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Customer relationship cycle

Satisfaction studies

Dialogue with Consumer Associations

Customer relationship cycle

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

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

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



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

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

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

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

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

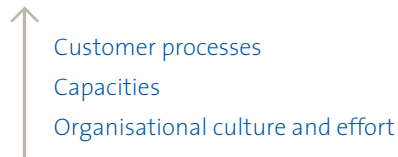
Profitable, sustained growth

Coherence > Confidence > Deep knowledge

in the business management from indicators focused on the customer

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

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



CASE STUDY

Customer commitment

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

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

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

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

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

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

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

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

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

Commercial employees on the whole payroll of Telefónica Latinoamérica

(In percentage)

2003	29
2004	33
Commitment 2003–2006	~ 38

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



CASE STUDY

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

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

Satisfaction surveys

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

The objectives of the measurement are:

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

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

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

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

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

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

Fixed telephony: Satisfaction of the residential segment

Data in percentage

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

Fixed telephony: Satisfaction of the business segment 2005

Data in percentage

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

Mobile Telephony: Customer satisfaction

Data in percentage

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

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

OPINION

What do our stakeholders think?

In the RepTrak study, we asked society about their perception of whether “Telefónica satisfies the needs of its customers”. Society’s opinion as a consumer is highly significant, as the samples wholly identified those interviewed with customers of the Telefónica Group. The results obtained in December 2005 were as follows

Spain	66.7
Argentina	63.9
Brazil	57.9
Chile	69.7
Mexico	72.6
Peru	59.9

Dialogue with Consumer Associations

Spain

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

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

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

Latin America

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

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

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

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

CASE STUDY

Managing the customer relationship

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

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

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

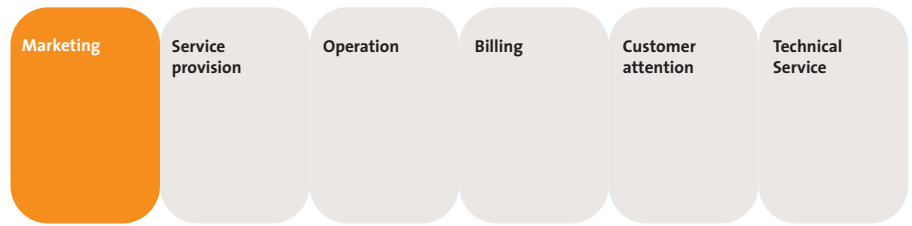
CASE STUDY

Proyecto Espejo in Telefónica de España

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

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

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



Marketing

Products adapted to the demands of customers

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

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

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

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

CASE STUDY

Imagenio, an innovative service recognised by the consumers

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

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

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

CASE STUDY

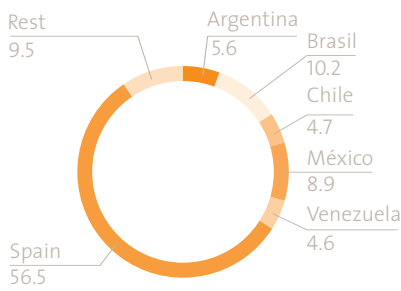
Savings products offered by Telefónica Móviles España

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

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

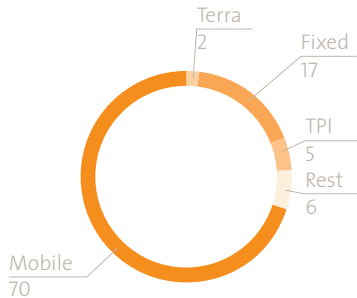
Advertising investment of the Telefónica Group by country (2005)

Data in percentage



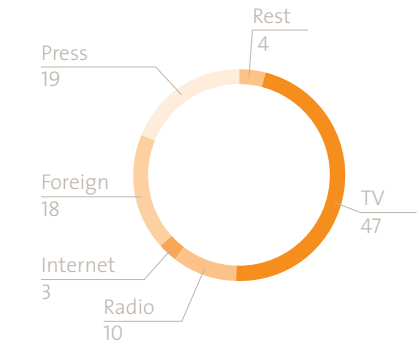
Advertising investment of the Telefónica Group by business line (2005)

Data in percentage



Advertising investment of the Telefónica Group in media (2005)

Data in percentage



Advertising

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

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

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

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

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

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

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

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

Shops and distributors

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

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

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

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

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

Loyalty plans

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

Online channel

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

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

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

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

Telefónica on Internet

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

CASE STUDY

www.telefonica.es

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

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

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

www.telefonicaonline.com

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

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

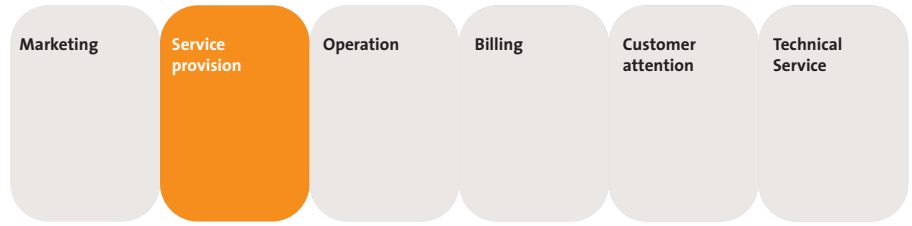
At the close of 2005, the figures for www.telefonicaonline.com were as follows:

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

Telefónica Móviles España Customer Channel

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

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



Service provision

Fixed telephony

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

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

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

ADSL

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

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

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

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

Data circuits of largest band width

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

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

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

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

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

Faults associated with the provision of the basic telephony service

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

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

Percentage ADSL for the residential segment installed in under 5 days

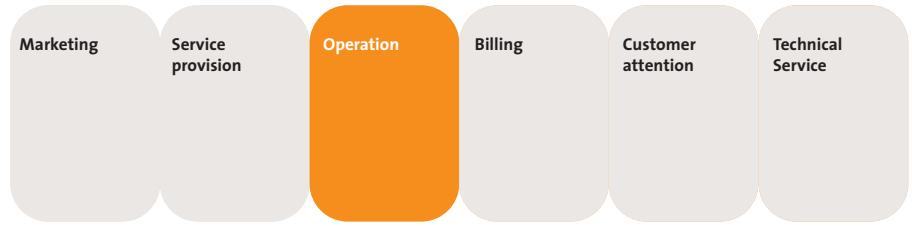
	Argentina	Brazil	Chile	Peru *
Dec 2005	33.1 %	56.3 %	78.2 %	88.5 %
Target 2005	35.2%	30%	95%	ND
Dec 2004	35.7%	63.9%	90.8%	ND

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

Faults associated with the provision of the ADSL service

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

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



Operation

Operation of the mobile telephony networks

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

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

Operation of the fixed telephony networks

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

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

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

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

Operation of the ADSL / Speedy service

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

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

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

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

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

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

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

Data circuits of larger bandwidth (> 2 Mbps)

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

Public telephony

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

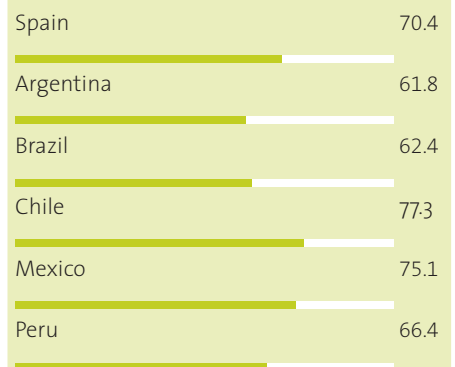
This availability is particularly important if it is contemplated from the double perspective of the fact that Telefónica has more than 600,000 terminals for public use in the region and that this equipment is often the victim of vandalism or sabotage.

OPINION

What do our stakeholders think?

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

The results obtained in December 2005 were the following



Effectiveness of mobile telephony networks.

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

Repeated faults associated with the basic telephony service

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

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

Repeated faults associated with the ADSL service

Data as of end Fiscal Year

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

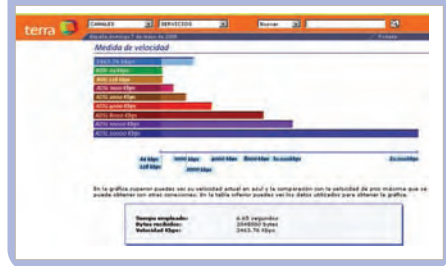
Note: number of repeated faults with respect to the total number of faults
 Note: The residential segment is chosen as the one in which the Telefónica compliance percentages are worse.

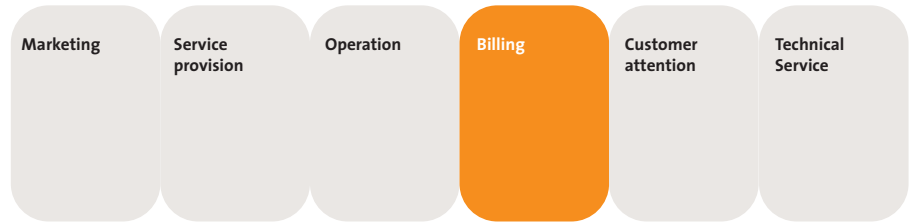
CASE STUDY

Speed test

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

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





Billing

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

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

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

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

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

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

2005

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

Data provided to telecommunication state secretariat.

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

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

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

- In Argentina, Telefónica Móviles has updated the bill model by unifying the description of the services in the systems and with a new conceptual and graphic design.
- Telefónica Móviles Chile, redesigned its bill, which helped to improve the perception of our customers. The use of Internet as an alternative means of making queries and delivering the bill has also been enhanced, and there are now 100,000 customers receiving their bills only in this way.
- In Colombia the introduction began of the new system for billing and managing customers, by adopting new definitions and formats for the bill to be clearer and more transparent.

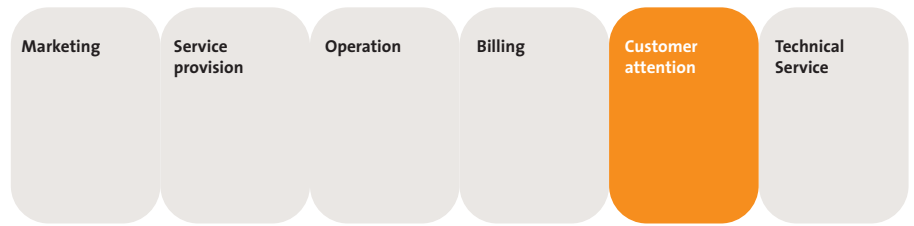
- Telefónica Móviles El Salvador started the process of developing the on line bill project, which will be included in a project of Web processes, through which it will be possible to consult details of calls, balances and to cancel the service.
- In Mexico development began on a new bill based on the results of market studies and the communications of the customers with the call-centre; and also focus groups in which the bills of different companies were analysed.
- Telefónica Móviles España launched the “efactura” electronic bill service in 2005.
- In Peru, the formats and contents of the bills have been improved

CASE STUDY

Telefónica bill in Telefónica de Argentina

Telefónica has not only modified its bill format, but also tries to explain the different elements of the bill to its customers. The example described in the following presents the explanation of the Telefónica de Argentina bill presented at <http://www.telefonica.com.ar/micuenta/>





Customer attention

Calls attended in the telephone attention centres

Data in millions

	Nº calls attends 2005	Nº calls attends 2004
Telefónica Móviles¹		
Argentina	51.4	13.7
Chile	23.1	18.5
Colombia	23.0	14.9
Ecuador	6.6	10.6
El Salvador	1.3	1.5
Spain ²	81.0	42.0
Guatemala	2.7	1.1
Mexico	16.0	21.2
Nicaragua	2.4	0.9
Panama	3.8	2.0
Peru	7.1	7.6
Uruguay	1.0	0.6
Venezuela	35.3	16.1
Telefónica de España		
Spain	84.3	69.8
Telefónica Latinoamérica³		
Argentina	13.6	19.9
Brazil	205.4	189.8
Chile	14.8	12.2
Peru	9	7.2

¹ At times, greater activity obeys an increase in the number of customers associated with the merger of several operators in the country or several promotional campaigns associated with the launch of the new brand.

² Information provided by Telefónica Móviles España to the SETSI for Q4 2005.

³ Calls attended in STB and ADSL included for all segments. The 2004 data are calls attended before 10s. The data for 2005 concern all calls attended.

In the case of Argentina, in 2004 all the calls were considered, whereas in 2005 only the commercial calls to bring it into line with the TISA criteria.

The telephone is the means most widely used by Telefónica customers to communicate with the Company and send it their queries, requests and complaints. The calls to customer attention centres are free in most countries (except for El Salvador and Guatemala). Attention is also given in several languages in the case of Argentina, Brazil, Chile, El Salvador, Spain, Guatemala, Panama and Uruguay (depending on customer demand).

Satisfaction of customers with the attention received

In 2005, Telefónica modified the methodology used in measuring customer satisfaction with the attention offered by asking them whether the reason for their call had been settled, just before the end of the conversation. This change in methodology means that the 2005 figures are not comparable with those calculated in 2004, but this absence of past references is compensated by greater objectivity in the measurement.

In 2005, Telefónica de España attended more than 84 calls from its customers, 77% of which were attended in under 20 seconds (87% in 2004). The score given by customers to the service offered by Telefónica reached a value of 6.77 on a scale of ten points.

Attention through the website or SMS for customers of Telefónica Móviles

	Argentina	Chile	Colombia	Ecuador	El Salvador	Spain	Guatemala	Mexico	Nicaragua	Panama	Peru	Uruguay	Venezuela
Through the website													
Services and price information	●	●	●	●	●	●	●	●	●	●	●	●	●
Queries and complaints mailbox	●	●	●	●	●	●	●	●	●	●	●	●	●
In prepaid: card reloading	●	●		●	●	●	●	●				●	●
In contract: online bill	●	●	●	●		●	●	●	●		●	●	●
In prepaid: consultation of balance and list of calls made.	●	●		●	●	●	●						
Change of price plan	●			●		●							
Service activation	●	●	●	●		●					●		
Chat 24 hours	●		●			●			●				
Account payment	●	●				●							
Through SMS													
Balance query	●	●	●	●	●	●		●		●	●		
Change of price plan					●	●							

For its part, in 2005 Telefónica Latinoamérica received more than 245 million calls from customers, 84.1% of which were attended in under 10 seconds (77.3% in 2004). Only 6.9% of the calls entering the telephone attention centres of the company for this segment were unattended. The improvements made throughout the year, such as Atento al Cliente, which is based on resolving customer requirements on the first contact, obtained the recognition of the customers as satisfaction with the process rose 3.4 percent over December 2004.

There is still no standard methodology in the Telefónica Group to classify the type of calls received in the call centres, which is why it is impossible to offer an overall scale of the reasons why customers call, although it is clear that most calls involve queries and requests for information.

Automatic customer attention systems

To reduce the time for customer attention, automatic systems are alternated for the simpler questions or to direct calls to more specialised operators for the more complex. By way of example, Telefónica Móviles España attended 75% of the 81 million calls it received from its customers in under 10 seconds; of these 51.7% were attended by operators and 48.3% by automatic systems.

In Telefónica we are aware that the automatic systems may cause a certain rejection among customers, who do not feel comfortable interacting with them. Therefore, whenever a customer contacts a telephone attention centre, they are able to select the option of talking to a person.

Similarly, there are customers who wish to do their transactions more quickly than talking with an attention system or an operator. Therefore, the companies of the Telefónica Group are developing parallel attention channels, such as the website or sending SMSs.

CASE STUDY

Customer Defence Service in Spain

The Telefónica Group wishes to become a world referent as a commercial company, and 2006 was a landmark in the process with the launch, amongst others, in Spain of the Customer Defence Service. The Customer Defence Service appears with the purpose of maximising the quality excellence commitment that the Telefónica Group maintains with respect to the attention and service it gives its customers, by providing a way to check dissatisfied customers who would previously have resorted to the ordinary forms of making complaints that Telefónica makes available for them. With the launch of the Customer Defence Service, Telefónica becomes the first operator to proactively create a unit of such characteristics.

CASE STUDY

Resolution on the First Contact

The aim of the Telefónica Attention Centres is to effectively reply to customer demands in the shortest possible time. With this objective and experimentally within the group, the “Atento ao Cliente” project was developed as a joint initiative between TelSP and Atento Brasil. The project is based on three basic premises aimed at improving the resolution:

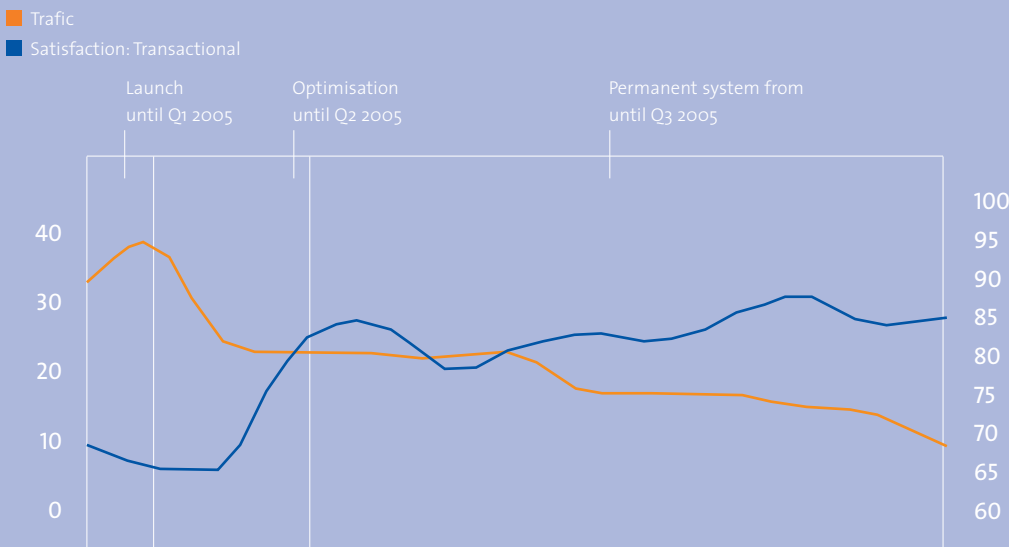
- A very strong training programme for teleoperators to improve their knowledge and attention capacity.
- Access by these better trained teleoperators to a greater management capacity on subjects that previously had to be resolved in other instances. To do this,

they were given access to applications and procedures that had not previously been accessible in the call centre.

- A modification in the contract with the service provider, Atento Brasil, which enhanced the resolution capacity. This contract is based on a price per call conditioned by a band of durations for each of the calls. If the resolution capacity improves, the price improves and the call duration band is increased.

The introduction process had an initial adaptation that caused an increase in traffic and a fall in satisfaction. However, two key results were immediately achieved: a highly significant increase in satisfaction and a considerable fall in the traffic received in the customer attention centres. This analysed from an already appreciable time period, it is detected that the traffic has fallen considerably, but it is also appreciated that the quality has reached a limit that does not seem to depend on whether the call resolution increases or not.

Evolution of the customer attention programme



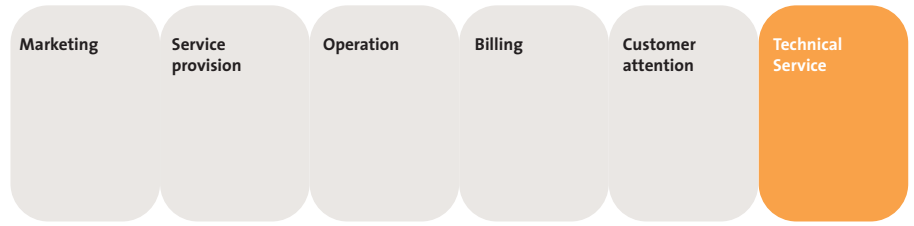
Formal channels for making claims with Telefónica Internacional

Argentina	<p>Call (112 y 0800 UNPRe)</p> <p>Boxes: Customer attention; Speedy; Infocliente; Alcancía Telefónica; Complaints and claims module; Unrecognised lines; Reimbursement management; Sivitel Reimbursement Management; Adjustments and PC Credit Notes; Process box; GAC process box; Call centers</p> <p>Notes</p> <p>Complaints book</p> <p>CNC</p> <p>Consumer defence</p> <p>Ombudsman</p> <p>Account executives</p> <p>Commercial offices</p>
Brasil	<p>Residential call centre</p> <p>SME call centre</p> <p>Company call centre</p> <p>Business manager</p> <p>Customer attention shop</p> <p>Virtual shop</p> <p>Ombudsman</p> <p>Consumer protection agencies</p> <p>Regulating agency</p>
Chile	<p>Call Center, 105 attention platforms (a platform required by SUBTEL for general claims), 104 (telephone attention), 107 (commercial attention) and TCTC customers that require attention and from telephones of the competition access through 600600105, 600600104 and 600600107.</p> <p>Customer portfolio</p> <p>Letters to direct line of the “El Mercurio” newspaper.</p> <p>Trades received from SUBTEL (communications sub-secretary)</p> <p>Trades received by SERNAC (national consumer service)</p> <p>Corporate web centre</p>
Perú	<p>104 telephone line</p> <p>Presence through multi-centres</p> <p>Letter</p> <p>The regulation also allows it to be done virtually, but not used to date</p>

CASE STUDY

Telefónica Móviles España contacts its customers on demand

If a customer wishes us to get in contact with them to clarify any query on our products or services, they just have to complete the questionnaire available at www.atencionenlinea.movistar.com. This is the best way we can anticipate our customers’ queries and resolve them more quickly.



CASE STUDY

Re-establishment of Deloitte operations following the fire in the Edificio Windsor

Telefónica Empresas collaborated with the company Deloitte to re-establish its operative activity following the fire in the Windsor building, located in the financial center of Madrid, where the auditing firm had its head offices and occupied 20 of the 25 floors of the building. This work was carried out under a Disaster Recovery Plan that Deloitte had drawn up hardly a month before the catastrophe, which identifies the critical nature of every application and the steps to be taken. The communications and information recovery and support work was performed quickly thanks to Telefónica's skill and experience in Business Continuity Solutions and BRS (Business Recovery Services). Specifically determining were Telefónica's on order storage and backup services, which provided the necessary resources almost immediately, and on which the auditing company began to recover its information stored on security tapes. Hardly 24 hours after starting the recovery work, practically all of the delegations already had an Internet connection and began to use their electronic mail, which enabled the company to start the process of activating the applications supporting their business and the documentary management.

Technical Service

Telefónica customers hope not to need the technical service, as they expect the service offered to be of great quality. However, when the intervention of the technical service is necessary, customer expectations are that it should be resolved rapidly and effectively.

Fixed telphony

The mean time for resolving faults in a basic telephone line in Spain was 16 hours in 2005, an identical value to that achieved in 2004. In Latin America, this value was 42 hours on average between the three segments (Residential, SMES and Companies). In December 2004, this figure was 42.75. The targets set for 2006 are based on adapting the times to the expectations of each customer segment.

ADSL

The mean time to resolve problems with an ADSL line in Spain was 14.15 hours (10.36 in 2004). In the case of ADSL in Latin America, the mean time for resolving problems was 21.8 hours (19.45 in 2004), a small increase bearing in mind the broadband explosion in the region in the past year, reaching 2,165,000 ADSL lines.

Data circuits with a larger bandwidth

In 2005, faults on circuits with a larger bandwidth in Spain were repaired in an average time of 8.39 hours.

Service order returns

Service order returns are one of the main causes of customer dissatisfaction, as while customers expect to receive a reply from Telefónica, the Company has no indication in its registers that any action has to be carried out with the customer.

In order to reduce the current level of returns, Telefónica de España has planned two pilot experiences based on the areas of greatest influence in service order returns, which are located at the beginning and the end of the value chain:

- The commercial area, as a result of the inadequate closure of the sale (35% of the returned service orders on gross sales).
- The installations area, associated with problems in contacting the customer (30% of the returned service orders on gross sales).

From the results achieved in both experiences and the reduction of the indexes of returned service orders, the adequateness of these actions and the convenience of their territorial extension will be evaluated.

CASE STUDY

Telefónica technical assistant for ADSL customers

Telefónica de España has provided customers with a new Technical Assistant to solve incidents with the ADSL service. This is a software tool to protect, check and automatically resolve the most frequent problems that might occur with any computer user in relation to the use of ADSL.

The functions provided particularly include:

- It automatically detects and resolves connection and mail setup problems.
- It allows system setups previously stored to be restored to re-establish the connection with the previous parameters.
- It provides detailed information on hardware, software and customer PC connections.
- It includes simple tools to optimise the resources of the customer PC: connection tests, router rebooting, cleaning IE caché, resetting IP, etc.
- It provides online assistance from the telephone attention centre (TAC), by opening a chat session, and also, when authorised, allows the remote control of the customer PC from the CAT.

All of these facilities will enable the number of calls to the TAC and the time for resolving incidents to be reduced, with a direct impact on customer satisfaction and the costs of the TAC.

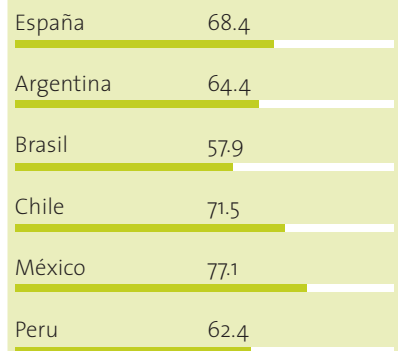
The aim is that all ADSL customers should have this tool, so the Assistant has been distributed by electronic mail to 350,000 customers, and has been made available to customers through the website, the Customer Attention Centres have been trained and the application has been included on the ADSL installation CD for all customers.

OPINION

What do our stakeholders think?

In the RepTrak study, we asked society about its perception of whether “Telefónica guarantees its products and services”. Society’s opinion as a consumer is highly significant, as the sample completely identified those interviewed with customers of the services of the Telefónica Group.

The results obtained in December 2005 were the following



Excellence in service

Service improvement initiatives

Quality certificates

Service improvement initiatives



Telefónica de España

The strategic programme meta:cliente in 2005 in Telefónica de España started a new wave of improvement initiatives structured in four modules, one of which is Operative Excellence, focused specifically on customer satisfaction and increased efficiency throughout the value chain. In 2005, the following six transversal work teams were established, from which around 150 planned actions arise:

- Residential and small business and professional customer attention centres
- Broadband services
- Large customer billing
- System renewal and availability
- Effectiveness in different units
- Comprehensive material management

Telefónica Latinoamérica

The Six Sigma methodology is being used in the four operators in Latin America as a key tool to identify the processes and levers critical for improving quality. The bases of the project are the Rules for the Introduction of Six Sigma approved in 2004.

More than 250 Six Sigma projects were carried out in 2005 (96 in 2004) involving over 2,100 professionals from Telefónica Latinoamérica in the Six Sigma training processes. The work plan established for 2006 includes the training of a further 1,000 professionals in the different tools of the Six Sigma methodology.

Some of the Six Sigma projects developed in 2005 were:

Brazil:

Logistics efficiency of the Speedy self-installable Kit. Programming Speedy installation and repair services. Reduction of repeated STB faults.

Argentina:

Optimisation of the SME customer complaints. Optimise and systematise the provision of personal protection elements. Optimise the times for giving Company Customers service.

Chile:

Speedy ADSL Broadband customer complaint attention. Resolution of STB Household and SME complaints on the first contact. Time for delivering quotes to customers.

Peru:

Complaints associated with new campaigns and products. Efficiency in managing installations. Incidents in the network affecting the customer.

2005 saw a close collaboration between the commercial, operational and quality areas of Telefónica de España and

The Six Sigma improvement methodology, based on controlling the variability of the processes and training people, pursues customer satisfaction and has been constituted in the reference methodology of the Telefónica Group for process optimisation.

Introduction of the Six Sigma methodology in Telefónica Latinoamérica

	Argentina	Brazil	Chile	Peru
Seis Sigma projects	17	197	16	28
People involved in the training	123	1,735	111	143

Telefónica Latinoamérica. With this, successful experiences were shared and common work areas were identified in subjects such as commercial intelligence, sales models and channels and customer attention, in offering broad band products and traditional business.

Telefónica Móviles

In 2005, Telefónica Móviles España established different work groups in order to establish improvement initiatives in the service offered to its customers.

- Management of the service quality from the customer’s viewpoint (3 projects).
- Resolution of root cause of customer complaints (8 improvement groups).
- Automation of the management of the quality of the services from the customer viewpoint.
- Evaluation of 6 services, introduction, improvements and table of indicators.
- Improvement of the quality management of the internal customer (3 improvement groups).

Telefónica Móviles operators applied the Six Sigma methodology to develop projects and initiatives to improve the service, as described below:

Argentina (Six Sigma)

Increase the productivity of the call centers
Reduce demands for personal attention.
Reduce the logistics time

Chile (Six Sigma)

Increase the capacity to resolve claims for first line reloading failure
Reduce the time for generating and approving credit notes

Ecuador (Six Sigma)

Guarantee the availability of the cellular network each month
Reduce the time required to deal with serving goods and services in the management areas

El Salvador and Guatemala

Reduction of the number of claims by solving root problems through the Claims Committee
Reduce repeated claims

Mexico

Increase network availability and added value service platforms
Reduction of the percentage of failed calls
Reduction of the number of rejected SMS

Panama (Six Sigma)

Reduction of billing complaints
Reduction of commercial attention time
Reduction of activation time

Peru (Six Sigma)

Reduce the amount of external customer dissatisfaction
Increase the service level of the call center to minimise customer waiting time
Increase the satisfaction of customers with the process of activating pay-to-phone cards and virtual reloads

Venezuela

Reduce the service centre attention times
Reduce the reply time to corporate customer failure scaling
Improve the price change control process

Quality certificates

The introduction and achievement of quality certificates shows us that both the processes and procedures of the company management are controlled and standardised, resulting in an improvement in the efficiency and efficacy of the organisation. These certificates are drawn up by external independent entities and are made under criteria determined by international standards to guarantee a quality service from different aspects. The ISO 9001:2000 standard nourishes the company in the culture of Continuous Improvement and increases the customers' confidence in the products and services offered by the Company.

Telefónica de España has had a quality system implemented and certified since 2001, applicable in all processes of the organisation and in the whole of the territory where the Company operates. In 2005 Aenor carried out a further follow-up audit of the quality management system for which all the transversal processes of six products were audited, from the development of the products to the billing and payment. The chosen products were Imagenio, ADSL and KitADSL for the residential segment and SolcionesADSL, Wifi and "Líneas Retribuidas" in the small business and professional segment. In addition, in 2005, the "Madrid Excelente" certificate was renewed.

Telefónica Latinoamérica developed significantly in ISO 9001 certifying its quality processes. These processes in the region involved more than 5,000 professionals of the Group and had the following results.

Telefónica Móviles is also moving forward in the process of certifying its processes in all countries of Latin America where it has operations.

Development of the ISO 9001 certification process in Telefónica Internacional

Country	Activity	Certification Date
Argentina	Attention in queries, processes, withholdings and cancellations, receipt of customer complaints and claims in the commercial centres of the Residential business Unit.	October 2005
	SMEs, Wholesalers and Large Companies	November 2005
	Billing (Residential and SME) Activities from pre-billing calls and processing to issuing, enveloping, dispatching and distributing bills.	
	Billing of Data / Solutions and Control of invoice delivery (TEmpresas).	September 2005
Brazil	Telephone attention for requests, queries, sales, cancellations, claims and complaints from preferential customers, companies and wholesalers and the commercial management of SME customers and indirect channels.	
	Telephone attention and First Level Technical Support for Customers with Data Services and Datacenter	November 2005
	Guarantee of installation, operation and technical support for ADSL technology broad band access (Speedy Home and Business).	April 2005
Chile	Attention and support for Ombudsman management	April 2005
	Maintenance of the process of collecting, recording, prices and billing (ABNT)	June 2005
Chile	Planning, Design and Development of Communications Products and services for Companies (Telefónica Empresas)	December 2005
Peru	Assurance of orders, information management and contacts	November 2004
	OTF billing claim management	February 2004
	Management of claims concerning data and value added services (TEmpresas)	
	Cyclical billing of services of Added Value and Packages including Added Value of Telefónica Empresas and Telefónica del Perú	February 2004
	Provision, Management and Maintenance of Connectivity Networks and Services (TEmpresas).	August 2005
	OTF Billing process control.	November 2003
	Corrective and preventive maintenance for the Fixed and Data Transmission services.	December 2004
	Assignment and Installation of Fixeds and maintenance of the customer access network.	December 2004

Development of the ISO 9001 certification process in Telefónica Móviles

Argentina	In the course of COPC-2000 PSIC certification. The process covers 100% of customer relations with Movistar (call center, retention, customer experience centres, back office and help desks...) Certification is expected for December 2006.
Chile	100% of the processes associated with customer attention are ISO 9001 certified and approximately 65% of the company activities.
Colombia	The main customer attention processes are ISO 9001 certified, affecting 80% of the processes associated with the transactions of the sales and service centres. The first mobile phone operator in the country to achieve this certification.
Ecuador	The operation and maintenance of the radio bases are ISO 9001 certified
El Salvador	100% of all the business line processes are ISO 9001:2000 certified
Spain	100% of activities are ISO 9001:1994 certified, from service design, network building and commercial attention to after-sales and throughout the country.
Guatemala	100% of all the business line processes are ISO 9001:2000 certified.
Mexico	In November 2005, a follow-up audit was made of the ISO-9001:2000 Quality Management System and the ISO-14001:2004 environmental management system.
Nicaragua	Certification according to ISO 9001:2000 complete in 2006.
Panama	In 2005 the certification process began according to ISO 9001:2000.
Peru	100% of the claim registering, treatment, resolution and close processes through the Call Center, Commercial Offices, Integral Agencies and Multicentres of the city of Lima ISO 9001:2000 certified.
Venezuela	In the process of appointing consultants and launching the ISO 9001:2000 certification process.



Responsibility in the service offered

Secret of telecommunications

Protection against Internet abuse

Data protection and privacy

Protection of infancy

Terminal theft

Responsible use of telecommunications

Secret of telecommunications

The State jurisdictional agencies, such as the Tax Office and other bodies of the different Public Administrations, have asked for information and action from our Company in their respective areas of competence, in which Telefónica is obliged to carry out instructions issued from them or to provide the required information.

The legitimate action of the mentioned public bodies in carrying out their functions at times comes into conflict with the, also legitimate, rights of people. Therefore, the requirements demanded with respect to the legal raising of telecommunications secrecy are strictly fulfilled both in the Constitution and in the Law of Criminal Judgement, through the intervention and observation of communications or the connection to the circuit of malicious calls.

Customer protection against “Internet abuse”

Despite the innumerable advantages that Internet offers its users, it can also present certain threats. The global extension of the networks makes it possible for users to receive external attacks such as spam, intrusion, attacks on intellectual property, unsuitable contents, child pornography, fraud, phishing, offence...

In 2005, a growing situation was detected of the problems of security from people seeking recognition among the Internet community from making viruses, trojans, etc to seeking an ever more obvious economic benefit, as is the case of phishing, the fraud of the Nigerian letters, spyware, etc. In Spain, phishing has been one of the increasing problems, with the appearance of webs pretending to be banks and entities of electronic commerce.

Corporate policy of protection against “Internet abuse”

In March 2004, Telefónica started up a corporate initiative to co-ordinate the policies and processes used in detecting and resolving IP incidents in the networks. The companies making up the Subcommittee of Internet Abuse are Telefónica SA, Telefónica de España, Telefónica Móviles España, Telefónica Wholesale Services, Telefónica Empresas España, TeleSP, Telefónica de Argentina, Telefónica del Perú, Telefónica CTC Chile, Telefónica Empresas América.

The objectives of the initiative are the following:

- To reply to the demands for security and protection declared by the customers
- To mitigate the perception of poorer service by our customers
- To assure continuity in the service, avoiding blockage by other networks
- To reduce the costs of network maintenance
- To manage the risks to Telefónica’s reputation

In 2005 the Subcommittee of Internet Abuse developed a series of rules concerning the management of such incidents by the companies of the Telefónica Group.

- The “Policy of Acceptable Use of Internet Services” (approved by the Security Committee in June 2005) establishes the recommendation to the companies of the Telefónica Group of informing their customers of the need to make suitable use of the Internet services.

The document “Obligations of the Companies of the Telefónica Group related to the Management of Abuse in Internet services” was approved by the Security Committee in November 2005. The principles included are the following:

- To develop and introduce products, services and/or secure networks.
- To attend any claims of abuse brought in by the customers or other users.
- To start up technical measures to identify and counter the said abuse.
- To co-ordinate actions with other companies of the group.
- To co-operate with other actors of the society of information
- To inform and/or educate customers of the importance of security.
- Centralisation of the “white list of Telefónica mail servers”. The objective of this is to avoid blockage between addresses of customers of the Group, thus guaranteeing the continuity of the service.

The Sub-committee has developed “Common procedures related to the management of abuse in Internet services”, which will be discussed and approved in 2006. This document establishes the actions that must be carried out by the companies of the Telefónica Group when they receive reports about attacks from spam, virus, intrusion, fraud, phishing...; infringement of intellectual property; child pornography; terrorism; xenophobia; unsuitable contents; blockage due to black lists; offence...

CASE STUDY

Intellectual Property Defense

Telefónica states its solid support to promote the use of licit content in the Information society and its refusal to carry out criminal acts or third rights infractions through digital networks. Some of the outstanding initiatives carried out by Telefónica during 2005 are:

Public initiatives support:

Telefónica states its firm support to the Integral Plan of decreasing and eliminating the activities against Intellectual Property, approved by the Spanish Cabinet in 8th April, 2005.

The objective is to establish a shared opinion, in every Telefónica’s Group companies, that could be submitted in the different Forums created by the main affected stakeholders for this plan and with the aim of adopting a unique stance in the Telecommunications Industry against piracy

Sectorial initiatives support:

Besides an internal working group constitution, Telefónica has also joint the working Group created by the different affected agents, who are interested in implementing an anti-piracy plan.

What can our customers do? Protect their equipment

Contrary to what it might seem, practically all spam incidents registered in Telefónica de España are due to the existence of customer equipment with vulnerabilities and security holes that allow others to send unauthorised mail without the knowledge of our customers.

There are a large number of units connected to Internet that do not meet minimum security requirements as regards their browsing habits and use of Internet. As a result of this, their units end up under the control of “hackers” or “spammers” from other countries to carry out their attacks.

The companies of the Telefónica Group have strengthened their tools to guarantee the protection of their customers both in the use of Internet services and to prevent them from being victims of them.

The companies of Telefónica Móviles have also introduced the necessary systems to protect customers from spam as far as possible:

- There are solutions that allow it to be determined on the basis of statistical criteria whether messages are spam, eliminating those identified as such (e.g.: Argentina, Peru, Uruguay...)
- There are permanent traffic monitors and controls that allow customers making massive mailings or short messages to be identified and their use limited (e.g. Colombia, Panama...)

- Establishment of sanctions in the contracts with integrators to avoid unwanted messages or voice calls from being sent to customers (e.g.: Ecuador, Panama, Venezuela)
- Anti-spam service, thanks to which customers can indicate that they do not wish to receive Movistar campaigns (e.g. Chile, Ecuador)

Report attacks

Telefónica de España has more than 20 electronic mail addresses for reports available for its customers and computer security companies and other operators. These include abuse@telefonica.net for the electronic mail service and abuse@rima-tde.net for the connectivity services (ADSL, RTC, RDSI, Satélite, etc). All messages received are sent to the Telefónica de España Nemesys centre. Other similar services are abuse@terra.es and abuse@telefonica-data.com

Showing its leadership in the sector, in 2005, Telefónica organised the first meeting of Internet abuse attention groups in Spain, an event that received the collaboration of more than 20 Internet service providers, Universities and other groups interested in sharing best practices to combat the said abuse. The meeting analysed subjects such as undesired electronic mail messages, viruses, attacks, the sending of false messages to collect confidential data or black lists.

Tools offered by Telefónica de España to protect its customers

Protection	Input	Output
Customer PC	Anti virus Anti spyware Anti Intruders	
Network	Anti spam Anti phishing Content filter	Customer blockage due to complaints in Abuse
Mail server	Anti spam Anti virus Black list Punisher	Authentication Anti virus Anti spam Punisher Customer blockage due to complaints in Abuse

CASE STUDY

Advice when using Internet

- Under no circumstance must links be followed that lead to the user’s banking portal or their electronic banking system. It is necessary to always use the addresses entered in our browser by hand. The banking entity never asks for codes of any kind by mail, nor sends mail messages with subjects on the need to confirm data in the event of supposed cancellations. Such messages must always be mistrusted.
- The electronic mail must also be watched. Almost all fraudulent messages arrive by this means, so it is recommended to have a safe address for banking matters. This address must not be published or given in forums, chats or public media. The large majority of unwanted mail lists come from tracking through chain mails, forums, chats and notice boards on the net, so if we avoid taking part in such emails in these places, it is a guarantee that we will not receive advertising or dangerous messages.
- Make sure that the name of the page corresponds to the name of the entity, for example: <http://www.BancoOnLine.es>. Normally with fraudulent pages, instead of this there is a numerical sequence or one of the following type: <http://218.12.31.xxx>, which does not belong to any entity of the bank entity. Other times there is an almost imperceptible modification in the name of the bank, a letter is inserted or repeated in some part of the name <http://www.BancoOnLinee.es>, or [ttp://www.BancoOnLiine.es](http://www.BancoOnLiine.es), or a spelling mistake is intentionally given which is not noticed by some users, <http://www.BamcoOnLine.es> or <http://www.vanconline.es/>
- Be suspicious of mail and web pages where there are serious mistakes of spelling and in the grammatical construction of the sentences. In general, translations placed in mails and websites are made by people with no knowledge of our grammar, and the use is also noted of very poor automatic translators in their creation
- Note that the page works with SSL protocol, or safe servers that guarantee traffic encrypting between machine and customer. This may be seen simply at sight if the address bar of our browser gives "https://" instead of "http://;" at the beginning of the address, or if the state bar shows a padlock that warns us that this is a safe page.
- As a final piece of advice, we should do nothing of which we are not absolutely sure.

CASE STUDY

Telefónica Empresas España and its customers' security

Telefónica Empresas España is a pioneering company in guaranteeing the protection and security of its customers. In 2005, they strived outstandingly to protect their customers from virus, spam and other attacks such as phishing.

In 2005, 1,418 million electronic mails were analysed (+ 47.5% over 2004). The increase in the number of mails analysed is due to the inclusion of mail from employees of new companies that are customers of Telefónica Empresas España. The conclusions of the analysis are as follows:

- 67 million emails carried a virus (4.7%). A fall of 29.75% is seen in the number of emails with a virus (despite the increase in the number of mails analysed).
- Spam traffic was multiplied 5.8 times, reaching 168 million mails (11.84%). This increase in traffic is due to the explosion of fraud on the net (phishing) and the activation of heuristic detection filters (in addition to black lists and spam signatures). Telefónica Empresas España is the national leader in antivirus and antispam on the net, analysing more than 56% of the traffic documented in "red.es".
- In 2005, 291 cases of "phishing" were detected in Spanish entities (33 in 2004). The United States is the origin of 50% of the attacks on Spanish entities, and Germany, Korea and Taiwan account for a further 25%. Telefónica Empresas España collaborates with its customers in resolving attacks, and solves over 60% of the cases in under five hours.

CASE STUDY

Telefónica de España Nemesys centre

In Telefónica de España, the Centro Nemesys deals with attending and processing claims received from Internet on illicit or fraudulent activities or abuse made from its IP network.

Spam

Despite having reached more than 400,000 complaints about spam from the Telefónica networks, there is no recognised active "spammer" in such networks. When a spam report is received, the following is done:

- Identify the origin of the attack / spam among the customers.
- Notify the customer of the sending of spam from their computer.
- According to the "Policy of Acceptable Use", customers are eliminated from the service who repeatedly try to make use of the Telefónica networks to carry out mailings.

Phishing

Telefónica de España was informed of 52 cases of phishing generated from their networks (attacks against banks and companies).

In order to protect all Internet users from such frauds, Telefónica de España puts into practice that of the protocol of action against phishing agreed with the Centre for Interbanking C-operation and other National -phishing Work Groups:

- By detecting and blocking all phishing webs that have been reported,
- By blocking the access to these webs from the net,
- By eliminating the phishing webs detected in our customers' equipment

Center Nemesys



CASE STUDY

Management of Spam and Abuse in Telefónica de Argentina

Telefónica de Argentina manages spam in the mail platform used by customers of residential, preferential and company business lines. This work involves approximately 90 hours of work each month.

To control the spam, checks are made on the amount of mailings in each account, the authentication of the sender and the control of sending times for very long mails. The most outstanding results in 2005 are:

- More than 7,500 domains and 545,000 mailboxes are analysed
- Approximately 400 mailboxes are blocked each month as not respecting the "Policy of Acceptable Use".

CASE STUDY

Code of conduct with Mobile Spam

The Code of conduct with Mobile Spam reflects the commitment of the operators and GSMA (GSM Association) against spam in mobile phones. This code is applied specifically to commercial short or multimedia messages that are sent to customers without their due consent, including, as required in national legislation, messages that invite people to contact premium services (short messages, telephone calls...) or messages that are fraudulent.

Telefónica Móviles signed this code, the general principles of which are the following:

- To include anti-spam clauses in all new contracts with service providers
- To establish a mechanism that assures the consent of the customer to such services, assuring control with respect to the marketing actions of the mobile operator
- To collaborate with other mobile operators to face aspects of spam
- To inform and give resources to customers to help them to minimise the levels and impacts of mobile spam
- To encourage other anti-spam activities to reduce the level and impact of mobile spam
- To involve governments and regulators in supporting the industry

Data protection and customer privacy

In 2004, Telefónica started the Proyecto MADRE (Automated Regulation Maintenance), initially conceived as a tool to facilitate the compilation of data protection material. The MADRE application allows the effective, efficient management of compliance with the Organic Law on Data Protection (LOPD) and the Safety Measure Regulation (RMS).

The application is developed from initial experiences in Telefónica Móviles España and the additional requirements of the Telefónica Group Security Committee derived from the regulations themselves. The maintenance of the application in time has implied that it has to be constantly adapted to the legal framework and the organisational circumstances, regulations and techniques of the companies of the Telefónica Group. To develop it, in 2004 a work group was set up with Telefónica, the results of which were implemented in 2005.

The use of the application reduced the exposure of the Telefónica en España companies to administrative sanctions as a result of shortcomings or the infringement of administrative and management procedures provided in the mentioned law. The main landmarks in 2005 were the following:

- Registering the intellectual property of the computer application to show the innovative effort and safeguard the interests of Telefónica.
- Making personal visits to all the companies (May-June) to give them support and attend their needs in implementing and starting up the service.
- Presenting the MADRE application in Securmática 2005 (26th April 2005): XVI Spanish Congress of Information Security joint sponsored by Telefónica Empresas. The application aroused interest in the sector and offered an image of Telefónica as an innovative, proactive company in safeguarding the personal data of its customers.

The rules and procedures of Telefónica companies in protecting the personal information of customers stipulate that information is only given to holders of lines and applications are only processed that refer to services given directly by them. The request for information on customers made by third parties is only attended with authorisation from the court or competent authority in each country

Fixed Telephony

Spain

Telefónica de España has been a pioneering company in Spain in assuming commitments of protection and security that guarantee the inviolability of personal data, and to this effect, in July 1994, it drew up the first Deontological Code registered with the Spanish Data Protection Agency.

Telefónica de España respects and fulfils the directives established by the Spanish Data Protection Agency (AEPD) concerning the privacy of the personal data of citizens. In 2005, Telefónica de España passed over ten inspections and started up several initiatives to assure compliance with these requirements. The initiatives include the following:

- Preparation of a Decalogue of rules on Data Protection, to which the Lawyers' Offices collaborating with Telefónica de España must be subject.
- Preparation of a Decalogue of rules on Data Protection, to which the distributors and the agents commercialising Telefónica de España products and services must be subject.
- Inspections of the files of entities responsible for treatment.
- Proposed extension of the typical Data Protection Code of Telefónica de España to all companies of the Telefónica Group.

Approximately one hundred and fifty reports by customers determined the opening of different claims against Telefónica de España by the Spanish Data Protection Agency (Inspection, Informative File, Right-holdership, Sanctions...). In 2005, Telefónica de España was sanctioned in two Cases, and the proposed sanction was reduced to a minimum. Likewise, the

Spanish Data Protection Agency has released a resolution against Terra and other againts Telefónica Soluciones.

Latin America

Telefónica guarantees the confidentiality of its customers and employees, etc. data in all countries where it operates. The Company guarantees that it will adopt and fulfil all security measures in all treatment centres, premises, equipment, systems, programmes and therefore all personnel involved in their treatment, according to the functions and measures established in the Safety Measure Regulation and other internal regulations established there for.

In accordance with its concession agreement, Telefónica del Perú has given ten annual reports on activities carried out to guarantee secrecy in telecommunications. The Central Offices of the Operations of Telefónica Perú in the second half of the year started ISO 27001:2005 certification concerning Information Security, and completed the audit with "zero non-conformities" with the recommendation of the certificate for the said office. The certificate was received in March 2006, and this is the first Peruvian company and one of the first in Latin America to achieve it.

A claim was brought against Telefónica CTC Chile, alleging damages for not having respected the confidentiality of telephone lines when it published numbers in the residential telephone directory. After the appeals, Telefónica was finally sentenced to compensation.

Mobile telephony

The Telefónica Móviles España S.A.U. Security Sub-committee fulfilled the Strategic Security Plan 2005 and presented a new Strategic Security Plan 2006 in order to increase security in the Company's systems and processes.

Likewise, in 2005 an online course in Security Culture was drawn up to make all workers of Telefónica Móviles España S.A.U. aware of the importance of respecting the confidentiality of information.

An automatic process is being developed to enable customers and users to control their personal data, in order to comply with data protection legislation.

Systems containing details of customers of Telefónica Móviles are structured in the following way to protect the information:

- The structure of the system allows the different elements to be dealt with independently (example: Queries, customer operations, etc.).
- Each user has a profile that controls personal access to the different elements.
- The profiles have confidentiality levels, which allows more delicate information to be controlled. Moreover, actions may be carried out on customer information.
- Users may not use options without previous access. Certain delicate queries

require registers to allow users consulting the mobile number to be detected.

- Operations with customer data leave a trace of every user who enters, with information on the user, date and a comment.
- Accesses to the system are handled exclusively by the Computer Security group.
- In the online channels, accesses are by security code and all corporate websites have an approved certificate to guarantee confidentiality in communications.

The Data Protection Agency has published 6 resolutions against Telefónica Móviles España.

In 2005, two claims were brought against Telefónica Móviles Colombia (ordinary civil liability proceedings) for the supposed undue use of customer data. These proceedings are in the initial phase. In Argentina, Chile, Ecuador, El Salvador, Guatemala, Nicaragua, Panama, Uruguay and Venezuela the absence of claims of this kind has been confirmed.

Protection of infancy

Despite the general recognition of the role Internet plays in modern society, activities are developed through the net with aims that are not shared by society. The use of Internet to spread illicit contents, for the illicit use of contents, and for committing the so-called technological crimes means that such crimes have risen giddily. It is a particularly alarming fact that a large part of these attempt directly against the weaker sectors of society and which must be the object of greater protection: infancy and the young.

Telefónica considers that it is necessary to take a step further towards strengthening its current collaboration with different public and private associations and entities; at the same time the crimes committed on Internet are of an ever rising degree of sophistication shown both in the form and speed of their reproduction, and in the skill to avoid any kind of control and follow-up, especially with regard to their authors. Therefore, in 2005, Telefónica led several Round Tables in the head offices of the Defender of Minors, which discussed the main problems derived from the insecure use of the net.

Collaboration in the struggle against child pornography

Telefónica has sought the support and collaboration of the most representative public institutions and agencies in the fight against such crimes, and also private entities and associations. There has long been direct and stable discussion between them, and in line with this collaboration, some measures have been taken, such as:

- Suppression of the service of anonymous personal pages thus making it easier to pursue child pornography.
- A campaign encouraging users to report any activity that was illegal, illicit or immoral included or accessible through personal portals or pages
- Establishment of internal procedures to give a rapid, safe and effective reply to reports and investigations proposed by the State Security Forces and Agencies, such as the Spanish Civil Guard Telematic Crime Group. These actions, coordinated by the Contentious Juridical Advice department of Telefónica S.A. are extended to all countries where the Telefónica Group develops its activities
- Collaboration with the main NGOs protecting infancy on Internet, such as Protegeles and ACPI (Association against Child Pornography).

According to data from the Civil Guard and the Police, this all contributed to reducing illicit actions by 99% and very particularly the display of child pornography.

Awareness of the good use of Internet

One of the most effective measures to prevent the poor use of Internet is to make society aware of it, as well as the availability of resources from parents and educators to guarantee the protection of minors and at the same time nurture the good use of new technologies.

- Dissemination through talks and discussion, animated scripts and leaflets of the advantages of the use of Safe Internet in different schools of several Autonomous Communities. This campaign will continue in 2006.
- Safenet Project; of collaboration with the European Union concerning the protection of minors, prevention of illicit activities and secure use of the net. In 2006, this agreement was materialised in the publishing of specialised magazines, leaflets, CDs and educative websites aimed at turning the net into a secure, amusing tool... and the later distribution of all this to parents, teachers and pupils.
- In February 2005, coinciding with the International Day of Safe Internet, a new Agreement was signed to extend the field of protection to minors. This agreement for the first time includes NGOs, institutions and different business entities of the sector.

These activities have focused mainly on Spain, as this is the country where there is greater access to new technologies by minors. In 2006, Telefónica had the objective of disseminating these materials in all countries where it develops operations, for which it made use of the possibilities offered by Educared.

Adult content management regulation

The Commission for HR and Corporate Reputation of the Telefónica Board of Management favourably reported on the Adult Content Management Regulation in June 2005. The general principles of these regulations are:

- To protect the reputation, brand and the institutional values of Telefónica
- To foster Telefónica's commercial relations with its customers, based on the idea of confidence, the core value of the Group.
- To foster the creation of a philosophy sensitive to protecting citizens from contents liable to offend their sensitivity.
- To guarantee the protection of citizens for whom society demands special attention, and specifically the young and infancy.
- To promote the necessary preventive, technical and organisational mechanisms to avoid these citizens accessing unsuitable contents.
- To make possible the effective use of its infrastructures and networks.
- To contribute to the effective development of the Information Society by streamlining and hindering the inclusion of unsuitable contents.
- Total opposition to any type of illicit conduct related to adult contents.

This regulation has specific section that deal with Internet, mobile telephony and television, and a common characteristic is the establishment of systems of access to contents for adults on the express wish of the customer (opt-in).

Tools for protecting infancy Fixed telephony

Telefónica de España offers its customers of ADSL a service to control access to unsuitable contents under the name of CanguroNet. With this service, guardians may enable a filter that blocks access to undesired contents, by selecting the categories they wish to block: sex, violence, racism, sects... There are up to 22 categories that the customer may filter or allow at their own discretion. Likewise, there is a service mode that inhibits the undesired advertising of websites and spyware.

Mobile telephony

Telefónica Móviles operators do not offer adult contents, although there is the possibility of accessing these kinds of products prepared by others through the SMS, WAP or BREW platforms.

When such contents are offered by providers legally connected to the Telefónica Móviles platforms, current habitual rules consist of warning customers that they are accessing information authorised only for adults. The associated voice and chat services are generally more difficult to control, as their contents are not always declared.

In 2006, Telefónica Móviles has the objective of sharing policies of action, methodologies and systems with O2, as this operator has great experience in managing relationships with customers in more sensitised markets such as the British and Irish.

CASE STUDY

Preadolescent pack

In Spain, Movistar has launched an exclusive, unique product on the market so parents could have a mobile phone service adapted to the communication needs of their children. The pack is designed bearing in mind criteria of security and tranquillity; control on spending and access to contents; saving; communication and protection of children and parents' demands for security and saving. The initiative has the backing of the "for responsible consumption" guarantee of the Union of Spanish Consumers (UCE), and one euro for each pack sold will be used to collaborate with Aldeas Infantiles SOS de España.

Telefónica Móviles Colombia launched the Firefly telephone with Movistar plans, the first product truly designed for children in this country. It is a simple, amusing telephone that allows control of both the incoming and outgoing calls through a book of contents previously programmed by parents with a key.

Terminal theft

In 2005, Telefónica Móviles España continued to work on the programme to control the theft of terminals. The blocking was processed by means of an application that confirms the IMEI/MSISDN link, and if there is conformity, the terminal is blocked in all national operators. The total number of terminals reported stolen exceeded half a million, and 18.5% were disabled by the system.

Similarly, in the area of fraud prevention, the Company is taking part in initiatives to warn users against techniques of deceitful obtention of card codes or reloads intended for making undue charges to accounts or balances.

In other countries, Telefónica Móviles is working in a sector manner and with the local authorities to seek solutions that not only minimise the consequences of robbery for customers, but also serve in turn to discourage this activity by leaving stolen terminals completely useless.

- In Argentina, Chile, Colombia, Ecuador, Panama, Peru, Uruguay, Venezuela... files are exchanged with the registers of the units reported stolen between the different national operators for the different existing technologies.
- In the case of Colombia, Ecuador and Peru, given their closeness the databases were exchanged between the Telefónica operators.
- In El Salvador and Guatemala the systems do not yet exchange information with the other operators, although they do have the tools to deactivate the units in their own network.

Responsible use of telecommunications

As stated in the section “Motor of social development” of this report, there is considerable social consensus on the positive impact of telecommunications on society. However, due to the speed with which the new technologies are adopted, telecommunications are having a fundamental impact on people’s lifestyles, and at times can have a negative impact on them.

This negative impact is usually associated with misuse of mobile telephony, in particular in public places such as cinemas, theatres, churches, conferences, academic places. Furthermore, despite the growing social sensitisation, many drivers use their mobile phones while driving, with the resulting risks to their integrity and that of the traffic.

For this reason, different operators of Telefónica Móviles have produced information aimed at sensitising customers on how to use the technology. Therefore, in Spain, Chile, Nicaragua, Colombia and Peru, web campaigns have been developed, leaflets have been published and advertising supports and banners have been placed on invoices.

It is important to remember that Telefónica Móviles has also informed its customers on questions such as electromagnetic fields and health. The breakdown of the said activities is presented in the environment chapter of this report.

CASE STUDY

Manual for understanding mobile telephony.

In this field, Telefónica Móviles España has signed a collaboration agreement with the Spanish Union of Consumers (UCE) with the aim of improving the information to citizens on mobile telephony, protecting their rights and seeking solutions for users to improve the services, applications and mobile contents for the Information Society. One of the first joint projects resulting from the agreement is the publication of the “Manual for understanding mobile telephony”, a guide intended to provide users with clear, simply information on how to use and enjoy mobile telephony better.

Amongst other things, the manual explains what mobile telephony is and how it works, the contribution of mobile telephony to social well-being and economic development, and recommendations for the good use of mobile telephones, such as:

- Using discreet call signals, reducing the volume or using the vibration mode.
- Trying to talk quietly and, if possible, in a separate place. In addition to avoiding disturbing others, it will preserve their privacy.
- In surroundings where it is not possible to hold a conversation (cinemas, concerts), using the mobile to send or receive messages, browse, etc., always in silent mode.
- If the mobile phone is able to take photographs, never photograph anybody without their permission. In no case must minors be photographed.
- Specific recommendations are also included on the use of mobiles in hospitals, on planes, in petrol stations and in the car, and the use of mobile phones by children.

Further information at
<http://www.empresa.movistar.es/elcompromiso>



Markets where
Telefónica
operates

Situation of regulations and free competition

Situation of competition and market evolution

Competitive situation and market evolution

Fixed Telephony

Spain

Land line accesses in Spain are estimated to have grown by 0.9% in 2005, whereas those of Telefónica de España fell by 1.2%, leaving the Company with an estimated market share of nearly 85% of these accesses, after lining up the historical series with recent data from the CMT (Telecommunications Market Commission)

As regards the land voice analogue traffic, the total estimated volume in the Spanish market, expressed in minutes, experienced a fall of 3.1% over the year. After lining up the historical series with recent data from the CMT, the estimated share of Telefónica de España in this market in December would be 66%.

The market of broadband Internet accesses in Spain reached 5 million accesses on the close, according to our estimates. The success of Telefónica ADSL contributed significantly to this growth, which as a whole (wholesalers plus retailer, including accesses only providing the Imagenio service) reached 3,479,824 accesses at the end of 2005. Furthermore, the local loop rental market share made Telefónica de España's share in the ADSL market in Spain fall to 89%.

The total plant of retail accesses to Telefónica broadband Internet reached 2,719,669 accesses at the end of 2005, which according to our estimates is approximately 55% of the whole market in Spain. It is significant to see that this growth was achieved in an aggressive commercial environment, both from our cable competitors and local loop rental.

The total plant of rented local loops, 116,112 at the end of 2004, reached 434,759 units, which according to our estimates is 8.8% of the total plant of broadband Internet accesses and 11.1% of all ADSL lines. Of all of the local loop rental lines, 64.2% are shared.

Argentina

The management of TASA adapted to a context of growing activity and consumption, and in a market of frozen rates, has enabled growth of Fixed line accesses and voice traffic and an expansion of the broadband. At the end of 2005, with a 34% market share and 50% in telephony, TASA is still the market leader. In its area of influence, their share is 73% in broad band and almost 100% in local telephony.

In all markets where Telefónica is present, there is sufficient effective competition with the entity so as to limit its significant weight in the market, and on certain occasions, without it being able to be the leader. As a result of the strong competition in the markets, Telefónica is therefore obliged to take into account the competitors (current or even potential), the suppliers and the Administration in its decisions.

Brazil

TeleSP closed 2005 with a 46% growth in its broad band accesses and the alternative plans for land lines such as Líneas Económicas. In March the Línea de Economía Familiar was launched, which in under nine months exceeded a million customers, taking the total number of Líneas Económicas to over two million accesses.

TeleSP finished 2005 with a market share of 77% in local telephony and 78% in broadband (referring to the area of original concession).

Chile

Telefónica CTC notes a total 314,200 broadband Internet accesses at the end of the year (289,600 retail), reaching a market share of 43%. This growth reflects the commercial effort made in the year to spread broadband massively throughout the country. New forms of variable broadband have been developed (Speedy reloaded) and new packages of broadband + voice have been launched, in addition to a joint offer with satellite TV and new distribution channels.

The total traffic of the Telefónica CTC network continued to fall, mainly due to the strong replacement of mobiles and Internet. Fixed to Fixed local traffic fell by 10.5% in 2005, whereas land-to-mobile grew by 8.4%. In long distance national and international, the total market continues to fall.

Peru

In 2005, Telefónica del Perú (TdP) saw a considerable increase in the number of accesses (+13.7%), as a result of a strong commercial activity throughout the year, both in Fixed telephony (prepaid and consumption control accounts for 59% of Fixed line accesses in December 2005) and in broadband (more than 340,000 retail accesses to broadband Internet).

These figures represent a market share of 96% in local telephony and 98% in broadband. The good behaviour of the Cable Television plant (Cable Mágico) is also stressed, with inter-annual growth of 18.8%, reaching 462,211 customers by the end of the year.

Mobile Telephony

Spain

In 2005, the Spanish mobile phone sector was characterised by greater competitive intensity, exceeding 43 million lines and achieving a penetration of 97%. At the end of 2005, Telefónica Móviles was reaching 20 million customers (+5% over 2004).

We must stress the strong commercial effort made throughout the year. Including new customers, migrations and terminal changes, Telefónica Móviles España accumulated 10.7 million actions in 2005 (+19% over 2004).

In a competitive environment characterised by a large amount of actions in numerical portability, Telefónica Móviles España achieved a negative net balance, including prepaid and contract, in the yearly accumulated figure of 116 thousand lines.

Equally, we must stress the effort made by the Company in loyalising activities, by launching campaigns to reward time spent as a customer and offering favourable conditions for terminal renewal, encouraging greater commitment from our customers. Therefore, in 2005 nearly 4.5 million changes were seen (+23.2% over 2004).

In the fourth quarter of 2005 new data rates for connectivity were brought in, with concepts close to those of flat rates, prices of 30 euros/month for 1 Giga and 58 euros/month for 5 Gigas.

Brazil

Mobile phone penetration in Brazil rose to 46.6% in December 2005, with a total 86.2 million customers. In an environment of continued competitive aggressiveness, at the end of December Vivo had reached 29.8 million customers (+12.3% over Q4 2004).

Central America

In 2005 Telefónica Móviles México continued focused on the development of a quality distribution network and the improvement of its processes, making changes in its commercial offer, strengthening customer attention and the quality of its services. In this context, in a year characterised by greater commercial activity, the number of accesses managed in December 2005 amounted to 6.37 million (+12.9% over 2004).

Guatemala was characterised by great market growth marked by intense competitive pressure among the operators. In this context, Telefónica Móviles was the second largest operator in the country with a market share of 26.4%.

In 2005 cellular penetration in El Salvador reached 31.9%, 17 p.p. higher than that achieved in 2004. In this context, Telefónica Móviles achieved a market share of 23%, reaching a figure of 538 thousand customers, a gain of 40% over 2004.

In Nicaragua, the growth of the number of customers was marked by the intense competitive pressure among the operators of the competition, based on two companies under the same consortium. The year culminated with 355,705 active users for mobiles, 15,871 Fixed lines and 7,000 public telephones, representing an annual growth of 31%.

Panama achieved a market penetration of 53% with respect to the 39% in December 2004. A large part of this growth was driven and capitalised by Telefónica Móviles which, with a sustained strategy of accelerated growth, achieved a market share of 49.5.

Andes region

In 2005, a strong commercial activity was maintained in the mobile telephony market in Venezuela, which translated into significant growth in estimated penetration, up to 48%. In December 2005, Telefónica Móviles Venezuela had reached 6.2 million customers (+42.4% up on December 2004), after registering net gains of more than 1.8 million lines in the twelve months of the year.

In 2005 the Colombian mobile telephony market was the one of greatest growth in the region, with a development of almost 25 percentage points in its estimated penetration rate to 48% in December 2005. Telefónica Móviles Colombia in December 2005 had reached over 6 million customers, 83% up on 2004.

The Peruvian market was characterised by an increase in competitive activity in the last quarter of the year. In this context, Telefónica Móviles Perú in December 2005 had 3.5 million customers, (+20.4% over the close of 2004).

The penetration of the Equatorian cellular telephony service at the end of 2005 reached 45%, a growth of 61% over 2004. At the close of 2005, Telefónica Móviles Ecuador accounted for nearly 1.9 million customers, after achieving net gains throughout the year of 763 thousand new customers.

Southern cone

The Argentine mobile market maintained its high growth rate in 2005, with a strong acceleration driven by the favourable macroeconomic environment in the country and the development of the competitive surroundings. In this way, estimated penetration in December 2005 reached 55% (almost 21 percentage points higher than at the close of 2004). In this context, the commercial efforts made by Telefónica Móviles in Argentina were positive, which allowed 8.34 million customers to be reached in December 2005. The weight of GSM over the whole was now 51%.

Despite the initial penetration, in 2005 the Chilean market continued to develop with great dynamism, advancing 10 percentage points in its estimated penetration rate to over 71%. In this context, at the close of December 2005, Telefónica Móviles Chile accounted for 5.28 million customers, after achieving net gains in the whole of the year of 525 thousand new customers. GSM was now 51% of the total.

At the close of the year, cellular penetration in Uruguay had risen from 17% to 34%. In this context, Telefónica Móviles achieved a market share of 38%, with 419 thousand customers, representing a net gain of more than 106% over 2004, and leading the number of new customers in 2005.

Telecommunications services are considered services of public use in many of the countries where Telefónica develops its operations. This is one of the main reasons why services of this kind are regulated by public bodies. The different companies of the Telefónica Group amply meet the different service quality objectives established by the regulators.

Regulatory situation and free competition

Within the framework of a regulated market, the different companies of the Telefónica Group periodically give the objective quality results of the service given, according to the established indicators. Each regulating body defines independent mechanisms to follow up on the quality of the service given.

With such a situation, the different operators of the Telefónica Group have established common parameters to pursue quality in the service in order to be able to establish corporate objectives on a Group scale and transfer the best practices between some countries and others. Some of these parameters are those presented in the chapters associated with the critical processes for customers.

One of the objectives of the regulating bodies is to achieve maximum competition in the markets. In this situation, the Telefónica operators (and particularly fixed operators) receive many claims from their competitors associated with abuse of their dominant position.

The main suits brought against Telefónica in previous years and still under appeal by the Company are gathered in the official documentation provided by the Company on its different stock markets.

The main regulatory resolutions against Telefónica in previous years and which are still being appealed against by the Company are presented in the documentation provided by the Company in its different stock markets.

Telefónica de España

Telefónica de España meets 12 of the 16 quality objectives established by the CMT, as can be seen in the table attached to this chapter. According to the study made by the Secretary of State, Telefónica de España offers better average quality than the alternative operators in the thirteen measured parameters.

The point of greatest conflict for Telefónica de España is the instruction by the CMT and the Court of Defence of Competition (TDC) of several sanctioning processes in relation to the action of Telefónica de España as the established operator and the dominant operator. There follow the most important sanctioning resolutions imposed by the CMT and the TDC that have been the object of appeal before the competent jurisdictional bodies.

Contentious-Administrative appeal against the Resolution of the Telecommunications Market Commission of 23rd July 2002.

This Resolution ended a sanctioning process brought against Telefónica de España, S.A.U., in relation to the commercial conditions offered to Closed Groups of Users, in which a fine was imposed against it of 18 million euros.

Telefónica de España, S.A.U. brought a contentious-administrative appeal against the resolution, which was followed before the Eighth Section of the Contentious-Administrative Chamber of the National Audience (Court order nos. 8217/2004), which overturned the appeal with the

sentence of 29th June 2004. On 18th October 2004 Telefónica de España, S.A.U. drew up an appeal for annulment against the Sentence, which has not yet been resolved.

Contentious-Administrative appeal against the Resolution of the Telecommunications Market commission of 10th July 2003.

This Resolution ended a sanctioning process brought against Telefónica de España in relation to the supposed infringement of a resolution of the CMT concerning the prices applied to VIC TELEHOME. With this Resolution Telefónica de España, S.A.U. was fined 8 million euros. Against this resolution Telefónica de España, S.A.U. brought a contentious-administrative appeal against the resolution before the Contentious-Administrative Chamber in the National Audience, under Court order number 731/2003, thus requesting the suspension of the execution of the sanction. The Appeal is pending vote and decision.

Contentious-Administrative appeal against the Resolution of the Telecommunications Market commission of 24th October 2002.

The challenged Resolution was given in the sanctioning process brought against Telefónica de España, S.A.U. for the supposed infringement of the resolution of the CMT concerning interconnection obligations for voice + data capacity, and for which Telefónica de España, S.A.U. was given a fine for 13,5 million euros.

Telefónica de España, S.A. brought a contentious-administrative appeal against the resolution before the Contentious-Administrative Chamber in the National Audience (Court orders no. 97/2003), in

CASESTUDY

Report on the quality of the fixed telephone service in Spain

In 2004, as in previous years, Telefónica de España maintained high levels of service quality, as is understood from the "General report on the quality of service relative to the Fixed Telephone Service in España", corresponding to 2004, which was presented by the Secretary of State for Telecommunications and for the Society of Information of the Ministry of Industry, Tourism and Trade in 2005. Its preparation included the collaboration of the Commission for the Pursuance of Quality in providing telecommunications services, in which alongside the Administration, representatives of the operators and the users also take part. This report includes details from fifteen fixed operators which, on the close of 2004, had a joint market share of 99% with regard to direct accesses.

Telefónica de España obtains above-average results in the thirteen parameters considered than the average level achieved by the main alternative operators in the country (Auna, Uni2, Jazztel and Grupo Ono). TdE's strengths stress the parameters related to the operation of the Red Telefónica (0.22% average 2004 in failed international calls against 0.81% by Uni2 and 0.61% by Jazztel) and in line installation time (17.25 days average 2004 in the percentile 95 against the 71.75 of Jazztel or the 67.25 of Uni2).

We must also stress the greater quality demands that TdE agrees to assure in providing the fixed service in comparison with its competitors, and the degree of compliance with the regulatory objectives required of the company. In this sense, it must be said that generally the service quality commitments for the different quality parameters required Telefónica's current regulations, as the operator designated for the provision of the Universal Service, are more demanding than the average minimum quality levels for the year 2005, which the main national alternative operators have voluntarily agreed to offer their customers

The data have been audited by independent entities, which have made sure that the measures have been carried out according to what is provided in the Quality Order and that all the data have been obtained with a precision of over 95%.

which on 5th July 2005, the sentence overturned the appeal. On 24th October 2005, an appeal for annulment was drawn up against the mentioned sentence by Telefónica de España, S.A.

Contentious-Administrative appeal against the Resolution of the Court of Defence from Competition on 1st April 2004.

On 1st April 2004, the Court of Defence from Competition (TDC) passed a sentence in which it estimated that Telefónica de España, S.A.U. had incurred in conducts restricting competition and in abuse of its dominant position, imposing a fine of 57 million euros.

On 16th April 2004 Telefónica de España, S.A.U. brought a contentious-administrative appeal, which was processed before the 6th section of the Contentious-Administrative Chamber in the National Audience (appeal 162/2004), in which the suspension was requested of the execution of certain decisions of the Resolution of 1st April, including that concerning the application of the fine. By Court order of 29th June 2004, the Chamber granted the cautionary suspension of the execution of the sanction, upon provision of bail for the same amount by Telefónica de España, S.A.U.

















At the current time, the main proceeding is pending indication of a date for voting and decision. Based on the opinion expressed by its advisors, the Company understands that there significant factual and legal arguments that might lead to a total or partial upholding of the presented appeal.



Opening of proceedings against Telefónica by the European Commission (EC)

The European Commission (EC) informed of its decision to open formal proceedings against Telefónica, by sending a set of charges with their preliminary conclusions on the past 22nd February as of 2006.

In the mentioned charges, the EC considers that Telefónica S.A. and its subsidiaries Telefónica de España S.A.U., Telefónica Data de España S.A.U. and Terra Networks España S.A might be incurring, at least since 2001, in abuse of their dominant position, consisting of undercutting prices in the market of broadband internet access.

Fulfilment of the objectives established by the CMT. 4th quarter 2005

Parameter	Measurement	Value Q4 2005	Quarterly targets	Fulfilment
Supply time of the initial connection for all request	Time for 95% of lesser duration (all customers)	21.0	25	
	% supplied on the agreed date with respect to all agreements	99.0	85	
Proportion of faults in the access network per access line	Fault notifications /100 access lines / quarter	4.2	4	
Proportion of faults in the rest of the network per access line	Fault notifications /100 access lines / quarter	0.4	4	
Time to repair faults in the access network	Time to repair 95% with less duration	65.2	48	
	% repaired within the target time	88.5	90	
	Time to repair 95% of least duration	51.9	48	
	% repaired in target time	92.4	90	
Proportion of overall failed calls	% failed calls for domestic calls	0,3	1	
	% failed calls for international calls	1.19	2.5	
	% failed calls for calls to mobiles	0.2	2.5	
Overall time to establish calls	Overall mean time	2.0	3	
Reply time for directory enquiry services	Mean time to attend calls	17.6	18.3	
	% attended in under 20 seconds	94.0	90	
Percentage of public Telephones in service	% in full service	96.4	95	
Percentage of claims on invoice correction	Per thousand	3.5	5	

 Cumplido
 No cumplido

Telefónica del Perú

Osiptel supervises of the Telefónica Group's observance of the regulations. In December 2003, Telefónica del Perú asked the Peruvian State for the renewal of their concession agreements for a period of five years. In accordance with the planned procedure, Osiptel issued an evaluation report in which it recognises that the company has met the measurable targets and objectives established in the agreements and makes observations only in 6 of the 24 obligations analysed. Osiptel's evaluation report finds that the company has deserved sanction in under 2% of the claims brought against the company due to presumable infringement of the rules of interconnection, on all the interconnection relations, amongst others.

As Telefónica del Perú has informed the Ministry of Transport and Communications (MTC), Osiptel's observations do not in any way impair the high level of the obligations, so the renewal of the time of the concession agreements, in the view of the Group, must be granted.

The companies of the Group that hold a dominant position in the markets in which they take part are subject to intense supervision by the Agency of Supervision of Private Investment in Telecommunications (Osiptel). This is the entity entrusted with the application of the Law of Free Competition in the telecommunications market.

In the past two years, none of the companies of the Telefónica Group in Peru has been sanctioned by the National Institute of Defence from Competition and Protection of Intellectual Property (Indecopi) for infringement of regulations that control both advertising and

competition. The few processes started against any of the companies of the Group concluded in resolutions that overturned the claims. In the same period, other telecommunications companies were sanctioned for infringing advertising regulations.

The main questions pending in this area are:

- In 2002, an Official Osiptel Agency imposed a fine in first administrative instance on Telefónica del Perú of 1,097 UIT for presumed acts of abuse of its dominant position affecting AT&T Latin America. The Company took the claims head on before the Judicial Powers, where the corresponding contentious-administrative action has been processed.
- As a result of the claim made in 2001 by the company Comunicaciones Alfa E.I.R.L (Alfotel), Osiptel ordered Telefónica del Perú in 2003, to lease its posts to the claimant so that it might use them to support a coaxial cable network to give a radio broadcasting service in the town of Huayacán. Although it disagreed with the analysis of the regulating body, the Company complied in full with the provisions and approved a policy, which is currently being applied, of leasing infrastructure to third parties.
- In addition to the mentioned cases, in 2004 cases were brought against Telefónica Multimedia, for supposed abuse of its dominant position. The proceedings, now concluded, exonerated the companies of the Group in all cases.

Fulfilment of the objectives established by Anatel Average 2005

Concept	% Fulfilment	No. of indicators	Months of non-fulfilment
Local service quality	232.6	9	0
Domestic long distance service quality	196.5	6	0
Attention to requests for repair	107.4	4	5
Attention to requests for line transfer	102.3	3	0
Telephone attention	104.9	3	0
Public telephony	138.7	2	0
User access code information	103.1	1	0
Attention by post	100.0	1	0
Personal attention	104.0	1	0
Billing	140.5	4	6
Network modernisation	104.6	1	0

TeleSP

Telefónica periodically informs the National Telecommunications Agency (Anatel) on the fulfilment of the indicators established in the General Quality Plan. In 2005, this plan included 35 targets, and Telefónica complied with 97% of the indicators throughout the year.

- In the first half year, the infringement was associated with the number of bills receiving complaints from customers, with the maximum value being two per thousand. After starting up an indicator revision committee, Anatel's objective was met in the second half-year.
- In the second half-year, the indicator was not met of "97% fault repair requests attended in under 24 hours". Seasonal factors such as rain and storms, together with vandalism and the theft of cables caused the deviation from the target. To correct this, the Company put 35 million reales into the preventive maintenance of the external network, created contingency plans to attend critical areas and strengthened actions against vandalism and cable theft.

On the past 22nd December, Telesp signed the renewal of its concession agreement, which expired on 31st December 2005, for a period of 20 years. The conditions of the new agreement were approved by Anatel in December, and include the obligation to invoice local traffic in minutes instead of pulses (although on the past 23rd February, Anatel announced a 12 month delay in the enforcement of this measure), the new reference index for price revision (IST), and the new productivity factor applicable in price revisions, the new interconnection price regulation and the provision of a new form of service to facilitate access for low-income customers (AICE).

There are some working processes in TeleSP by Economic Administrative Defense Body, Secretary of Economic Right (SDE) and the National Telecommunications Agency (ANATEL). TeleSP strives for preventing possible processes and resolving the existing ones.

Currently, an anti-Trust fulfilment programme is ongoing in TeleSP, fact that has been released to the Court of Defense of Competition. This programme pursue the objective of resolving competition issues together with Anatel, CADE and SDE; TeleSP joint the the "Termos de Cessaçao de Conducta" agreements, which allow to interrupt, whitout any fine for the Company, the following processes:

- Embratel's claim against TeleSP (Representaçao 53500.005770/200) for supposed abbuse of its dominat position in the local loop provision.
- Oneworld's Administrative process (Administrative process 08012.007667/2004-48) for supposed calling blockade to Oneworld's network

In the last twelve months, the company proved its commitment with the Defense of Competition Law, achieving to file important processes.

- Embratel / Intelig against TeleSP (Representaçao 53500.001821/2002) for supposed discriminatory practice in the collection of the fare for using local telephony network (September 2005)
- Federal State Ministry against TeleSP, TPI and Listel for supposed anti-Trust conduct of TeleSP in relation to Telephone Guides.

Telefónica CTC Chile

The Chilean regulator (Subtel) periodically requests information from all telecommunications operators in the country to produce national statistics and as a way to supervise the observance of the regulations.

- The number of lines in service and traffic are statistical information for the regulator to be able to draw up national statistics. They are therefore not an indicator and have no objectives (only to inform on the true current situation).
- The remaining items (network disintegration facilities, Fixed Charge Returns and Reports of network faults) are information that the regulating body requests to be able to protect compliance with certain regulations established in law. These reports that are delivered to Subtel are not an indicator either.

Voissnet presented a claim before the Court of Defence of Free Competition (TDLC) on 14th March 2005 for supposed acts that would attempt against free competition, the development and growth of Internet technology, basically broad band technology and access, to establish the prohibition of passing voice through the Internet access broad band service provided by Telefónica CTC Chile. Voissnet hopes that the TDLC might oblige Telefónica CTC Chile to allow third parties to provide IP Telephony via Internet on Telefónica ADSL lines.

Telefónica CTC Chile rejected each and every one of the claims of the claimant by giving market, legal and regulatory reasons on the market, legal and regulatory backgrounds on the development of the broad band market in Chile, indicating that large investments have been made to develop broad band in Chile and that they have facilitated the participation of all the ISP through an open model, and that they are not opposed to IP Telephone but rather to the anti-competitive practices that companies try to carry out by taking advantage of others' investments.

Telefónica de Argentina

Telefónica de Argentina meets the 16 quality objectives established by the regulating body, as can be seen in the table attached to this chapter.

Historically, Telefónica de Argentina has nineteen open processes related to Customer Associations, within the Administrative Chamber from Argentina, although only two of them correspond to Fiscal Year 2004 and 2005.

- Consumers and users Union claimed against Telefónica de Argentina in 2004, with the aim of returning to users all the liquidated and received amounts by way of tax to credits and debits in current bank account, and other operations (Law 25,413) in each period before 02.07.03
- The Deaf’s Argentine Foundation presented a claim against Telefónica and Telecom in 2005, by which they are asked for the fulfilment of public and semipublic phones provision, installation and operation obligation aimed to hipoacoustic and speech disability persons in public places.

Fulfilment of the objectives established by the Argentine regulator 2005

Concept	% Fultilment	No. indicators	Indicators with non-fulfilment
Service installation	307.7	1	0
Faults and repairs	113.0	4	1
		(Repairing delays: 99%)	
Public Telephony	106.0	1	0
Telephone attention	113	3	0

Mobile telephony

Telefónica Móviles España led four of the six parameters evaluated in the study of the quality of mobile telephony services in Spain, drawn up by the Spanish Ministry of Industry, Tourism and Trade. The study is based on a campaign on 8,000 measurements per operator in towns of over 5,000 inhabitants, made by Ericsson on the request of the State Secretary for Telecommunications.

Telefónica Móviles España is highlighted in this report in the section on blocked calls, that is, the percentage of calls that a user tries to make in areas of cover, but which can not be completed as 0.52% of attempts are blocked. The company also leads call establishment in voice services, with the lowest time, that is, 3,514 milliseconds. Among the current challenges of the company is the optimisation of the dual GSM/UMTS service, in which it is hoped to continue to expand the frontiers of improvement.

Telefónica Móviles España, S.A. and the companies of its Group are involved in several suits the unfavourable resolution of which, in the opinion of the Company, would not significantly affect the economic-financial situation or the solvency of the Group, based on the reports of the advisors dealing with the cases.

Of these cases, those for which an unfavourable outcome is expected have been adequately covered. With respect those with respect to which a possible unfavourable outcome might be expected and which do not require provision, there follows a list of those which could be considered particularly significant either because of their subject or due to the size of the sum claimed.

Spain

Claims against settlement of the tax for reserving the public radio-electric domain corresponding to the GSM, DCS-1800 and UMTS services, and to the year 2001.

Faced with the modification of the formula for proceeding to calculate the tax for reserving the public radio-electric domain with a significant increase, applied by Law 13/2000 of 28th December concerning the General State Budgets for the year 2001, Telefónica Móviles España, S.A. brought in three economic-administrative claims against the settlements corresponding to the GSM, DCS-1800 and UMTS services for the year 2001, which were overturned so Telefónica Móviles España, S.A. proceeded to make administrative contentious appeals before the National Audience and, at the same time, against the payment of the settlements before the State Secretary for Telecommunications. At the present time, in the proceedings against the settlement of the DCS-1800 and GSM taxes, an edict has been given by which it is agreed to raise the question of unconstitutionality. In the proceedings against the UMTS tax, Telefónica Móviles España, S.A. has presented a letter to the National Audience, asking for the question of unconstitutionality to be brought for a second time before the Court of Justice of the European Union. The quantities claimed for undue income amount to 228,357 thousand euros.

Economic-administrative claim against the settlement of IAE (Tax on Economic Activities – 2003)

In December 2003, Telefónica Móviles España, S.A. made an Economic-Administrative Claim before the TEAR in Madrid against the settlement of the IAE tax for 2003 for 26,000 thousand euros. Telefónica Móviles España, S.A. understands

that the Tax Administration made a mistake in the administrative act of settling the tax, by annulling a previously transferred amount of 3,226 thousand euros. Telefónica Móviles España, S.A. has paid the amounts requested so the object of the claim is the return of the amounts considered unduly paid.

Prices of terminating the interconnection of Retevisión Móvil, S.A.

By resolution of 12th January 2006, an end was put to the conflict of the interconnection posed by RETEVISIÓN MÓVIL, S.A. against Telefónica Móviles España, S.A. concerning the prices of terminating the calls on the network of the former. This obliged Telefónica Móviles España, S.A. to regularise the RETEVISIÓN MÓVIL termination prices from 4th February 2005 in line with those holding on the previous 7th October 2004. Telefónica Móviles España, S.A. made an administrative appeal for reversal which was wholly upheld by the CMT by Resolution of 16th February 2006. This determines that the termination prices for RETEVISIÓN MÓVIL, S.A. previous to 7th October 2004 are not applicable for Telefónica Móviles España, S.A., and that, therefore, Telefónica Móviles España, S.A. is not obliged to regularise the payment of such prices for an amount higher than that effectively paid during the period of conflict. A contentious-administrative challenge may be brought by RETEVISIÓN MÓVIL, S.A. against the Resolution of the CMT within a time of two months.

Germany

Ostheimer

In 2003, the expert company Ostheimer GmbH brought a claim against Quam GMBH for compensation of 100 million euros for damages deriving from the termination of the framework agreement it had signed with Quam. In 2005 a resolution was passed in favour of Quam GMBH with the mentioned resolution recently appealed against by Ostheimer.

Termination of the licence granted to Quam GMBH

In December 2004, the Regulatory Authority for Telecommunications and Post (RegTP) terminated the UMTS licence granted in 2000 to Quam GMBH. After achieving the suspension of the termination order, on 16th January 2006, the company Quam brought a claim before the German courts against the termination, which consisted of two main parts: the first defends the annulment of the termination order determined by the RegTP, and the second, if the first is not accepted, calls for the total and partial reimbursement of the price paid for the licence.

Italy

Before the refusal of the Italian Government to accept the return by Ipse 2000, S.p.A. of the additional 5MHz of spectrum that they had been adjudicated with the concession of the UMTS licence, Ipse 2000, S.p.A. presented the corresponding claim based on the basic right to waive the rights granted by the administration and requesting the reduction of the amount pending payment by 826 million euros (corresponding to the aforementioned 5 MHz).

Alongside this, in view of the new regulatory framework that establishes a maximum annual price for every 5MHz below that set in the adjudication of the licence to Ipse, S.p.A., in December 2003, it presented a claim before the same body against the Italian Ministry of Communications, asking for the cancellation of the amounts pending payment derived from the adjudication of the UMTS licence, which might determine a reduction with respect to the initial amount to 1.2 and 2.3 billion euros. Equally, on 31st May 2004, Ipse, S.p.A. brought a claim against the assignment by the Italian Government of GSM frequencies free of charge.

All of these claims are currently in a single process. In August 2005, the TAR overturned the first 2 recourses and postponed its decision on the last of them (assignment of GSM frequencies).

Mexico

Law on income Tax, interest deduction

Telefónica Móviles México, S.A. de C.V. and companies of its Group promoted a protective claim against certain Transitory Provisions of the Income Tax Law that limits the deduction of interest from capitals taken in loan, under certain circumstances.

In January 2006, the sentence was notified in which the judgement is rejected as the Judge considers that it is not the right time to uphold the unconstitutionality of these precepts. The Companies will present the corresponding appeal for revision as they consider that the claimed precepts cause harm to the companies from the time they come into force.

Annual levy for the use and operation of frequency bands

The Federal Law of Rights contemplates the

payment of an annual levy for the use and operation of frequency bands that have been granted from the year 2003. As a result of the participation of Telefónica Móviles México, S.A. de C.V. in a suit carried out in 2005, it was adjudicated frequencies in the 1900 MHz band in April 2005, with respect to which they are obliged to pay the said contribution.

Telefónica Móviles México, S.A. de C.V. promoted a protection judgement by claiming the unconstitutionality of the rate on the rights contained for the use and operation of the bands that had been awarded to it.

Telefónica Móviles México, S.A. de C.V. brought an appeal for revision against the Sentence overturning the claim in December 2005.

Telefónica Móviles México, S.A. de C.V. has paid all corresponding rights, so the aim of the suit is to have the amounts paid returned or paid.

Kargo, Inc., ACK Ventures Holdings and United Mobile Technologies, LLC

Kargo, Inc. is claiming from Telefónica Móviles México, S.A. de C.V., Pegaso PCS, S.A. de C.V., Pegaso Telecomunicaciones, S.A. de C.V., Telefónica Móviles, S.A., Telefónica S.A. the payment of damages for court costs and lawyers' fees and anything that the Court might establish, for the presumed non-fulfilment of a licence contract for systems and hosting negotiated by Pegaso PCS, S.A. de C.V.

The case is being processed before a federal court, and Telefónica Móviles México, S.A. de C.V. in January 2006 presented a motion for the case to be waived due to a lack of elements.

Brazil

Universal Fund of the Telecommunications Service

The operators of the VIVO Group brought an appeal against the decision of ANATEL to modify the income that have to make up the tax base for the calculation of the FUST (Fundo de Universalização de Serviços de Telecomunicações), a fund that pays for compliance with the obligations derived from the universalisation of the telecommunications service operators (fixed and mobile).

Lune

Lune Projetos Especiais em Telecomunicações Com has brought a claim against the companies of the VIVO Group, alleging that they have the patent for the caller ID, and that they are the holders of the register of the “Bina” trademark, requiring the interruption of the service and asking for compensation equivalent to the amount paid by the consumer for its use.

Several cellular infrastructure manufacturers, and subsidiaries of the VIVO Group have started an administrative process before the National Institute of Industrial Property to annul the patent on which the claim is based.

PIS and COFINS

The COFINS (Contribuição Social para o Financiamento de la Seguridade Social) and the PIS (Programa de Integração Social) are taxes that encumber companies’ gross income. In 1998, the calculation of the PIS and COFINS was modified by Law 9.718, which (i) increase the tax amount of the COFINS from 2% to 3% and, (ii) increase the amounts making up the tax base. The operators of the VIVO Group opted to claim against the União de Estados Brasileños

against this law and to ask for provision of all amounts, except for the case of Celular CRT, S.A., where they opted to make payment according to Law 9.718.

With respect to the increase of the tax base of the PIS and COFINS, two of the companies of the VIVO Group (Tele Centro Oeste Celular Participações S.A. and Telergipe Celular S.A.) have achieved favourable final sentences. In the coming year, the remaining companies are expected to receive favourable outcomes.

Venezuela

Contentious Tax appeal brought by TELCAL, C.A. in 2002 against a Resolution of the Integrated National Service of Customs and Tax Administration (SENIAT) that obliges TELCAL, C.A. to pay approximately 54,364,291 euros due to lack of checking, expense rejection, lack of withholding of unrecoverable taxes from the financial years between 01-11-94 and 31-10-95, 01-11-95 and 31-10-96 and between 01-11-96 and 31-10-97.

Credits

Departments that collaborated in the preparation of the report

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

