

Annual Corporate Responsibility Report

2005

Telefónica

Telefónica S.A.



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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.

