Corporate Responsibility Annual Report 2004 Telefónica S.A.



You come first

CORPORATE RESPONSIBILITY ANNUAL REPORT 2004



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Letter from the Chairman

Dear Friend,

Telefónica would like to take this opportunity to present its Annual Corporate Responsibility Report for 2004. As a further example of our commitment to transparency, this is the third consecutive year in which we have published the most *relevant* information on how the Telefónica Group interacts with its stakeholders. This report is aimed, therefore, at our customers, investors, shareholders, employees, suppliers and to the general public.

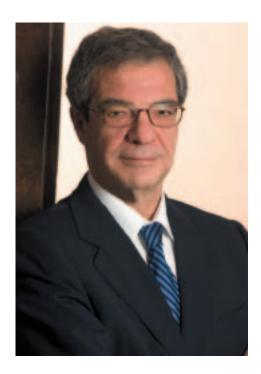
In 2004 Telefónica established itself as the third largest telecommunications company in the world in terms of market capitalisation, reached the 122 million-customer mark and set itself the goal to become *the largest and best integrated telecommunications group in the world*. Our aim to be the *biggest* group is inextricably linked with international markets and innovation. To be the *best*, however, we must deliver on excellence and commitment. With this in mind, one of the objectives we have set in our Strategic Plan is to commit ourselves to act responsibly in the societies in which we operate. At Telefónica, we place the same emphasis on *how* we achieve our objectives and financial results as on the actual objectives and results themselves.

In this respect, the Corporate Responsibility Report is more than just an information report; it is a document we can rightly feel proud of. It represents an extraordinary opportunity for the Group to publish data and indicators and reveal, in the process, that behind every indicator lies a management process, a dedicated team of people and solid policies. Above all, however, behind every single piece of information there is a desire for continuous improvement and a series of realities that spur us on to reach even greater achievements.

The first of these realities concerns Telefónica's role as a driving force for the social, technological and economic development of the societies in which it is present. Our business activity generates significant social wealth: business opportunities for suppliers, employment, digital inclusion, education, product and service innovation, and a host of other assets. Although some of these assets are intangible, we have been able to gauge them in this Report using quantitative and qualitative indicators. The second reality involves our status as a global company and everything that this entails. The values we hold and the key values demanded by society are one and the same. Equal opportunities, diversity and social inclusion are inescapable realities for all companies, and form a vital component in the relationships we enjoy with our stakeholders. Innovation is a lever used to create value both for society and the Company, and we are firmly committed to it. Similarly, solidarity with society is an essential element in any company's operations and which the vast majority of Telefónica employees are wholeheartedly supportive of in this respect. As a global citizen, Telefónica shares the concerns and values of society, having identified with them for many decades now.

The third reality concerns the significance of corporate responsibility itself. For Telefónica, responsibility is but a means of managing its business. By making a positive impact through our business activity we can generate sustainability for all. In our quest to reach the standards that ensure we operate responsibly, this year has seen us make significant progress on two fronts. Firstly, our financial auditor has made improvements in the rigorous verification of the data appearing in this report. Secondly, we have restated our commitment to the Global Compact by applying the Communication on Progress model proposed by the United Nations. This initiative, which we have endorsed and supported for many years, encapsulates what we see as the essence of business responsibility from a global and multidisciplinary viewpoint.

As evidence of our high standards, this Report has been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organization's economic, environmental, and social performance. As we announced twelve months ago, several companies within the Telefónica Group will be presenting their own Corporate Responsibility Reports this year, following the same lines as the overall Group report. This reporting and operating framework was also extended to Argentina, Brazil, Chile and Peru in 2004, helping us to assess the specific contribution made by the Telefónica Group in these countries.



Finally, I would like to draw your attention to the dynamic nature of the information provided in this document. The progress and improvements we make or hope to make in the years to come will be founded on dialogue with our stakeholders; it is our belief that by creating value for our stakeholders we can also create value for the Company as a whole. I would also like to express my sincere gratitude to all those of you who, through your constructive criticism, have helped us to progress. Let there be no doubt that we shall continue to promote corporate responsibility, while striving to enhance the quality of information contained in this year's Report.

Yours faithfully

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