01 Corporate Information: Telefónica Group 2004

Telefónica

Telefónica has set itself a new challenge: to become the best and the biggest integrated telecommunications group in the world

01/01

About Telefónica
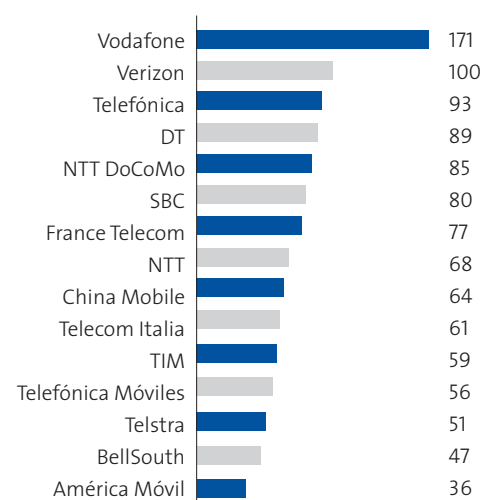
Telefónica group

ABOUT TELEFÓNICA

The history of Telefónica – the Company celebrated its 80th birthday in 2004 - has always been characterized by anticipation, commitment and leadership. Thus, since its creation, the company has been managed as a private sector company (it has been listed on the Stock Exchange since 1925), geared towards operative efficiency, innovation and maximizing opportunities.

This focus has lead the Company into the continual geographical expansion of its business that has now reached operations in 18 countries and extended its presence to over 40 more, distributed throughout three continents.

Telefónica is a multi-domestic operator; in each country it defines its offer according to the particularities of the market, adapting to the needs of each society and capable of being both global and local, large yet accessible. Moreover, it is the only incumbent operator in all the countries relevant to its business.

WORLD RANKING BY MARKET CAPITALIZATION

Billions of US Dollars. (at 25 February 2005)

Vodafone	171
Verizon	100
Telefónica	93
DT	89
NTT DoCoMo	85
SBC	80
France Telecom	77
NTT	68
China Mobile	64
Telecom Italia	61
TIM	59
Telefónica Móviles	56
Telstra	51
BellSouth	47
América Móvil	36

With this in view, Telefónica set itself the challenge to become the best and biggest integrated telecommunications Group in the world. The best Group in terms of: Customers, Innovation, Operational Excellence and Human Resources. And the biggest: in Returns and Growth for its shareholders, and Market Value amongst the integrated operators today.

This goal is supported by a transformation program which, with the motto "Forging ahead to gain leadership", is built on five cornerstones: customer orientation, innovation, operations excellence, commitment, leadership in people and a corporate communication and identity.

A LEADING GROUP

Telefónica is a world leader in the telecommunication sector, with presence in Europe, Africa and Latin America, and is the operator of reference in the Spanish and Portuguese-speaking markets.

The year 2004 has been a "record" year for Telefónica, not only in terms of operational results but also due to the positioning, size and magnitudes achieved by the Group and by its new scale and profile of leadership and future growth, achieved following the purchase of Bell South mobile operators in Latin America.
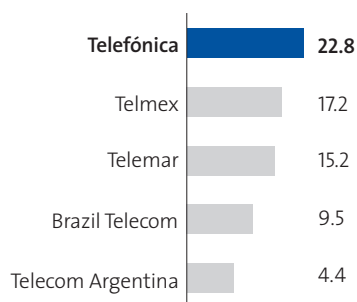
Today, Telefónica (*) is the world's third operator in terms of market capitalization (the 34th company in the world), the fifth company in the EuroStoxx50 ranking (and the second non-oil company) and the fourteenth non-American firm in value; it has more than 1.5 million direct shareholders, is listed on the foremost national and international stock markets and the impact of its economic activity accounts for between 1.0 % and 2.3% of GDP in the main countries in

* *data at 25 February 2005*

1st **Latin American Company**

5th **company in the EuroStoxx 50 ranking**

14th **non-American company in ranking by value**

FIXED LINES IN LATIN AMERICA

Dec. 2004 (millions)

Telefónica	**22.8**
Telmex	17.2
Telemar	15.2
Brazil Telecom	9.5
Telecom Argentina	4.4

Source: Company reports

ADSL PENETRATION

Dec. 2004 (Accesses / 100 households)

Chile	13.6
Brazil (S.P)	8.3
Argentina	7.3
Peru	3.8
Venezuela	5.3
Mexico	3.7
Colombia	1.1

Source: Pyramid, January 2005

which it operates (Argentina, Chile, Peru, Brazil, and Spain).

IN SPAIN, THE GROUP HAS OVER 19 MILLION FIXED AND 19 MILLION MOBILE TELEPHONY CUSTOMERS.

It has been a stable presence in Latin America for 15 years, with accumulated investments in infrastructures and acquisitions of over 70 billion euros in the period from 1990 to 2004. In 2004, it strengthened its leadership in that market by purchasing the mobile operations of BellSouth in 10 countries, thus gaining nearly 15 million new customers. At the end of 2004, the number of customers managed by the Group totaled 122 million, distributed among its business lines of fixed telephony, data and Internet (more than 43 million), and mobile telephony (more than 78 million).

Telefónica is also the technological leader in its sector. In 2004, it channeled almost 2.4 billion euros into technological innovation activities in R&D&I, distributed evenly between Spain and Latin America. Of this amount, more than 460 million were set aside solely for R&D activities. Over 1,700 people engage in innovation activities in the Group. Its portfolio consists of 3,032 entries, of which 1,787 are patents and 1,245 intellectual property rights, mainly software developments. Today, the Group's activities represent 7% of total private R+D investment in Spain.

Telefónica is also an economic-business leader. It has solid and sound balance sheets, and is one of the best-positioned European operators in the world credit ranking.

During 2004, the Telefónica Group displayed a solid combination of growth, efficiency and profitability, obtaining a record increase in net profits of 30.6% (over the previous year), which, excluding the ERE ("Expediente de Regulación de Empleo" - short time working and lay-offs) effect of Telefónica de España, would have been

above 50%. Our operations were supported mainly by the expansion of our customer base (up 26.4% from 2003) and the intensification of our commercial undertakings, all boosted by significant operational efficiency that has been transformed into profitability (+43.6% of the EBITDA margin and +6.4% in the free cash flow).

A CUSTOMER-ORIENTED GROUP

Telefónica has embarked on a fully customer-oriented strategy. In 2004, its goal was to take strides in this commercial direction, moving from a product-focused business to becoming an integrated Group aiming to satisfy its customers' overall communication needs. As a result of this customer-orientated strategy, Telefónica has set itself the goal of expanding its current client base to reach 190 million customers by 2008.
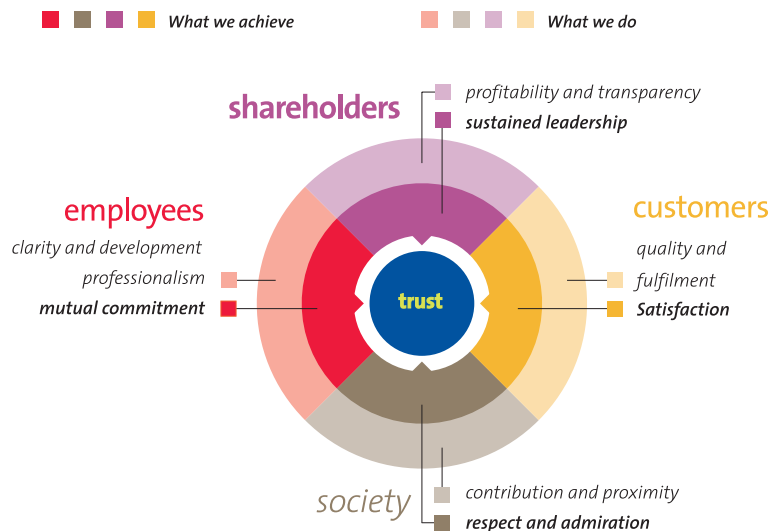
In fixed telephony and broadband activities developed in Spain and Latin America by Telefónica de España and Telefónica Latinoamérica, respectively, the Group has 43.2 million lines in service and 5.02 million broadband and Internet accesses (including accesses in Germany).

In the mobile or cell phone business in Spain, Latin America and the Mediterranean basin, Telefónica Móviles manages the service offered by the Group to more than 78 million customers (including BellSouth customers), offering voice and data service on broadband infrastructures.

A COMMITTED GROUP

Telefónica upholds a series of commitments (good governance, responsibility, solidarity, contributing to social development...) that it brings into its relationships with different interest groups. Customers, employees, shareholders, and society in general. In this respect, the Company endeavors to be their

THE VALUES OF THE TELEFÓNICA GROUP

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

shareholders

profitability and transparency
sustained leadership

employees

clarity and development
professionalism
mutual commitment

trust

customers

quality and
fulfilment
Satisfaction

society

contribution and proximity
respect and admiration

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trusted operator through: Profitability and Transparency for its shareholders; Quality and Fulfillment for customers; Clarity in its labor relations and the professional development of its employees; and finally, Commitment and closeness to society.

The Company is a major driver of economic development in the countries where it operates. In 2004, it redistributed more than 38.973 billion euros among its interest groups, notably 3.851 billion allocated to employees, 2.949 to shareholders, 14.914 to suppliers (18.402 if we include Capex) and 6.302 to public authorities. More than 15,000 providers worldwide collaborate with Telefónica, 92% of which are local providers in each country.

The Group's commitment to more than 1.5 million direct shareholders has fuelled the continual improvement of its shareholder remuneration policy, making it the best investment option, far ahead of its competitors. Thus, in 2004, the total return on that investment was 22.5% making it the leader and point of reference in terms of shareholder remuneration.

The consolidated Telefónica Group currently employs over 173,000 workers, of which 37% are based in Europe and 62% in Latin America. The Group has set itself the challenge of becoming the best option in terms of future employment for all its professionals.

Its commitment to society is channeled mainly through the Telefónica Foundation, which is present today in Spain, Argentina, Chile, Mexico, Peru, Brazil and Morocco. In 2004, over 25,000 organizations and more than 26 million people in Spain, Morocco and Latin America benefited from the 238 projects developed by the Foundation, from a total investment of over 24 million euros.

Telefónica has also undertaken a commitment to corporate governance and transparency. As a

result, both Telefónica SA and all its subsidiaries publish annual Corporate Governance reports, highlighting their general corporate governance principles. In acknowledgement of this commitment, in 2004 Telefónica was awarded the First prize for the Spanish Company with the Best Financial Information on Internet.
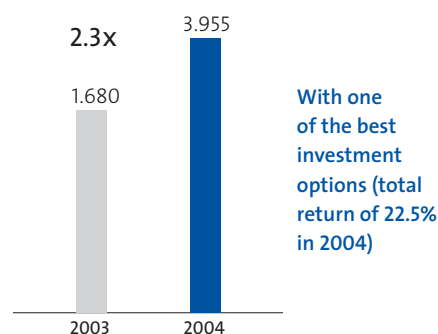
The Group is also committed to Corporate Responsibility, which involves fulfilling its role as a significant driver of economic, technological and social development in the countries where it operates. This commitment takes shape by listening to its interest groups and carrying out its work in a responsible manner. Thus, in addition to its Global Report on Corporate Responsibility and the specific reports of each line of business, Telefónica publishes reports on its activities in Brazil, Argentina, Chile, Peru and Spain. As a result of its efforts in this area, in 2004 Telefónica was rewarded by its listing on the DJSI World Index and the DJSI Stoxx.

2005 SHAREHOLDER REMUNERATION POLICY

+25% Dividend
+
Distribution of treasury stock
1x25
+
Buyback plan up and running

TOTAL ANNUAL RETURNS FOR SHAREHOLDERS

(Billions of euros)

2.3x

1.680 (2003)

3.955 (2004)

With one of the best investment options (total return of 22.5% in 2004)

01/02

With a business strategy built on five cornerstones

Our customers

Telefónica has set itself the challenge of becoming the biggest and the best integrated telecommunications operator in the world. This goal is supported by a transformation program which, with the motto "Forging ahead to gain leadership", is built on five cornerstones: customer orientation, innovation, operations excellence, commitment, leadership in people and a corporate communication and identity.

CUSTOMER-ORIENTED GROUP

The focus on the customer has been perhaps the most important factor in the commercial transformation process carried out in 2004 throughout the entire organisation. Customer satisfaction is now considered as a key component in business growth.

Telefónica has decided to switch from a product-oriented company model and become an integrated Group that meets the global communication needs of its customers. It anticipates these needs by offering a varied portfolio targeted at each segment and comprising more innovative products and services, processes and technologies, and

COMMERCIAL TRANSFORMATION OF STAFF

(Figures in percentages)

Source: Company figures

drawing on new distribution channels tailored to these requirements.
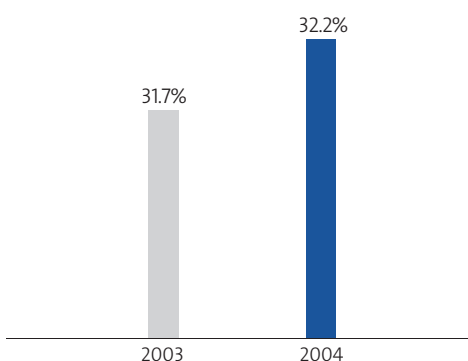
With this in mind Telefónica has set itself the target of increasing its current customer base to reach 190 million customers by 2008.

The organisation took its first steps towards these new commercial goals during the course of the year. Firstly, and as a consequence of this reorientation towards the customer, the Company recruited 1,700 new employees for its commercial departments, which now account for 33% of the total workforce of over 173,000. Excluding Atento, of the remaining 67% of company personnel, 51% work in production and 16% in support services.

Telefónica has also continued to take great strides in this area by making a variety of different telecommunications services and products available in all markets. It has essentially focused its efforts, therefore, on business opportunities offering both the highest growth potential (broadband and mobile telephony) and the best value for customers, allocating 55% of total investment for the year to these types of projects.
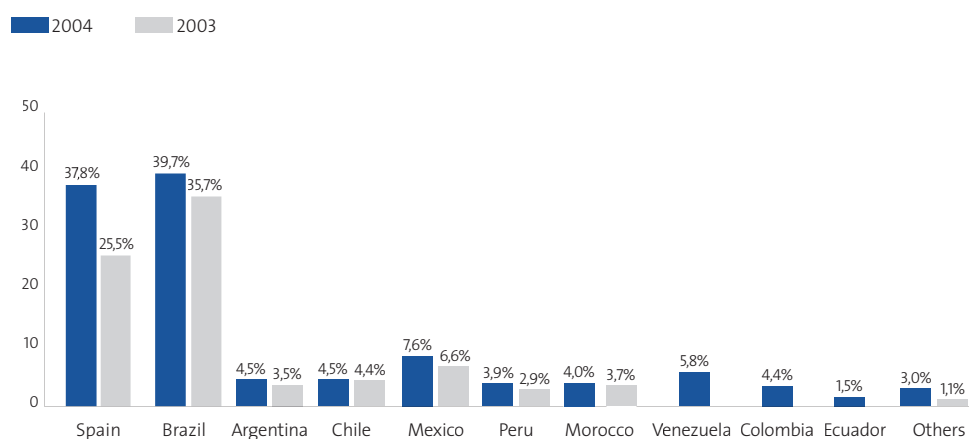
More than 850 million euros went into its broadband business in Spain and Latin America. At the same time, Telefónica invested nearly 639 million euros in mobile telephony in Spain, 26% of which was allocated to third-generation or UMTS products and services. In Latin America, Telefónica channelled over 1 billion euros towards deployment of its mobile telephony network.

All these factors have contributed to growth in its customer base, which at the end of the year had swelled to 121.9 million customers.

A commitment to broadband

Intense commercial activity in the broadband market was reflected by an increase in the

DISTRIBUTION OF MANAGED MOBILE TELEPHONY CUSTOMERS

■ 2004   ■ 2003

	Spain	Brazil	Argentina	Chile	Mexico	Peru	Morocco	Venezuela	Colombia	Ecuador	Others
2004	37,8%	39,7%	4,5%	4,5%	7,6%	3,9%	4,0%	5,8%	4,4%	1,5%	3,0%
2003	25,5%	35,7%	3,5%	4,4%	6,6%	2,9%	3,7%				1,1%

customer base. Telefónica now operates 43.2 million fixed lines, 5.02 million of which offer broadband data and Internet access (including ADSL accesses in Germany). These lines serve 68 million people, 34 million homes, 14 million SMEs, businesses and professionals (SBPs) and 4 thousand large corporations. At the end of 2004, the number of ADSL connections had risen by 61% on 2003.

In Spain, this growth (2.5 million connections – an increase of over 50%) means that Telefónica now accounts for 73.8% of the total domestic broadband market; with of the 58% of the Internet access lines using that use the Group's broadband services, nearly 75% do so through the Group's retail or wholesale services. In this respect, the Company leads the sector with the highest growth of all the European operators.
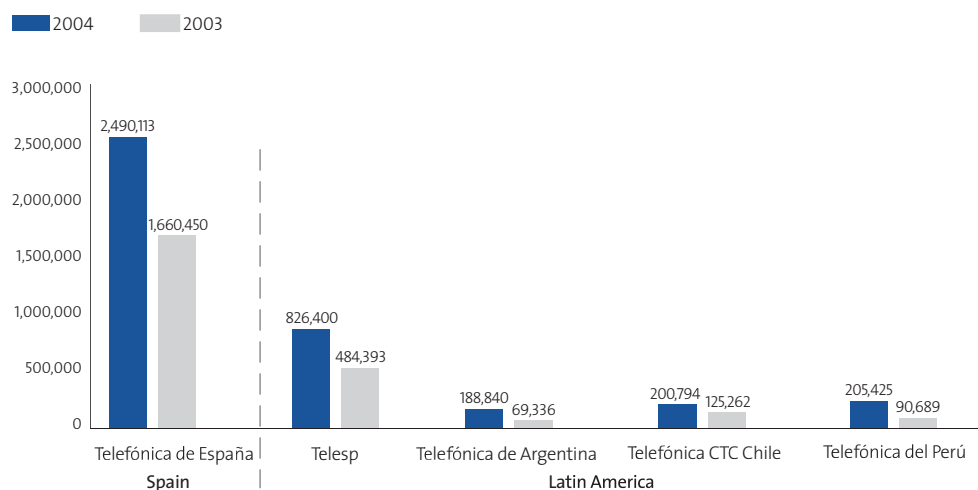
2004 saw Telefónica launch its "Imagenio" service in Spain (Madrid, Barcelona and Alicante) – a key element in its commitment to broadband. By December it had attracted 6,024 new customers, over 85% of which also signed

up for Internet access and more than 63% contracted additional subscriber services.

Part of this customer satisfaction strategy involved Telefónica doubling the speed of its ADSL connections in Spain and certain Latin American countries at no extra charge to its customers. At year end the number of ADSL lines contracted in Spain had risen to 2,490,000, 48.1%, of which signed up for at least one additional added-value service. These services include "Soluciones ADSL", which grew in the last quarter of the year by 16.3%, and "Seguridad ADSL" which now boasts 347,198 customers.

By the end of 2004, the number of ADSL/Speedy lines installed in all Latin American markets had risen to over 1.4 million, up by an average of 88% on 2003. The Argentinean market made a significant contribution, recording an increase of 172% and Peru registered a 126% rise. Brazil, with 0.8 million connections, recorded 70% growth. Chile was not far behind with 60% growth following the September launch of 2V (twice-as-fast broadband service) and packaged

ADSL CONNECTIONS

■ 2004   ■ 2003

	Telefónica de España (Spain)	Telesp	Telefónica de Argentina	Telefónica CTC Chile	Telefónica del Perú
2004	2,490,113	826,400	188,840	200,794	205,425
2003	1,660,450	484,393	69,336	125,262	90,689

Latin America

minute plans, both of which helped boost broadband penetration.

MOBILE TELEPHONY

2004 also saw the Group's operators in the mobile business engage in intense commercial activity against a backdrop of strong and increasingly aggressive competition in all operating markets. This strategy, allied with the acquisition of BellSouth's Latin American operators in particular, has helped take Telefónica to a new level of growth, with the BellSouth operation alone adding nearly 15 million new customers to our client base.
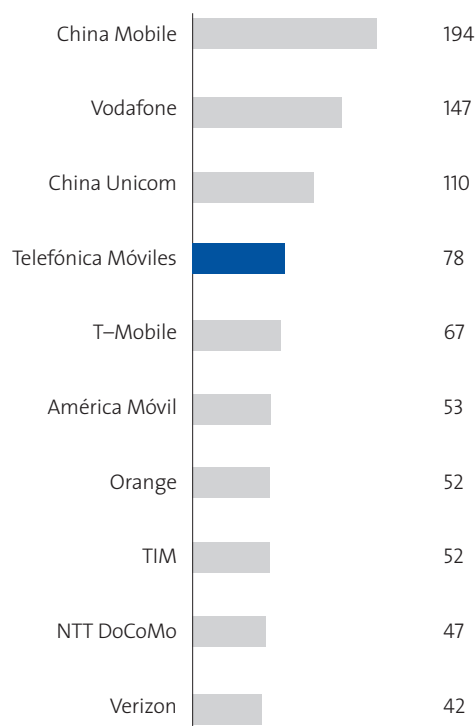
By the end of 2004, the Group had attracted a total of 74.4 million mobile phone customers in all its markets (up 43.6% on 2003 and an increase of 22.4% excluding BellSouth's operators in Latin America) with our Latin American operators accounting for 52.7 million of these customers. Telefónica Móviles España (TME) also saw its client base grow to nearly 19 million. Telefónica Móviles now boasts over 78.2 million customers, 56.5 million of them in Latin America.

This growth in the mobile business has positioned Telefónica at the head of the global mobile telecommunications sector, making Telefónica Móviles the largest contributor to the Group's overall growth.
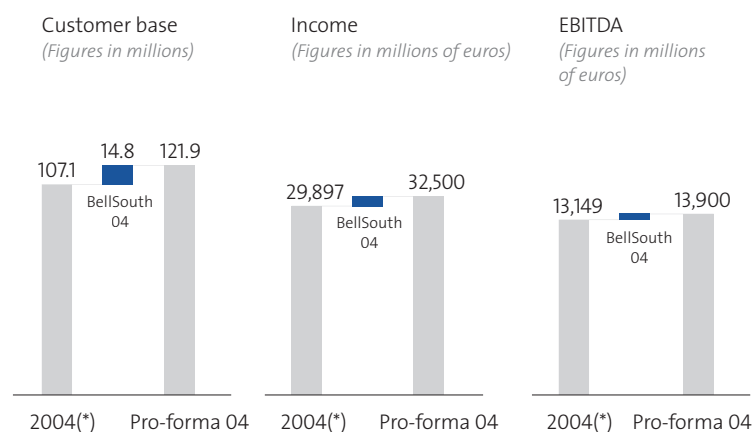
The Brazilian mobile telephony market made a valuable contribution to last year's growth as well. VIVO's strategy for high-value customers, raising entry barriers in the prepaid segment, promoting contract packages and encouraging customers to switch from prepay to contract, paid dividends. In the fourth quarter it attracted 1.9 million new customers following on from a third quarter increase of 1.1 million. VIVO maintained its position as Brazil's leading operator and closed the year with 26.5 million customers (an annual growth of 28.5% and 7.7%

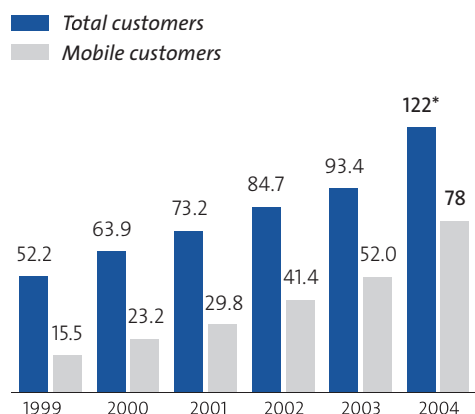### RANKING BY CUSTOMERS MANAGED
(Figures in millions)

China Mobile	194
Vodafone	147
China Unicom	110
Telefónica Móviles	78
T–Mobile	67
América Móvil	53
Orange	52
TIM	52
NTT DoCoMo	47
Verizon	42

BELLSOUTH LATAM: A NEW LEVEL OF GROWTH FOR TELEFONICA

Customer base
(Figures in millions)

107.1	14.8 BellSouth 04	121.9
2004(*)		Pro-forma 04

Income
(Figures in millions of euros)

29,897	BellSouth 04	32,500
2004(*)		Pro-forma 04

EBITDA
(Figures in millions of euros)

13,149	BellSouth 04	13,900
2004(*)		Pro-forma 04

EVOLUTION OF THE CUSTOMER BASE
(Millions)

■ *Total customers*
▢ *Mobile customers*

*Includes all Bellsouth (LatAm) customers

up on September 2004). Its countrywide market share of 40% was well above even the most optimistic analyst forecasts.

In Mexico, the total number of contract customers in December 2004 was up by 25% on the previous year. For its part, Telefónica Móviles Perú led the way in market growth for the year with a net cumulative increase of 618,000 customers, more than double the 2003 figure due largely to rapid growth in the contract segment.

Other businesses

Commercial strategy was also key to the directories business in 2004, where the customer occupies a dual role of user and advertiser. In response to this, the Group's products and services are designed to maximise the visibility and size of advertisers on the one hand, and the availability and convenience of information for users on the other. In striking a fine balance between advertisers and users, TPI continued to expand, reaching optimum efficiency and profitability levels.

In 2004 it launched its integrated customer management project in Spain, an initiative that seeks to enhance knowledge of our customers and enable their specific advertising needs to be identified more accurately and offer bespoke sales consultancy services.
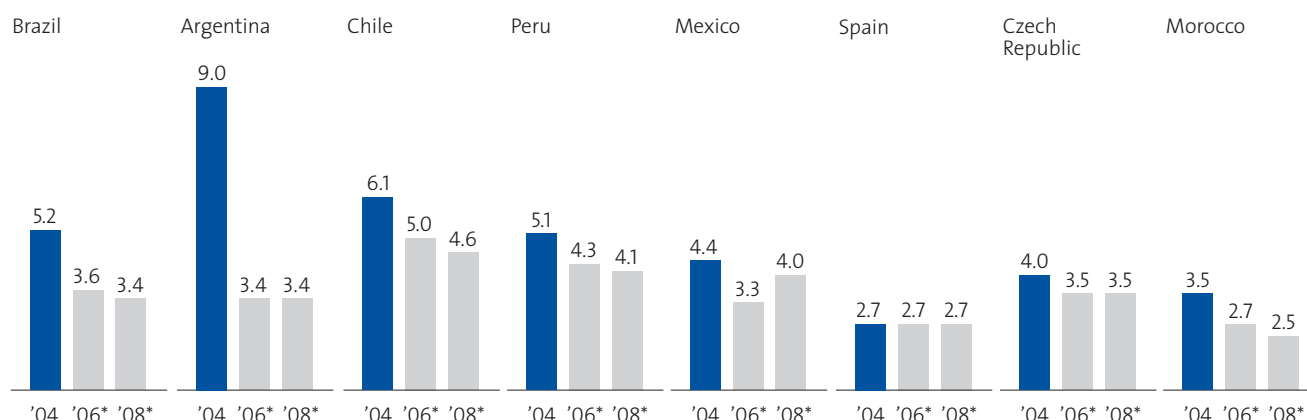
During the last year, TPI has continued to diversify its sources of revenue by identifying new opportunities and launching new products. These include the new direct marketing services available in Spain, the launches of the business guide "NAN de la Hostelería" and the second edition of the "NAN de la Construcción" – specialising in the hotel and construction industries respectively – in addition to the pocket guide to São Paulo (Brazil). TPI Edita, a subsidiary that distributes free magazines for industry professionals, expanded its range of publications with the launch of two new titles

aimed at the general public: Romantique & Chic, focusing on luxury products, and Wapa, a health and beauty magazine. Following the success of the Pocket Guide in Spain, TPI Brasil also published its Sao Paulo version in 2004.

At the end of the year, the TPI Group boasted 399,250 customers of its Páginas Amarillas (Yellow Pages) services, with its operations in Chile, Peru and Brazil accounting for 26% of the total. Its Páginas Amarillas y Blancas (Yellow and White Pages) services attracted over 43 million users in Spain, Chile, Peru and Brazil during the year. Its publishing business also flourished, recording steady growth in advertising revenue and in its Internet business, which rose 18% across the Group. The Spanish network of Páginas Amarillas websites received over 55 million hits in 2004, up 42% on 2003 and a new record for the Company. Its Internet services now account for 7.5% of advertising revenue in Spain, with TPI having established itself as the company generating the most advertising revenue and the market leader in Internet-based advertising. Its 11888 directory enquiry service in Spain took 36 million calls, 61% up on the previous year.

The commercial strategy pursued by Terra throughout the year saw the number of its paying subscribers increase significantly to 6.4 million, 24.8% up on 2003. The number of people subscribing to its prepaid Internet access services rose to 1.8 million, 8.6% more than in 2003. It also recorded an increase of 66% in broadband customers, mainly ADSL – the total year-end figure standing at 1.1 million. In Spain, the Company saw the number of its ADSL subscribers jump by 14%. In Brazil, the Company prepaid Internet access services boast over 1.25 million customers, 724,728 of which are broadband users, allowing it to consolidate its leadership of the Brazilian prepaid Internet access market as well as the broadband market with a share of 50%.

GROWTH FORECASTS BY COUNTRIES

Brazil	Argentina	Chile	Peru	Mexico	Spain	Czech Republic	Morocco

	Brazil			Argentina			Chile			Peru			Mexico			Spain			Czech Rep.			Morocco		
'04	5.2			9.0			6.1			5.1			4.4			2.7			4.0			3.5		
'06*		3.6			3.4			5.0			4.3			3.3			2.7			3.5			2.7	
'08*			3.4			3.4			4.6			4.1			4.0			2.7			3.5			2.5

*(*Estimated)*

As a result of its commercial policy, the Atento Group attracted a large number of new customers outside the Telefónica Group in 2004. Their proportion of total revenue also continued to rise to a year-end 44.1%, up on the 37% of 2003.

An increasingly segmented offer

As part of this transformation process, Telefónica has also set itself the target of broadening its knowledge and understanding of its customers by 2008, and developing segmentations increasingly tailored to the needs of each customer group by drawing on systems, commercial intelligence, new tools, specially adapted marketing models, and different levels of customer service, etc. (

During the course of the year, the Group implemented a commercial strategy focused more towards the needs of customers and offering greater value. This strategy encompassed mobile products and services (GPS and UMTS for example), music on demand, films, security, education, communication services for low-income households, and corporate communication solutions for the insurance sector, etc. This has been achieved thanks to levers such as new product packages, cooperation with third parties, cross-selling sales, targeting, etc.

As part of this approach a series of initiatives were also launched such as the programmes, "meta: cliente" (Goal: Customer) in Spain, "Compromiso Cliente" (Customer Commitment) in Latin America, and Atento's "Cliente contento" (Happy Customer), all of them geared towards gaining a better understanding of our customers.

The range of products and services in Spain was renewed thanks to another raft of initiatives. The Company extended its array of channels to 36 with the addition of EuroSport, Canal Real Madrid, Bloomberg TV, Euronews, CNN

International and Cartoon Networks, among others. In terms of coverage, Imagenio's service can now be picked up in various Autonomous Communities and was extended in regions where it was already available. As for services, Imagenio introduced a new package with no Internet connection required, and a series of promotions, etc. were also launched.

In terms of other broadband services, having doubled the speed of its ADSL service, Telefónica continued to promote broadband technology by launching several new offers. These included its "Navidad ADSL" Christmas promotion featuring a special offer on PCs; the launch of its "Servicio ADSL Flexible Negocios" aimed at businesses; and the new "Solución ADSL E-gestión Negocio" service, again aimed at the business sector and comprising new Internet-based commercial management applications.
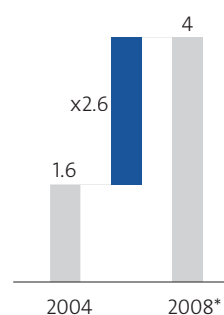
Telefónica cut the price of its "Combinado País" service by 13.7% for residential customers in Spain. It also launched a new video-telephone service for conventional lines, and made improvements to the automatic answerphone service by adding two new options (message-free call information and immediate call-back). The packaging of products and services for specific segments means that Telefónica can now offer an ADSL catalogue to its customers in Spain comprising over 180 different products and services and over 1,200,000 operational value-added services.

It also unveiled a series of services and solutions targeted at the SME, Businesses and Professionals segment including: free registration for additional lines; the new "Línea Profesional" with an integrated service specific to this segment; and a new commercial flat rate, "Tarifa Plana Comercial", allowing unlimited national calls during working hours. Telefónica's aim here is to offer subscription packages (purchasing, rental, financing, outsourcing, pay-as-you-go solutions, etc.) designed to meet each customer's specific needs.

FORECASTS FOR 2008

Accesses
(Million of customers)

Today: 122
+50M
2008: 190

ARPU

Today: 5%
+0,6pp
2008: 5,6%
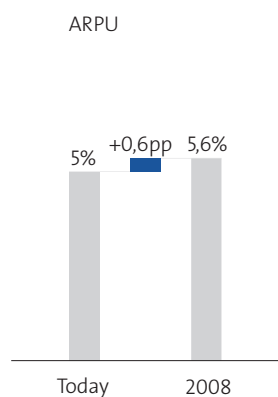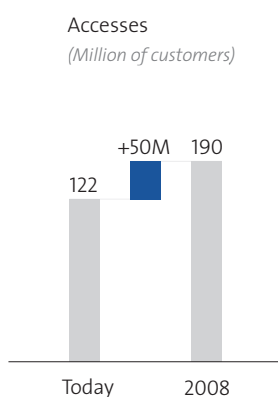
BROADBAND FORECASTS

ADSL Lines in Spain
(Millions of customers)

2004: 1.6
x2.6
2008*: 4

ADSL Lines in Latin America
(Millions of customers)

2004: 1.4
x2.7
2008*: 4
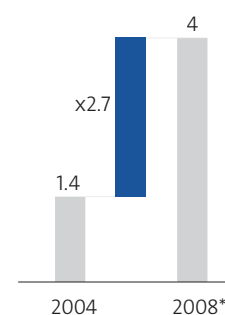
* Estimated

2008: Over

1.000.000*

Imagenio customers

Over

8.000.000*

ADSL customers

Over

125* million Mobile
customers

(*estimated)

As regards large corporations, Telefónica provides services for over 65,000 PCs, 7,500 switchboards, 9,000 LAN nodes and 530,000 email boxes in Spain alone. In Latin America, it handles 20,000 PCs, 94 outsourcing projects, and more than 8,000 servers housed at our Data Center. Its commercial activity in this segment has led to a rise in revenue from large corporations of over 23% in 2004.

In recent months in particular Telefónica's operators in Latin America have also segmented the residential market, introducing new offers such as "La familia madura" *(mature family)* and "desplazados" *(on the move)*. Telefónica also introduced a new tool for large enterprises: its "Plan de Cuenta" or account plan.

Customer segmentation in the mobile phone market led to the creation of new services such as the Under-26 rate for young people; cheaper international calls for immigrants and the self-employed – for whom a reliable, guaranteed service is crucial; special offers for the blind with adapted handsets; the GPRS software solution "Escritorio Movistar" and the email service "Correo Profesional Blackberry"; the launch of the TSM 520 handset featuring Windows Mobile Smartphone 2003; and the "Plan Autónomos" with special call rates for the self-employed, amongst others.

Turning to customer loyalty schemes, thanks to its points programme Telefónica Móviles currently has the lowest churn rates in Europe.

As part of the Group strategy to link its services more closely to the world of entertainment and sport, in 2004 Telefónica arranged tie-ups with leading brands such as Real Madrid, Disney, and FC Barcelona, etc. By the beginning of November its Disney service had attracted over 114.000 customers.

2008: A NEW HORIZON

Telefónica's goal for 2008 is to expand its current customer base to reach a total of 190 million. Thus, by making effective use of the 8 million contacts it has with its customers everyday, it hopes to identify and anticipate their needs better, improving its services and products as well as distribution and sales channels.

The Group will also continue with its strategy to continue broadening services and the markets it operates in towards new business opportunities. Significantly, in 2005 Telefónica agreed the acquisition of 51% of Cesky Telecom, the operating company of the Czech Republic. This new addition to the Group will bring in 140 million customers from 18 countries.

At Telefónica, our objective is to increase average revenue per user and customer loyalty by making them firm believers in our products.Customer orientation is the key to securing this goal. With this in mind the Group's new Customer Relations Principles were approved in 2005, establishing a framework that sets out uniform standards for dealing and interacting with customers.

These principles include innovation, customer orientation, integration and quality; principles that form part of the cultural mainstays defining the Company as an integrated, customer-oriented telecommunications operator. The Telefónica Group thus sets out to reach the necessary service levels in relation to innovation, quality and a personalised service, both by the commitment of its employees and providing transparent information. Only in this way can it reach its ultimate objective: to guarantee the satisfaction of its customers.

Innovation

A NEW INNOVATION MODEL

For Telefónica, Innovation lies at the heart of what is transforming the Group and inspiring it to reach its goal of becoming not only the best, but also the biggest integrated telecommunications group in the world. It is precisely because Telefónica sees Innovation as a medium and long-term strategic value that its investment and commitment to technological innovation, and to R+D in particular, will continue to remain firm.

In 2004, Telefónica set up a new Innovation Model that is more in line with the Group's strategy and focuses not only on technological innovation, but also on innovations in sales, operational procedures, and work methods, always with the customer in mind. The implementation of this Model is led by the Corporative Innovation Committee, comprised of the top executives of the main innovation organisations within the Group. Its objective is clear: to coordinate Telefónica's Innovation Programme and to manage the Group's Portfolio of Technological Options.

**GOALS OF TELEFÓNICA'S
NEW INNOVATION MODEL**

- Align the Technological Innovation with the Group's strategy, finding more solutions to differentiate it from the rest.
- Strengthen collaboration with the Public Administration and Universities, to encourage innovation.
- Promote collaboration with other agents in the value chain and strengthen business alliances in the innovation process.
- Improve the Group's competitiveness via Technological Innovation focused on knowing the customers' needs and providing solutions that are more and more segmented.
- Promote a culture of innovation at all levels of the organisation.

This Model also promotes collaboration with other agents that will become "technological allies" (customers, Public Administration, suppliers, other companies, etc.), as well as the participation of the professionals within the Group at all levels of the organisation, with a view to creating a new innovation culture.

In this respect, Telefónica de España's idealab! Contest received a total of 1,049 ideas (19% more than the previous year) during the whole of 2004 through its "Innovator Club", while Telefónica Móviles de España's "Patent-Factory of Ideas" Contest ("Patenta-Fábrica de Ideas" in Spanish), which was organised in 2004, gathered 310 new proposals.

INNOVATION IN 2004

In 2004, Telefónica earmarked nearly 2.4 billion euros for Technological Innovation, following OECD criteria, of which half corresponded to Spain.

It is important to mention Telefónica's increasing dedication to innovation in Latin America in 2004, which rose from 599 million to 1.234 billion euros, representing more than 50% of the Group's innovation budget. This helped to significantly increase the innovation investment in the aforementioned area.

By countries, Brazil heads the list with 29% of the total Group investment, followed by Argentina with 6%, Mexico with 5%, Chile with 4% and Peru with 3%.

By item, the acquisition of equipment, and research and development activities were outstanding, representing 41% and 19% respectively of the investment.

Telefónica Móviles is the Group company that proportionally invests the most in innovation as a result of the deployment of its new generation networks. Its activities encompass

NUMBER OF NEW PRODUCTS FROM TdE AND TME

	2001	2002	2003	2004
Internet and Broadband	23	42	85	109
Voice market	77	85	77	109
Mobile services	27	43	55	32

53% of the Telefónica Group's innovation budget, followed by Telefónica de España and Telefónica Latinoamérica with 25% and 15% respectively.

Telefónica is the Spanish firm that devotes the greatest investment to research and development. Thus, last year over 305 million euros were allocated for R+D in Spain, and 461 million euros in the rest of the world. This latter figure represents 1.52% of the Group's revenue.

The R+D activity carried out in 2004 by Telefónica (more than 460 million euros), involved 5,901 people from all over the world, 3,996 of them in Spain, of which 1,762 were from the Group's staff, and the rest from businesses and entities that collaborate in development projects.

Technological, Sales, and Process Innovation

In 2004, the technological innovation projects carried out by the Telefónica Group took the following as their points of reference: profitable innovation, efficient processes, the creation of new sources of income, customer satisfaction, consolidation of new markets, and technological leadership.

These projects were specially integrated in Telefónica's strategy of focusing on creating value through communication and broadband services, both in Spain and in Latin America, data and multi-media mobile services that use emerging UMTS and new mobile handset technology, as well as more developed and upgraded sales, network and services management.

Specifically, and with respect to broadband services, it is important to highlight the increased speed of the ADSL Service in Spain at no additional cost to customers, the launch of new added value ADSL services, including Imagenio, the interactive TV for households, new "variable" ADSL services in Argentina and

Brazil, paid according to the conditions of their use that break down the entry barriers for new broadband customers; and the ADSL Flexible Business Service, which provides network commercial process management applications.

The development of added value services in the business sector has increased this area's relevance within the range of services offered by Telefónica Empresas.

Also launched in 2004 were services such as video telephone on conventional lines, improvements in Network Answering Systems, the "Telemergencia" service (for security) in Chile, new products targeting lower income customers (economical and super-economical lines) in Latin America, particularly in Brazil, etc.
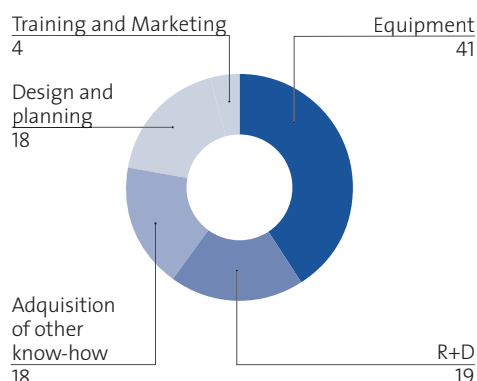
In mobile telephony, innovations include new multimedia services for GPRS and UMTS technologies, handsets and cards promoting the TSM brand, boosting GSM coverage in many Latin American countries, multimedia messaging using emerging UMTS technology, GPRS navegation services of and multimedia messages, marketing services such as Movistar Desktop, Blackberry Professional Mail, and the use of i-mode technology.

Furthermore, Telefónica Publicidad e Información (TPI) continued to launch new informational and advertising content addressed at boosting the use of its products and creating better business opportunities for its advertisers. Amongst the innovations introduced in 2004 were the publication of the NAN Professional Guide to Hotels and Restaurants and free magazines Romantique & Chic and Wapa, the creation of Calleacalle.com, a specialised guide to retail establishments, and the new B2B Publiguías Blue Pages published in Chile.

However Telefónica's work in innovation was not focused solely on the launch of new services technology, but also on sales and process

INNOVATION
(Figures in percentages)

Training and Marketing
4

Equipment
41

Design and planning
18

Adquisition of other know-how
18

R+D
19

INNOVATION BY GEOGRAPHICAL LOCATION
(millions of euros)

Geographical area	2003	2004
Spain	1,303	1,164
Other markets	599	1,234
Total	1,902	2,398

innovations and new, original ways of doing things. In this respect, Telefónica has developed systems that make it possible to manage businesses more efficiently, using the new sales and operation management systems with innovative solutions that have brought intelligence, profitability, and efficiency to Supply, Customer Services, and Infrastructure Management processes. Amongst these are the FAST and ATIS systems, which have contributed to improving the efficiency of Telefónica's billing system as well as that of the Caja Unica, the centralised treasury management process through Telfisa, and the new publishing production model.

In terms of network and services management, some innovative solutions to highlight are the Network and Service Management Integrated System (known as SIGRES) developed for Group fixed-line operators in Latin America, and GEISER (Integral Management of Network Services) centred on Telefónica de España's transmission network management, which is now in its final testing phase.

TELEFÓNICA I+D

The majority of the R+D activity is undertaken by Telefónica Investigación y Desarrollo, owned 100% by Telefónica, which works mainly with Telefónica's business lines and participates in other research projects, both at national and international levels. Its mission is to contribute to the Group's competitiveness through technological innovation, while keeping in mind that the results of R+D should be a competitive value for the operators that is transferable to the customer.

In 2004, Telefónica I+D worked on 1,660 projects, which involved 1,250 of its own staff (94% of them university graduates), approximately 42 collaborating companies, and 23 universities that encompassed a total of 1,300 people. In addition, 259 publications were released, including articles,

books, conferences, etc., and 240 new products were developed and patented during the last fiscal year. Telefónica's work in this area represents 7% of total private R+D in Spain.

In 2004, Telefónica I+D set up a new company in Mexico, which shares the mission of supporting technological innovation in the Group companies operating in Latin America with Telefónica Pesquisa e Desenvolvimento, headquartered in Sao Paulo. Additionally, Telefónica has begun a process to set up a new R+D centre in Granada (Spain) that will complement the activities it already underway at its centres in Barcelona, Huesca, Madrid, and Valladolid.

Telefónica I+D is Spain's leading company in terms of participation in European R+D projects that are promoted and partially funded by the European Union (EU). Specifically, in 2004, it participated in 56 European projects, involving 225 people between 2004 and 2006, under a 16 million euro subsidy from the EU for the said period.

This substantial effort to promote innovation has made it possible to launch numerous new products on the market and to increase its Portfolio of industrial and intellectual property, and to bridge the technological gap. More specifically, today Telefónica's Portfolio is comprised of 3,032 registered products, of which 1,787 are patents, and 1,245 are copyrights, largely software applications.

7% of the private investment in R+D in Spain

24% of investment in innovation in the Spanish ITC sector

JOBS CREATED BY TELEFÓNICA'S R+D ACTIVITY

	Direct Jobs	Indirect Jobs	Total
Telefónica I+D	1271	1309	2483
Other Group Companies	491	2830	1890
Total	1762	4139	5901

	Direct Jobs	Indirect Jobs	Total
Spain	1644	2352	3996
Latin America	118	1787	1905
Total	1762	4139	5901

Excellence

MOVING TOWARD "EXCELLENT TELEFÓNICA"

Operational excellence is, for Telefónica, one of the main cornerstones on which its current transformation process is founded. In this context, in 2004 the Group set itself the target of transforming the Company by 2008 into "Excellent Telefónica", an excellent company with the best quality and customer satisfaction levels in the sector, more efficient and flexible, and with the most motivated and dynamic professionals.

Excellent Telefónica is based on the synergies of the Group, efficiently managing resources from a global standpoint, sharing and extending best practises, taking advantage of economies of scale, offering the customer a single help desk, with a motivated, committed human team.

In order to achieve these objectives, in 2004 Telefónica started to work on three themes: firstly, services and customer services - developing products and services designed to achieve customer satisfaction, optimizing service parameters, attending customers more quickly and efficiently, and resolving their problems quickly and without invoicing errors; secondly, the management of economic and human resources, continually increasing productivity and efficiently selecting investments; and finally, as providers of operations such as technology, systems, processes and organization.

This combination of effectiveness, quality and motivation will allow us to move from efficiency toward a new phase of excellence in Telefónica, focused fully on the customer.

Progress in 2004

Throughout the year, enormous progress has been made in efficiency and quality. In terms of efficiency, we have increased our EBITDA per employee to 140,000 euros (up by more than 5% on 2003), despite the increase in competitive pressure in all our markets, and placing us at the head of the sector.

In recent years, we have also been increasing our productivity (in fixed lines per employee and mobile customers per employee) by an average annual rate of more than 10%, reducing investment per ADSL contract at an average annual rate of 33%, and cutting the network cost per minute on mobile voice telephony networks by an average annual rate of 25%. In this respect, 2004 was no exception.

We have also significantly upgraded the quality of our service, developing operative improvement programs that have resulted in cost reductions. For example, we have practically eliminated waiting lists in our markets, which have been reduced from 6 years in Peru or 4 years in Argentina in 1994 to current levels of less than one month. We have also efficiently taken communications to the remotest parts of Latin America.

Another example of progress in process-related efficiency in 2004 was the Group purchasing processes, which totaled over 12.0 billion euros. Purchasing operations by subsidiaries in 19 countries are performed on a coordinated basis, under the same management model. Through the Adquira España platform, the Telefónica Group made electronic purchases valued at 4 billion euros in more than 12,000 processes in 2004, four-fold the volume managed electronically in 2003. The company also expects to reach 7.5 billion euros in electronic negotiations in 2005, which would account for 55 % of the Group's purchases. This e-business platform is currently working with over 5,500 providers in six countries: Spain, Brazil, Argentina, Mexico, Peru and Chile, although during 2005 the intention is to extend this electronic market to countries such as Venezuela and Colombia.

In addition to the negotiation process, which is performed by exchanging bids or counterbids or by auction or tender, Adquira enables the performance of electronic transactions such as e-orders, the issuing by providers of electronic delivery notes, reception of merchandise/service

EBITDA
(Thousand euros/employee)
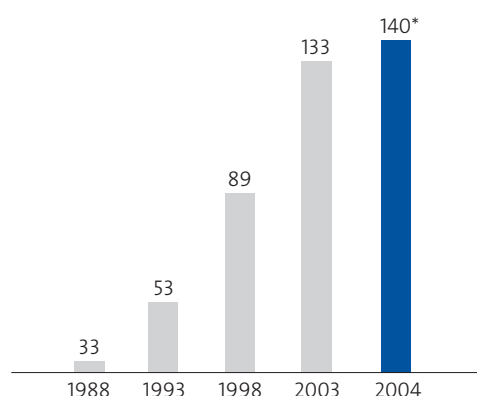
(*) Without taking into account Atento or Bellsouth LatAm (which was included in the accounts for December 2004)

and e-invoices, and it plans to incorporate e-contracting in 2005, including digital signatures of commitments under contracts and the extension of this electronic cycle to the largest possible number of operations.

Also within the scope of processes and organization, t-gestiona has taken significant steps forward in 2004. It currently has 700 professionals in Spain and more than 3,000 worldwide, bringing together the best capacities in order to offer a broad and unified range of services which were previously dispersed within the Group.

In this context, the Company is making headway in the process of corporate reorganization in order to strengthen its business capacity and service vocation, aimed primarily at companies in the Telefónica Group. Specifically, the process of integrating services in t-gestiona España began during the first six months of 2004 and the main achievements have been the absorption of Zeleris, the transfer of professionals from Inmobiliaria Telefónica to TPTI and, lastly, the merger by absorption of the

latter by t-gestiona España. Moreover, the Company recently acquired the Shared Services Centers of Argentina, Brazil and Mexico and it soon expects to incorporate the Peru center.

In 2005, t-gestiona España will embark upon a new stage in its business development with the integration of the companies under Telefónica's Resources division. t-gestiona manages a 65,000-strong payroll and already invoices more than 120 million euros to Group companies.

Of particular importance to t-gestiona is its participation in the "Distrito C" Project, which was launched in 2004 and encompasses the construction of Telefónica's new head office in Madrid (Spain). t-gestiona is responsible for supervising the project and designing the model for the services available to the nearly 14,000 employees who will be transferred to this complex. It is also involved in the design and execution of the technological, services and information systems infrastructure projects that will have to be provided to all the employees.
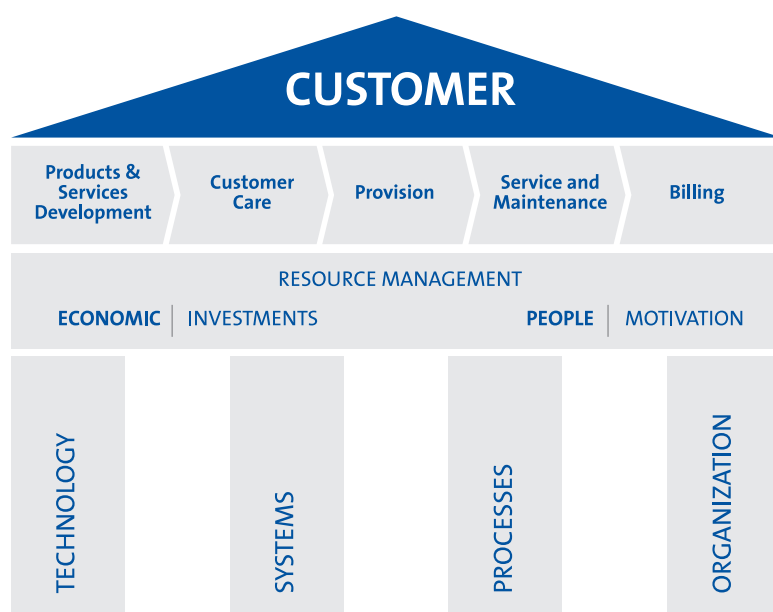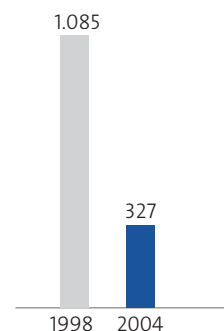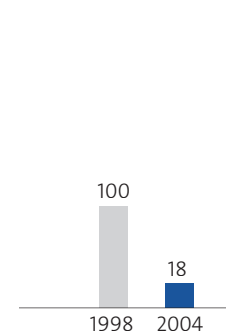
EVOLUTION OF EFFICIENCY

Telefonía Fija
Customers/employee
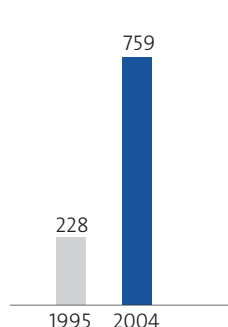
Mobile telephony
Customers/employee
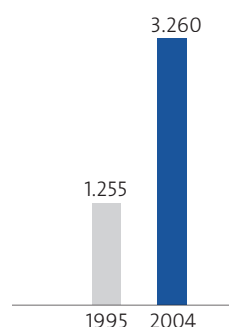
EVOLUTION OF EFFICIENCY

High investment

Network cost/minute
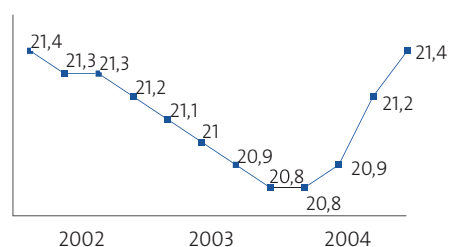*(base 100=1998)*

Goal: Customer Satisfaction

In this process of development from efficiency to excellence, Telefónica has started to work with specific variables that measure our progress towards that "Excellent Telefónica".

These variables will be customer-oriented, akin to the goals of Excellent Telefónica, following-up on final customer satisfaction and the various elements that contribute to it, such as the percentage of calls responded to, or availability of service. Additionally, Telefónica has set itself a series of economic parameters, both in expenditures and investments, to achieve significant improvements in three fundamental and complementary factors: Efficiency, Quality and Motivation.
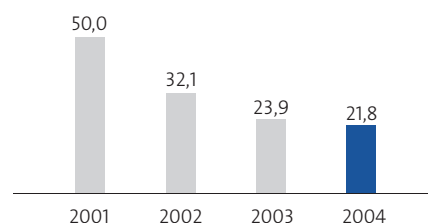
In short, Telefónica has set itself the target for 2008 of becoming a company with customers who are more satisfied with of our level of quality through our offer of the most suitable solutions both in time and form, through they excellent attention they receive; a more efficient and flexible company, reducing the burden of assets, optimizing investments with simple operational models based on economies of scale; with more motivated personnel, who develop their professional skills and capacities, with involvement and enthusiasm for a common project.

Our goal is and will continue to be the satisfaction of our customers.

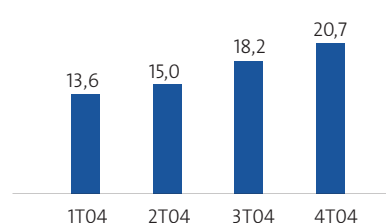**FIXED TELEPHONY BUSINESS IN LATIN AMERICA**

Basic TISA Accesses
Quarterly evolution
(Thousands)

Number of TISA ADSL lines
Quarterly evolution
(Thousand)

Greater efficiency / flexibility
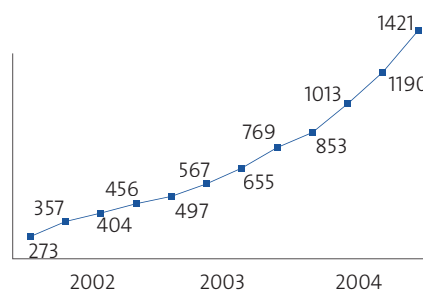
Evolution of % of pre-paid accesses / TISA total

Team Spirit

Telefónica's strategy, built around the five key themes proposed at the Directors' Summit in November 2004, identified Employee Leadership and Commitment as one of the five cornerstones supporting the transformation of the Group's activities, closely linked to the management of the Company's team of professionals all over the world.

In order to speed up the transformation process put forward at the Summit and reach the objective of being the biggest and the best integrated telecommunications group in the world, Telefónica has set itself the goal of becoming the best future option for its entire team of professionals and a role model in the industry.

With this in mind, throughout 2004 the Company sought to consolidate the Group-based and individual Leadership and Commitment of the more than 173,000 professionals it now employs; a Leadership and Commitment-oriented policy aligned with major sales initiatives implemented during the course of the year that have also had an impact on the organisation.

Telefónica now boasts a workforce of over 173,000 employees broken down as follows (excluding Atento - Telefónica's customer service affiliate): 33% in sales, 51% in production and the remaining 16% in support services. As a result of the increasing commitment of the entire organisation to customer orientation over the last few years, in 2004 Telefónica's sales force increased by 1,700 people as compared to 2003.

To bring about Employee Leadership, Telefónica has strengthened its value proposition to its professionals, seeking in the process to become a company that its employees can feel proud of, a company "of and for" its employees, where relationships are founded on trust, where the hard work of each individual is justly rewarded, and where everyone has the opportunity to develop professionally and as people.

CROSS-DIVISIONAL AND BUSINESS-UNIT INITIATIVES

To bolster this process a number of initiatives were introduced throughout 2004 based on four main principles: Clarity, Remuneration Policy, Professional Development and Exemplarity. Following the Directors' Summit, these initiatives were given a specific high-profile role as part of a transformation plan devised by Telefónica's senior management to be monitored by its Management Committee.

As a result of the post-summit work conducted by the teams, more than 20 specific initiatives were subsequently identified: seven of them are cross-divisional within the Group as a whole and 14 apply to the business lines (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles and the other units), some of which were implemented in 2004, with others introduced in early 2005.

Through these initiatives, Telefónica has set out to make internal communication clearer, enhance skills development and management through cross-functional rotation schemes and skills renewal programmes, and adopt more sophisticated employee evaluation and salary policies.

As regards Professional Development, workplace environment surveys have now been applied to all Group companies throughout the world. In 2004, the Group's HR Departments designed a set of seven corporate workplace environment indicators, the results of which are collated from 29 core questions featured in the workplace environment surveys introduced in the Group's main companies between November 2004 and February 2005.

The objective of this company-wide initiative is threefold: to ensure the uniform measurement of strategic workplace environment indicators as a springboard for the transformation of Telefónica; to promote, following the

measurement process, initiatives designed to raise Telefónica Group employee satisfaction levels; and lastly, to monitor the impact these action plans have on the improvement of the workplace environment and employee motivation.

The Workplace Environment Monitoring Group, comprising the workplace environment managers from Telefónica's main companies, was set up in 2004 to help reach these goals. Its mission is to analyse and share initiatives being introduced in the Telefónica Group and in other companies to improve the workplace environment and, specifically, to create a space for debate and innovation that helps us foster employee satisfaction within the Group as a whole.

Another of the initiatives linked to Professional Development and to Clarity is the publication of vacant positions throughout the Group. At the beginning of 2005, a new section was added to the Group's internal online communication channels featuring lists of vacant positions within the companies, thereby giving all Group employees the opportunity to apply for posts contributing to their career development. These lists are regularly and automatically updated with new vacancies as they arise and have been designed to extend career development opportunities throughout the Group's companies and to foster the transmission of skills within the Group.

The Group's training departments also made their contribution to career development in 2004 by organising employee development courses comprising over 9 million training hours, with 84% of all personnel receiving training.

Teletraining, an area in which the Telefónica Group leads the way, has also been applied widely throughout the Group using innovative techniques.

As regards implementation, figures for 2004 reveal that e-learning programmes were consolidated in all Group companies with training time per employee increasing by one hour over 2003 (10hrs 26mins) and the number of course attendees completing training plans doubling compared to the previous year.

In 2004, investments were made in developing new cross-divisional contents relating to business competencies, and work has begun on designing business simulators (training solutions based on the "Learn by Doing" model that confront course attendees with situations they have to resolve).

In terms of innovation, there are two standout solutions: the development of Mobile Learning, which allows employees to take courses (either wholly or in part) using mobile devices; and the launch of Telefónica's Corporate Training Portal, available in Spanish and Portuguese in all countries where the Group operates.

The challenge for the future

Telefónica's additional objectives in the management of teams for 2005 involve operating in two main areas: advancing the leadership skills of its professionals and setting up a framework for maximising professional opportunities/skills. Both initiatives are designed to foster the professional growth of all personnel in the Telefónica Group. Projects such as Innovative Management of Managerial Performance and Promoting Transformation-Oriented Leadership are targeted at the first of these two areas. Development of the second involves projects such as the Managerial Rotation Programme – a development framework whereby each manager will be required to participate in at least one training programme per year depending on their needs analysis and the Group's strategic priorities – and analysis of the need for a Corporate University, among others.

In short, all the initiatives set out in the Leadership and Commitment area seek to foster the necessary cultural change to complete the transformation process that Telefónica has already embarked on – a process that is dependent upon the wholehearted commitment of all the Group's professionals and its teams. Leadership and Commitment are, therefore, key levers for ensuring the full involvement and motivation of teams and the satisfaction of our customers, in addition to the fulfilment of business objectives and the pledges made to shareholders and the societies where Telefónica is present.

HOURS OF TRAINING BY BUSINESS LINES

	2004
Telefónica de España Group	1,566,794
Telefónica Latam Group	812,665
Móviles Group	684,094
Atento Group	5,567,453
Directorios Group	111,105
Contenidos Group	not available
Other Companies	168,072
Telefónica Group Total	8,910,183

WORKFORCE BY BUSINESS LINES

	Dec 04
Telefonica de España Group	36,425
Telefonica Moviles Group	19,797
Terra Group	1,584
Contenidos Group	5,860
Telefonica Latam Group	25,905
Directorios Group	2,876
Other Companies	6,278
Atento Group	74,829
Telefonica Group	173,554

WORKFORCE BY COUNTRIES

	2004
Spain	59,978
Rest of Europe	4,325
Europe Total	64,303
Brazil	51,741
Argentina	15,177
Chile	10,060
Peru	10,733
Mexico	6,493
Rest of Lat Am	13,972
Total Lat Am	108,176
Other Countries	1,075
Group Total	173,554

Identity and Comunication

Since it was founded some 80 years ago, Telefónica's character as a private company has been forged as a result of its quotation on the stock exchange in 1927, a company oriented towards customer service, operating efficiency, innovation and the maximising of business opportunities.

In 2004 Telefónica reinforced its Group strategy of making the customer a pivotal element of the organisation, anticipating new trends towards convergence in the telecommunications market. In response to these new expectations and needs it has invested in an integrated vision of the Group's brands with a view to making Telefónica the biggest and best integrated telecommunications group in the world.

CORPORATE IDENTITY: A KEY FACTOR IN RELATIONSHIPS WITH OUR STAKEHOLDERS.

In Telefónica's eyes, Corporate Identity is a key component in projecting its vision, positioning and values to all the stakeholders with whom it interacts: customers, employees, shareholders, suppliers, the industry regulator and society as a whole.

With this in mind, the Group has implemented a new brand strategy and architecture model known as its "family system". The model sets out to define roles, criteria, hierarchies and relationships between the group's brands based on a series of identity-oriented principles (values, positioning, messages, tone, etc.) and a graphic coherence system (colours, codes, formats, styles and typography). This new brand strategy and architecture system means we can now manage the Group's dual institutional and commercial profile more effectively.

As part of this model, the role played by the Telefónica master brand, with its institutional profile and the values it encapsulates, involves supporting and guaranteeing the range of

products connected to the brands and giving them "stature". For their part, the brands complement the master brand by providing proximity and freshness. They also differentiate the range of products and raise their profile, bringing them closer to the customer and making them more credible, while revitalising and renewing the main brand. The system thus generates value-based feedback on all the brands.

The "Family System" is managed by a raft of identity-oriented principles and a system of graphic coherence between the Telefónica master brand and the commercial brands which, using the blue stripe as a background, acts as a mechanism connecting the brands and defining the colours, codes, formats, styles and typography used in the communication process to convey a balanced and coherent vision of the Group.

The identity-oriented principles are essential elements in the Telefónica Group's brand strategy and architecture model and are common to all areas.

Telefónica has an overriding objective: to understand and meet the needs of the people it interacts with. Only by doing this can it convert its technological innovations into accessible communication solutions that upgrade and make the lives of its customers easier and contribute to the continued progress of society.

And only by doing this can Telefónica build lasting relationships based on trust, making the groups it collaborates with into its partners.

OUR SPONSORSHIP AGREEMENTS

We have also built up links with our customers and the societies where Telefónica is present through institutional and commercial sponsorship agreements. These sponsorship deals allow the Group to convey the key

corporate values at the heart of its relationships with stakeholders: closeness, commitment, trust, clarity, drive, etc.

In 2004, a total of 244 sponsorship agreements were signed with a host of sporting, social, cultural and other organisations. The most significant include sponsorship of the Universal Forum of Cultures - Barcelona 2004 and the Xacobeo (Holy Year of St. James) 2004, two major cultural events of international importance attracting large numbers of visitors. Telefónica has showed its support of the Spanish language by sponsoring the Third International Language Conference, held in Rosario (Argentina) and attended by King Juan Carlos I of Spain, the President of Argentina, in addition to other leaders of Latin American countries and a numerous leading authorities on the Spanish language. The Group sponsored the events held to commemorate the 25th Anniversary of Democratic Town and City Councils organised by the Spanish Federation of Municipalities and Provinces (FEMP), including exhibitions, conferences and other similar events. It also works in close conjunction with Spanish universities through the Telefónica lectureships.

Telefónica BRINGS YOU...

A total of 323 commercial deals were signed during the year including sponsorship of the Renault F1 racing team and its star driver, Fernando Alonso, and MoviStar's sponsorship of riders Dani Pedrosa and Sete Gibernau in the 250cc and MotoGP World Championships respectively, not to mention the MoviStar concerts including the singer Alejandro Sanz's tour.

COMMUNICATION: THE KEY TO CONSOLIDATING OUR LEADING POSITION

Communication is also a core element for Telefónica that is central to the Group's transformation process

Following the Directors' Summit in November and with its sights set on 2008, Telefónica also approved the introduction of a Global Corporate Communication Management Plan aligned

6 The brands refresh the Telefónica brand

7 The connections between the brands are simple and clear

8 The products are not brands

9 Telefónica and its brands coexist as part of a system

10 This system of coexistence ensures coherence in the values and messages between the brands and Telefónica

OUR BRANDS ATTRIBUTES

Shareholders	Profitability Transparency		
Clients	Quality Compliance	Commitment Proximity Innovation Leadership	Vital Enthusiastic Humane Non excluding Expressive Sociable Open
Employees	Clarity Development		
Society	Contribution Proximity		

■ Transversal values by audience   ■ Attributes that express the Brand's personality

with the Strategic Plan, the purpose of which is to structure the various initiatives set in motion to achieve its goal of becoming the best and the biggest integrated telecommunications group in the world.

Work on the Plan began this year and is focused on two basic areas. Firstly, it sets out to create a single communication dynamic for all Group employees all over the world and, secondly, it aims to focus communication towards the customer, towards the professionals that receive it and not so much on the organisation that generates it.

This will mean reappraising the Group's existing internal communication channels, and possibly creating new ones, reinforcing the key role of Internal Communication in the internal cohesion of the Group as a whole.

2004 also saw a proposal for a new integrated Intranet model for the entire Group designed to make use of the widely contrasting contents offered by all its companies and integrate them on the same level of visibility to create the internal perception of a single company. This project, approved in 2005, will pool all internal communication resources, leading to the

creation of a unified internal culture and enabling the more than 173,000 professionals that make up the Group to perceive it as a single entity.

Lastly, Telefónica's new head office in Madrid, the Distrito C, is the most innovative and high profile project currently being engaged in by the Company. 2004 saw work begin on what is set to become the focal point of the Group's communication policy, although it was not until this year that development of specific initiatives got under way, aimed at the first employees in the Group set to move to the new offices last quarter of the year. In this respect, the Distrito C will be the most visible sign of Telefónica's new business culture and its new working methods.

The relationship with the media is also a vital part in the current process of transformation that Telefónica Group is undergoing as it represents an open channel for communication with its main audiences: customers, shareholders, employees and society in general. For Telefónica, communication is an absolutely essential factor.

Over the last year, the Group has enjoyed a relationship with the media based on trust and

defined by accuracy of information and transparency. It has also been working on a communication strategy based on proximity and the dissemination of comprehensive, relevant and accurate information. The strategy involves providing a personalised service to handle requests for information from the media in each particular area, region and market. To ensure information can be accessed transparently and without delay, the Company's "virtual press room" (www.telefonica.es/saladeprensa) is updated on a permanent basis. Here, all the press articles from the year are published along with photographs, profiles, the employment histories of Company Directors, graphics, results and a host of other contents.

In short, by engaging in a strategy based on close communication, innovation and a commitment to all the societies where it is present, Telefónica is able, day after day, to provide a flexible, accurate and transparent response to the enormous demand for information that it generates. In doing so, it anticipates the needs of the media and forges links based on trust with its partners.

Finally, the Alquimia Project has enabled Telefónica to design and implement a new model for its presence on the Internet. Based on the concept of "a single image on the Internet", the Alquimia model offers a highly flexible tool to modulate Internet relationships, making this single image compatible with the operational independence of each company, the individual character of different brands (both present and future ones), and respect for data protection policies and regulatory restrictions.

The success of this new model has been proven thanks to more than 70 million contacts handled in 2004, and is helping to consolidate Telefónica's operations and its perception as an integrated operator working towards a joint

overall objective with a shared sense of commitment.

This model is now up and running in 14 countries, with this number set to grow to 19 during the course of 2005 following the buyout of BellSouth's operators: Germany, Argentina, Brazil, Colombia, Chile, Ecuador, El Salvador, Spain, the US, Guatemala, Morocco, Mexico, Nicaragua, Panama, Peru, Puerto Rico, the UK, Uruguay and Venezuela.

01/03

Commitments

Solidarity

TELEFÓNICA, A COMMITTED COMPANY

Telefónica's goal is to become a tried and trusted operator for all its stakeholders: customers, employees, shareholders and society in general. In this respect, its leadership is founded on a set of core values that define the Company's personality, reflect its aspirations and establish the nature of its relationships with its interest groups.

This Closeness and Commitment that are the hallmarks of the organisation are also intimately linked to key reference values in the relationships we enjoy with these groups: Profitability and Transparency for shareholders; Quality and Fulfilment for customers; Clarity in our relationship with and professional development of employees and, lastly, Commitment and Closeness to society. In combining all these values, Telefónica gradually seeks to forge a bond based on trust by making sound commitments and fulfilling them. It sees trust as a key factor in engaging in this process as closely as possible.

Telefónica is a leader in terms of its commitment to society in general. It has reached this position because it is, quite simply, a driving force for the development of the societies where it operates, a natural ally of the countries it is present in, and a key player in promoting the Information Society in these markets. As a multi-domestic company, Telefónica is fully committed to these countries and makes a vital contribution to their social development, establishing itself, in the process, as the leading private investor in many of these regions.

Social commitment and solidarity

Telefónica is a caring business group. It channels its commitment to society through the Telefónica Foundation, the main objective of which is to use the new information and communication technologies (ICTs) to foster social cooperation and promotion. As a result, in 2004 over 25,000 organizations and 26 million people benefited from the over 24 million euros invested in 239 projects that the Foundation implemented in Spain (16.5 million) and Latin America and Morocco (7.8 million).

Education, Cooperation and Social Promotion, Telemedicine, Telecare and the Disabled, Culture, Art and the Information Society are just some of the areas where the Telefónica Foundation is active.

Cooperation and social promotion

Throughout the year, this objective was reaffirmed, thanks to initiatives such as a program to supply non-profit organisations with telecommunications equipment, which was supported by a call for public aid and the signing of various partnership agreements. The program has helped more than 360 Spanish organisations to significantly upgrade their telecommunications equipment and infrastructures.

We have also been very active in the field of social cooperation and promotion. Initiatives in this area include: the Risolidaria programme – a platform comprising over 700 groups that aims to facilitate the work of civil organisations; corporate voluntary schemes, with nearly 3,000 employees from various Group companies participating; support for voluntary workers with campaigns such as "Ningún Cooperante Sin Comunicación" which, in 2004 allowed more than 10,400 Spanish missionaries and aid workers around the globe to keep in touch with their families; and a host of initiatives designed to guarantee telecommunications services in countries experiencing emergency situations such as the disaster caused by last December's tsunami in Southeast Asia.

The Telefónica Foundation has given its support once more to a variety of civil organisations by providing the necessary technical resources for initiatives aimed at raising awareness and promoting the participation of society. In Morocco, the Foundation is supporting the work of the Day Centre in the city of Tetuan, which provides

essential services, healthcare and drug addiction treatment, in addition to welfare and legal services for homeless children. It has also worked closely with the CODESPA Foundation in setting up a classroom at its care centre and equipping it with computers, teaching material and visual aids.

In Mexico, the Foundation continues to promote the revival of indigenous languages and culture, provides non-profit organisations with techno-logical tools to help manage the work they perform, and help them use these new ICTs in an attempt to bridge the knowledge gap and reach society's most vulnerable groups.

For its part, in 2004 the Telefónica Foundation Peru unveiled its extensive Domestic Violence Prevention Programme, the aim of which is to use new technologies to prevent the abuse of children, young people and women at risk. The programme is the Foundation's contribution to combating a social problem that has arisen in the country in recent years.

In Argentina, the Foundation has launched a series of initiatives including an integrated programme for the development of civil society, which gives non-profit organisations the tools they need to raise their human resources standards, such as technical support and con-sultancy services. To improve the situation of the least prosperous sections of society, the Foundation also lends its support to various production projects designed to instil a sense of achievement and generate economic independence.

Telemedicine, telecare and the disabled
The disabled and the elderly are also key priorities for the Foundation. Its activity in this field involves vital R&D work mainly focused on increasing access to information, communication, training and employment; enabling the provision of better healthcare and welfare services for the elderly, infirm, disabled and the vulnerable; and on helping improve education on health and the prevention of illnesses and disabilities.

In 2004, the Telefónica Foundation worked hand in hand with several prestigious civil organi-sations to implement and support a number of projects for the disabled, including the following: Merc@dis, an employment portal aimed specifically at disabled people; a unit demonstrating specially adapted equipment for the disabled at CEAPAT (National Centre for Personal Autonomy and Technical Aids); and the SICLA Project, which provides very advanced technology enabling alternative communi-cation. In telecare, its initiatives include a localisation and help system for women at risk of domestic violence; and the "Telesalud ADSL" programme, designed to enable audiovisual contact between the elderly and medical professionals.

The Telefónica Foundation has also joined forces with various civil/health organisations in the field of telemedicine in the creation and technological maintenance of Internet portals on a range of medical specialties such as oncology and cardiology, and illnesses including spina bifida, Alzheimer's or Down syndrome. 2004 was the Latin American Year of the Disabled, an initiative that has helped the Foundations based in Latin America to increase the public profile of the projects it is engaged in.

Some of the principal actions undertaken in this area include skills programmes for the disabled on the use of new ICTs with a view to enabling their integration into the labour market, and the research and development of new, specially adapted technology such as the SICLA Communicator, which offers new opportunities for social integration, and allows professionals and teachers alike to handle this technology.

Education
In education, the Telefónica Foundation's main objective is to promote the development of education and equal opportunities by applying new ICTs to teaching and learning. In 2004, it was able to consolidate its high school and secondary education Internet portal (EducaRed) and its university training portal (CampusRed),

both of which have become reference points for school children, university students and educational staff throughout Spain and Latin America. Furthermore, these portals continue to absorb the most useful and groundbreaking tools available in educational technology. The Telefónica Foundation has also implemented other programmes, such as "Oficios en Red", "FuTuRo" and "Aulas Unidas", all of them aimed at fostering quality and equal opportunities in education, both in the formal environment and in groups deserving of special attention: homeless and sick children.

In Brazil and Mexico, the Foundations have continued to support the implementation of the Computer and Citizenship Schools programme, which seeks to encourage the social inclusion of children and young people from marginalised communities, in addition to a host of projects focusing on literacy and speeding up of learning.

Chile is one of the countries with the highest Internet access rates in Latin America thanks to the programme "Internet Educativa", which has helped thousands of schools all over the country to connect to the Net since 1998. However, given that Internet access does not in itself guarantee improved educational standards, in 2004 the Foundation continued to deliver original and fun-filled teaching resources to teachers and students through its "EducaRed" website.

Technology, Art and Culture
Turning now to culture, the Telefónica Foundation continues to work on the virtual recreation of major monuments and buildings of cultural, artistic and historical interest in Spain and Latin America through its "Ars Virtual" programme. It is also actively involved in consolidating and raising the profile of the Spanish language on the Net through a series of initiatives promoting the language and Spanish-speaking culture.

The Cultural Extension Programme has carried out valuable work in Chile, running a number of

programmes in 2004, such as "Arte en Verano / Arte en Invierno", "Museos de Media Noche" or "Descubriendo Mi Ciudad", all of them proving extremely popular.

In Argentina, 2003 saw Telefónica set up its Foundation Programme, which organises a range of artistic activities focusing on literature, dance, theatre and music, and has successfully maintained the spirit of experimentation that inspired its creation. It also supports and promotes other areas of the Programme by organising courses, conferences, seminars and round tables for members of the public and specialists alike across a broad range of issues.

In 2004, Mexico began making a series of videos on the more than 60 ethnic groups that live in the country as a means of promoting its historical and cultural heritage through the educational use of new technologies. These videos are designed to be used in schools as teaching and research resources for teachers and students.

The Information Society
It has also organised and supported many forums, conferences and congresses debating current issues, such as the status of the telecommunications sector; the opportunities opened up by the Information Society in education and professional development; the role of the new technologies in the fight against social exclusion; and the voluntary schemes and social initiatives engaged in by companies, to name but a few.

Internet users in Peru can now access the website of the State Archives, a space providing detailed information on the foundation and organisation of this state institution and the functions it performs, as well as access to valuable historical documents. It has also organised its first animated film competition on the Internet, the aim of which is to promote the use of information society tools in the country. The competition gives entrants the chance to use their imagination, creativity and skills to create animations.

Corporate responsibility

A RESPONSIBLE GROUP

Telefónica is fully committed to Corporate Responsibility. As well as implying efficient business management, this takes shape as a commitment to the labour market, respect for the environment, equal opportunities, greater social integration and cohesion, as well as opportunities for its suppliers, partners, etc. And finally, a commitment to the creation of wealth and the technological and social development of the regions in which Telefónica operates.

Throughout its history, Telefónica has shown itself to be a responsible company on numerous occasions. Examples of this commitment are evident in: the establishment of the Telefónica Association to aid the disabled, ATAM, in the 1970's, the publication of the first Social Balance Sheets in the 1980's and the adoption of commitments to the environment in the 1990's. In October 2001, the Telefónica Group began to approach corporate responsibility (CR) as a method of managing business processes to ensure that they create long-term sustainable value for all those dealing with the Company.

Corporate Responsibility is headed up at the Corporate Centre, through collaboration of all the departments involved in the management of relations with the different interest groups, in coordination with the main business units. The

primary aim is to coalesce initiatives and synergies and increase the Group's contribution to social value, seeking a balance between the economic growth of its business and fulfilment of the expectations of all its interest groups.

To achieve this, Telefónica uses certain transversal management bases that encompass the various Corporate Responsibility projects promoted by the management areas and Group business lines.

- Regarding the first of these, **proactive risk management**, the Company has monitored and measured the main risks associated with its corporate responsibility and reputation since 2001. During 2004, Telefónica completed its internal diagnostics with an external analysis of the importance of corporate responsibility in each of its main operating markets (Spain, Argentina, Brazil, Chile, Mexico and Peru).

- In the area of **flexibility and adaptability**, the aim is for greater cohesion and a stronger internal Group culture, respecting the social, political and economic environment of each country in which the Group operates and the particularities of each business unit.

- **In its regard relations with interest groups**, Telefónica maintains a policy of active listening to the needs of the main interest

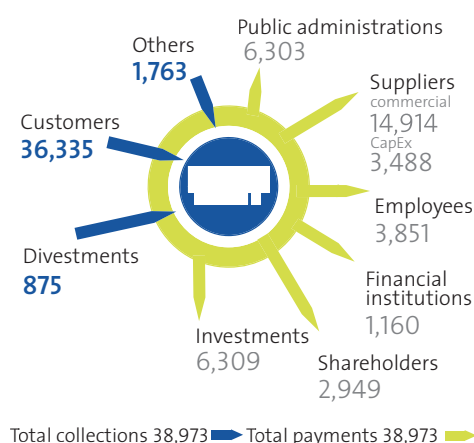Telefónica was included in the European and world indexes of the *Dow Jones Sustainability Index (DJSI)*, which includes companies that lead in their industries with sustainability criteria. The presence of Telefónica on the DJSI indexes is recognition of Telefonica's conviction that corporate responsibility is a basic area in the business strategy of a telecoms operator. Likewise, Telefónica was again included on the FTSE4good.

INCOME REDISTRIBUTION IN 2004
(Figures in millions of €)

Others **1,763**

Public administrations 6,303

Customers **36,335**

Suppliers
commercial 14,914
CapEx 3,488

Employees 3,851

Divestments **875**

Financial institutions 1,160

Investments 6,309

Shareholders 2,949

Total collections 38,973 ➡ Total payments 38,973 ➡

CORPORATE RESPONSIBILITY REPORTS PUBLISHED IN THE TELEFONICA GROUP

🟩 Enviromental report   🟦 Sustainability report   🟦 Corporate responsibility report

								2004
Telefónica, S.A.						Corporate	Corporate	Corporate
Telefónica de España			Env	Env	Env	Sust	Sust	Corporate
Telefónica Móviles							Corporate	Corporate
Telefónica Móviles de España			Env	Env	Env	Sust	Corporate	Corporate
Telefónica I+D	Env	Env	Env	Env	Env	Sust	Env	Corporate
Terra							Corporate	Corporate
T.P.I							Corporate	Corporate
Atento								Corporate
Brazil								Corporate
Argentina								Corporate
Chile								Corporate
Peru								Corporate

Note: 2004 reports may be in process when this document goes to press

groups through the companies comprising the Group, as well as participating in public and private initiatives that deal with corporate responsibility and reputation.

This Principle of Inter-relation has been consolidated over the last few years, leading to specific collaboration and commitments between the company and the representatives of the interest groups in general.

- The principle of **creation of value** is clearly evidenced by the numerous initiatives promoted throughout the 2004 year, presented in the Corporate Responsibility Report, such as Telefónica's listing on Indices such as the FTSE4Good and Dow Jones Sustainability Index.

- In terms of **transparency in information**, Telefónica publishes an Annual Global Report

on Corporate Responsibility together with its Annual Activities Report, in addition to specific reports on its business lines and activities in Brazil, Argentina, Chile, Peru and Spain. Furthermore, Telefónica has also included a section in its website devoted to corporate responsibility , since December 2002, following the same information structure as the Annual Report. During 2004, this page registered nearly 60,000 hits.

Below, we highlight some advances regarding Telefónica's core areas of participation made in 2004.

International initiatives

United Nations (UN)
Telefónica collaborates with several United Nations agencies and initiatives. Throughout 2004, various collaboration projects have arisen

from the shared global and multidisciplinary vision of corporate responsibility. Specifically, the Global Compact has been formally incorporated as ASEPAM (Spanish Global Compact Association); Telefónica is a member of the ASEPAM Executive Committee, which published the Blue Book on Global Compact in Spain.

Telefónica has also collaborated in the publication of the "Communication on Progress" Guide and has participated in three other projects: the "Commitment to Stakeholders Manual", the "Responsible Lobbying Manual", promoted by the Global Compact Office and the "Report on the Responsibilities of Transnational Corporations and related business enterprises with regard to human rights".

Global Reporting Initiative (GRI)
Telefónica has been an Organizational Stakeholder member since December 2004. The Company has also participated in working groups on setting boundaries for the information included in Annual Reports (Boundaries Working Group), financial aspects (Financial Working Group), and the evolution of the recommendations towards a new version of the Directives (G3).

International Chamber of Commerce (ICC)
Telefónica also participates in the International Chamber of Commerce (ICC) through the activities of the Social Responsibility Group and in the Anticorruption Group.

Global e-Sustainability Initiative (GeSI),
Telefónica has continued to collaborate with other companies in the telecommunications sector through the GeSI. In 2004, work was undertaken in matters relating to the supply chain, telecommunications services in society and the environment and climate change.

European Telecommunication Network Operators (ETNO)
Telefónica has also signed the ETNO Sustainability Declaration and participated in the First European Conference on Telecommunications and Sustainability, held in Budapest.

Spanish Initiatives
In 2004, the Spanish Confederation of Business Organizations (CEOE) and Telefónica collaborated in participating and following the activities of AENOR (Spanish Association for Standardization and Certification) and the International Standardization Organization (ISO) as well as with the International Employers Organization (IEO) in aspects relating to the same field.

With regard to the Corporate Reputation Forum (FRC), to which Telefónica belongs, this initiative reached an international scale in 2004 after signing an Alliance with the Reputation Institute. Pursuant to this partnership, the future will witness the organization of joint meetings, seminars and conferences, and the FRC will act as the RI representative, channelling its presence Spain.

COMPOSTION OF THE TELEFÓNICA BOARD OF DIRECTORS

8 (42%)
independent directors

6 (32%)
proprietary directors

5 (26%)
executive directors
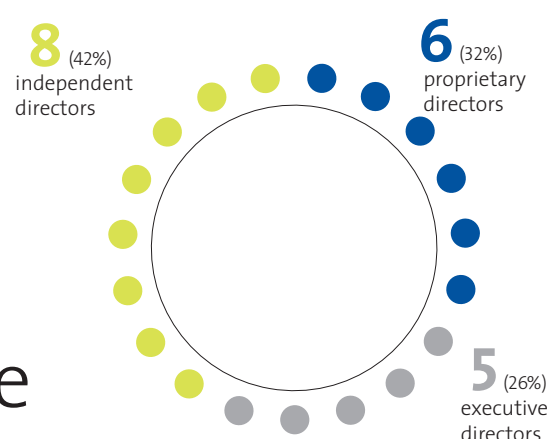
Corporate governance

SHAREHOLDING STRUCTURE

Telefónica's fully subscribed and paid-up share capital is comprised of 4,955,891,361 shares of one euro nominal value each, of a single class and series, represented by book entries.

In accordance with the information existing at the Company, there is currently no individual nor legal entity who exercises, or may exercise control directly or indirectly, individually or jointly, over Telefónica. There are, however, certain shareholders with significant stakeholdings: Caja de Ahorros y Pensiones de Barcelona "La Caixa" and Banco Bilbao Vizcaya Argentaria "BBVA"

CORPORATE GOVERNANCE IN THE TELEFÓNICA GROUP

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 organization operation of this corporate body. 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 organization and operation and establish the rules of conduct for its members.

The Board of Directors

The Regulations of the Board of Directors establish this 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.

In accordance with the foregoing, and within the scope of its duties of supervision and control, the Board of Directors determines the strategies and directives for the Company management, establishes the basis for corporate organization to ensure the maximum efficiency of the same, implements and oversees the suitable information procedures to report Company information to shareholders and the markets in general, makes decisions regarding business and financial transactions of particular importance to the Company and approves the bases of its own organization and operation to ensure the optimal fulfilment of these duties.

The Board of Directors of Telefónica is currently comprised of nineteen Directors, 5 of whom are Executive, 6 are Proprietary and 8 are Independent.

Board of Directors Delegate Committees

Subject to the legislation in effect, 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 are 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, with subsequent ratification of the aforementioned resolutions.

SHAREHOLDERS WITH SIGNIFICANT STAKES

Name or corporate name of shareholder	Number of shares held directly	Number of shares held indirectly (*)	% Total/share capital
Caja de Ahorros y Pensiones de Barcelona "LA CAIXA"	92,380,486	174,095,786	5.377
Banco Bilbao Vizcaya Argentaria S.A.	89,027,259	194,997,590	5.731

The Executive Committee is currently comprised of 8 Directors: 3 Executive Directors, 3 Proprietary Directors and 2 Independents.

The Board of Directors Consultative or Control Committees

The Regulations of the Board of Directors of Telefónica empower this body to constitute one or more consultative or control Committees entrusted with the continual study and monitoring of an area 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. The aforementioned 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.

The Board of Directors of Telefónica has created the consultative or control Committees recommended by the Olivencia Code: an Audit and Control Committee (established in 1997), and a Nominating, Compensation and Corporate Governance Committee, with the competencies attributed in the above mentioned Code. Also in keeping with this Code, these Committees are comprised solely of external Directors. Furthermore, the Board has deemed it appropriate to establish 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.e).

DIRECTORS

Appointment

Proposals for appointment of Directors must always respect the provisions of the Regulations of the Board of Directors and are preceded by

the relevant favourable report from the Nominating, Compensation and Corporate Governance Committee.

Rights and Obligations

Pursuant to the recommendations set out in the Olivencia Code and in the Aldama Report, and in compliance with the Transparency Act, the Regulations of the Board of Directors specifically devotes its 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, addressed at preparing for the sessions of the Board and its Committees.

Remuneration Policy

In terms of the remuneration policy for Directors, such policy is proposed, evaluated and reviewed by the Nominating, Compensation and Corporate Governance Committee, always in keeping with criteria of moderation. The Company furnishes individualized information each year regarding the remuneration paid for offices and posts on the Board of Directors in the Company Annual Report. In addition, in line with the Aldama Report, external Directors do not participate in remuneration systems linked to the market price of the Company shares.

The General Shareholders' Meeting

The principles of organization and operation of the General Shareholders' Meeting are established in a set of Regulations, approved by the Meeting itself at its session on April 30, 2004. The primary objective of the Regulations of the General Shareholders' Meeting of Telefónica is to offer shareholders a framework that guarantees and facilitates the exercise of their rights in relation to the sovereign governing Company body, with special emphasis on the shareholders' right to information and their participation in deliberations and voting, endeavouring to ensure maximum diffusion of the call and the proposed resolutions submitted to the General Shareholders' Meeting.

Above and beyond the requirements established in the current legislation, amongst the specific measures included in the Regulations of the General Shareholders' Meeting established with a view to facilitating shareholders' attendance and participation in the Meeting, are the following:

• From the date of publication of the call, posting on the Company website of all the information the Company deems appropriate for the aforementioned purpose,

in addition to the documentation envisaged by law.

Through the website, shareholders may access the aforementioned documentation and information directly, or may request that such information be sent to them free of charge using the mechanisms set up on the website itself when a Meeting is called.

• Submission of suggestions from shareholders. The shareholders may, at any time and with prior accreditation of their identity as such, make suggestions related to the organization, operation and competency of the General Shareholders' Meeting through the Shareholder Assistance Office.

Likewise, through this office shareholders may request any type of information, documentation or clarifications they may require in relation to the General Shareholders' Meeting, either through the Company website or by telephone, using the toll-free line set up for this purpose.

BOARD OF DIRECTORS COMMITTEES IN TELEFÓNICA

Board of Directors Committees	Non-executive Directors	Executive Directors	No. of sessions 2004
Executive Committee	5	3	21
Audit and Control	4	-	11
Nominating, Compensation and Corporate Governance	4	-	10
Human Resources and Corporate Reputation	4	-	6
Regulation	3	1	10
Service Quality and Customer Service	3	1	4
International Affairs	4	1	6