Telefónica de España
TME	Telefónica Móviles de España
TID	Telefónica Investigación y Desarrollo
TelesP	Telefónica de Brasil (Wire lines)
FT	Fundación Telefónica

SCOPE OF VERIFICATION

<input checked="" type="checkbox"/>	Verification, through a selection of samples, of information contained in the CR Report according to "Information Scope".
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Credits

Departments that collaborated in the preparation of the report

Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
05 Shareholders	Shareholders' Office / Investor Relations / Secretariat General
06 Employees	Corporate Human Resources / Human Resources Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Communication / Health and Safety / Fundación Telefónica / ATAM / Fonditel
07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

