



The Telefónica Group in 2004

TELEFÓNICA: LEADERSHIP IN FIGURES

Telefónica is the world leader in the telecommunications sector, present in Europe, Africa and Latin America, and the main operator in the Spanish and Portuguese-speaking markets.

- At the end of 2004, the number of clients managed totalled 122 million.
- In 2004, it strengthened its presence in Latin America by acquiring BellSouth's mobile operations in 10 countries, adding 15 million new customers.
- Telefónica has over 80 years experience in Spain and 15 in Latin America.

Telefónica is a leading company in financial markets

- It is the world's third largest operator in terms of market capitalisation and the 2nd biggest integrated operator.
- It ranks 5th in the EuroStoxx50 index.
- It has approximately 1.5 million direct shareholders.
- It is listed on the main national and international stock markets.

Telefónica is the leader in the Spanish and Portuguese-speaking economic and business environment with a **multi-domestic** orientation, as can be seen from the impact of its activities in 2004:

- It redistributed over 38.973 billion euros among its interest groups, of which 3.851 billion went to employees, 2.949 to

shareholders, 14.914 to suppliers (18.402 including Capex) and 6.302 to public administrations.

- Telefónica's economic activities contribute between 1 % and 2.3% to the GDP in the main countries in which it operates (Argentina, Chile, Peru, Brazil and Spain)
- It is the main foreign investor in Latin America with accumulated investments of over 70 billion euros between 1990 and 2004.
- The Group's consolidated workforce totalled more than 173,000 employees, of which 37% are located in Europe and 62% in Latin America.
- Over 15,000 suppliers around the world collaborate with Telefónica, 92% of which are local suppliers in each country.

Telefónica is the technology leader in its sector.

- During 2004 it invested approximately 2.4 billion euros in technological innovation.
- R&D activities accounted for over 460 million euros of this investment.
- Of the over 1,700 people engaged in the Group's innovation activities, 1,271 are employed by Telefónica I+D, and 491 by other business lines. In addition, 4,139 people were involved in this activity through other collaborating companies (indirect jobs).
- It has 1,787 patents and 1,245 intellectual property rights registered.
- In 2004, Telefónica accounted for 7% of private R&D investment in Spain.

THE BEST AND BIGGEST INTEGRATED TELECOMMUNICATIONS GROUP IN THE WORLD

Telefónica set itself the target of becoming the world's best and biggest integrated telecommunications group. The best in terms of customer orientation, innovation, operations excellence and the leadership and commitment of its professionals. And the biggest in terms of growth and profitability for shareholders and the integrated operator with the highest market value.

Telefónica's business model is consequently aimed at meeting all of its customers' communication needs, structuring its operations according to the following lines of activity:

- **Fixed telephony and broadband services** in Spain and Latin America. This activity is carried out by *Telefónica de España* and *Telefónica Latinoamérica* respectively. The Group currently has 43.2 million lines in service and 5.02 million data broadband and Internet connections (including Telefónica Deutschland).
- **Mobile and cellular telephony in Spain**, Latin America and the Mediterranean basin. Telefónica Móviles manages this service, which the Group provides to over 78 million clients (including Bellsouth customers) offering voice and data services on the latest generation mobile telephone technologies.
- **Other areas of activity.** Amongst these are *TPI (Telefónica Publicidad e Información)*, which encompasses the Company's telephone directory business in Spain and Latin America as well as Atento, the leading company in customer contact management in the Spanish and Portuguese languages with nearly 75,000 employees.

In addition to these lines of activity, the Group has a series of subsidiaries and institutions that

support the business and which include: Telefónica I+D, the subsidiary that channels the development of new products, services and applications; t-Gestiona, which provides administrative support for the Group and manages non-strategic activities common to the different companies; Telefónica Contenidos, which groups together content production and distribution; Fonditel and Antares, financial insurance, investment and pension fund companies; and Fundación Telefónica (the Telefónica Foundation), which is responsible for promoting the Group's community action and cultural initiatives that benefit less-advantaged sectors in the countries where Telefónica operates.

In addition, a Corporate Centre is responsible for defining the Group's global strategy and corporate policies, managing common activities and creating support policies. With this integrated business company structure, the Group aims to achieve reciprocal growth and to create synergies between the business units.

ACCELERATE TO INCREASE OUR LEADERSHIP

The desire to become the world's best and biggest integrated telecommunications group is supported by a transformation programme which, with the motto "Accelerate to increase our leadership", is built on five cornerstones: customer orientation, innovation, operations excellence, commitment, leadership in people and a common Group identity.

A customer orientated Group

In 2004, Telefónica continued in its quest to become a marketing orientated company, moving from a product-focused business to becoming an integrated Group aiming to satisfy its customers' overall communication needs. To strengthen this approach, motivate the entire organisation and transform the work culture, various initiatives have been promoted in the

business units such as “Meta: Cliente” in Telefónica de España or “Compromiso Cliente” in Telefónica Latinoamérica.

Telefónica’s challenge is to turn technology into accessible solutions and services that are clear and relevant benefits for the customer.

Accordingly, the group intends to effectively take advantage of the eight million daily contacts it has with its customers to become better acquainted with their requirements and anticipate their needs, improving the service and product offering, and the sales and distribution channels.

Telefónica has identified four major business segments for organising and strengthening business activities:

- Individuals
- Households
- Small and Medium-sized Enterprises
- Large Corporations and Public Administrations

With this strategy, Telefónica is seeking to reach 165 million customers by 2008, and to strengthen loyalty and investment through premium added services.

Innovation

For Telefónica, innovation is the process that turns ideas into profitable products and services and/or into improved procedures. To foster this, the Company has created a group that is exclusively engaged in monitoring and ensuring that innovation is extended from the field of technology to the different processes in the value chain, including the area of marketing.

This is centred on meeting customer’s needs and the Group’s strategy will involve alliances with other leaders in the communications sector, a target plan for its workforce professionals and, finally, periodic communications with the investment community.

During 2004, the Telefónica Group invested close on 2.4 billion euros in R&D&I, evenly distributed between Spain and Latin America according to OECD criteria for technological innovation. Of this amount, over 460 million was invested in purely R+D activities.

Operational excellence

The Group has set a target date of 2008 to accomplish what has been coined *Telefónica Excelente*, a company with the highest customer satisfaction ratings in the sector, a more efficient and flexible company, and with more motivated and dynamic professionals. Achieving these objectives requires working on three key levers:

- services and customer service: creating products and services that are targeted at satisfying customers, optimising service parameters, providing fast and effective service, promptly repairing break downs and error-free invoicing.
- management of financial and human resources: continuously increasing productivity and wisely choosing investments.
- tools to achieve this: technology, systems, processes and organisation.

The combination of efficiency, quality and motivation will enable Telefónica to enter a new stage of excellence, which will be fully customer orientated.

Leadership and the commitment of people

Telefónica’s leadership begins with the commitment of each and every one of the Group’s 173,000 professionals around the world.

To achieve this, Telefónica has strengthened its value proposal to its professionals, targeted at making Telefónica a company of which its

employees can be proud, a company “of and for” the people, where a relationship of trust predominates, where each person’s effort is justly rewarded and everyone has opportunities for professional and personal growth.

To foster this process, several initiatives have been implemented that are focused on four key areas: clarity, remuneration policy, professional development and exemplary conduct. With the objective of measuring the impact of these plans on employees, employee satisfaction studies have been conducted in all of the Group’s companies.

Corporate Identity and Communication

Since it was founded 80 years ago, Telefónica’s identity has been shaped by its management as a private company (it has been listed on the Stock Exchange since 1925), its focus on operating efficiency, innovation and exploitation of opportunities, such as its entry into Latin American markets.

Telefónica must reinforce its positioning as an integrated group, as a single company with shared values and a common identity. This is the basis for accomplishing its objective of becoming the world’s best and biggest integrated telecommunications group.

Telefónica has implemented a Corporate Communications Plan in order to transfer its strategic vision to the entire workforce. An important part of this plan is the role of management as the main communication channel between the company and its employees, a role that is reinforced by the Group’s internal communication channels.

A COMMITTED AND RESPONSIBLE GROUP

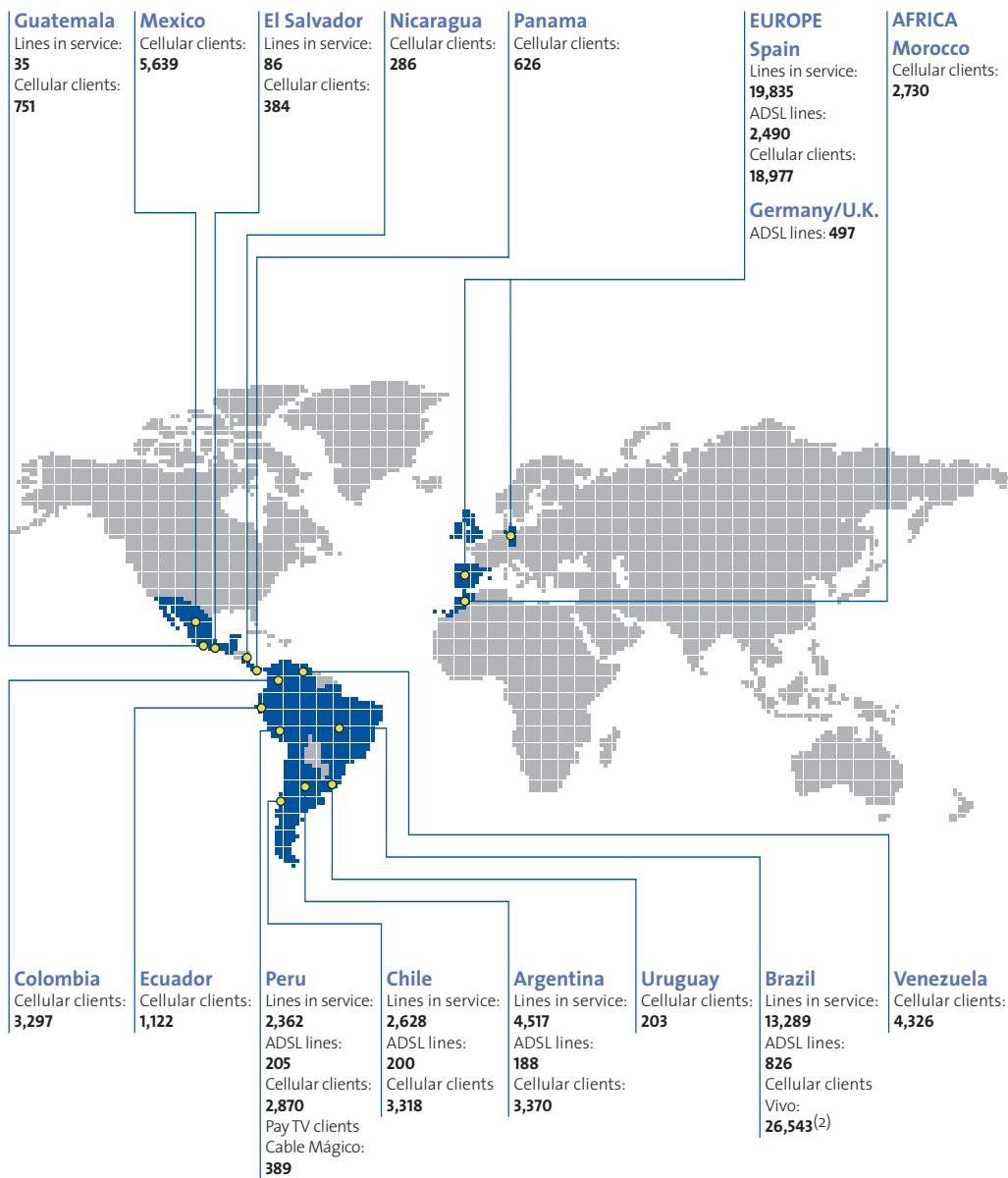
In order to become the world’s best and biggest integrated telecommunications group, Telefónica has set itself the task of becoming

the trusted operator for all those with whom it interacts: customers, employees, shareholders and society as a whole. And Telefónica views trust as the result of fulfilling all of the commitments it undertakes and maintaining close ties to all involved.

- Firstly, the Group has taken on a commitment to corporate governance and transparency. For this purpose, both Telefónica SA and all of its subsidiaries publish annual Corporate Governance reports, highlighting the general principles of Corporate Governance. As proof of this commitment, Telefónica won the Spanish Company Award for the Best Financial Information on the Internet in 2004.
- Secondly, the Group also has a commitment to Corporate Responsibility. For Telefónica, being a responsible company involves doing what one has to do well. This commitment, in addition to effective business management, involves commitment to the employees, respect for the environment, equal opportunities, greater social integration and belonging, bridging the digital gap...in a word, in playing its role as a driver in the economic, technological and social development of the society in which it operates. As a result of these activities, Telefónica is now listed on the Dow Jones Sustainability Index.
- Thirdly, the Group is committed to being a supportive company. In this respect, Telefónica is firmly committed to the less-advantaged sectors of society. The Telefónica Foundation is responsible for channelling community and cultural action initiatives in Spain, Brazil, Argentina, Chile, Mexico, Peru and Morocco and annually publishes details of its activities in this field. In 2004, over 26 million people benefited directly from the social and cultural programmes undertaken by the Telefónica Foundation.

TELEFÓNICA GROUP MARKET SIZE

(Data in thousands, December 2004¹)



1. Lines in service include ADSL lines

2. Joint Venture with 50% share with Portugal Telecom

We wish to be the best and largest integrated

in profits

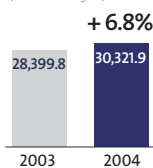
2004 saw the company post record profits...

+30.6% Net profit

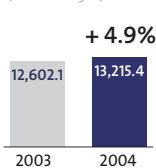
+25.0% Dividend

3,771.9 billion in investment

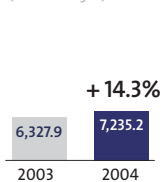
Revenue
(Millions of €)



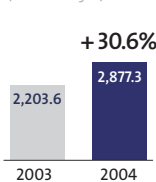
EBIDTA
(Millions of €)



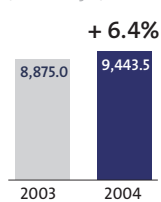
EBIT
(Millions of €)



Net Profit
(Millions of €)



OpCF
(Millions of €)

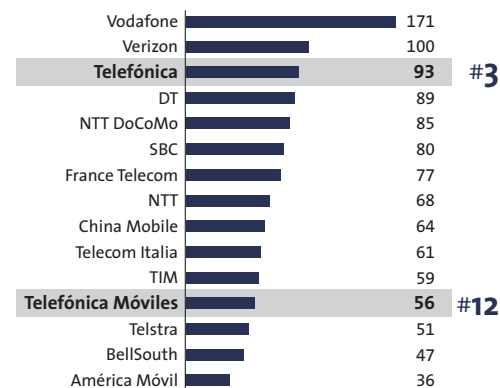


in the markets

...moving up from **7th** to **3rd** in the market capitalisation ranking...

WORLD RANKING BY MARKET CAPITALIZATION

Billions of US dollars (at 25th February 2005)



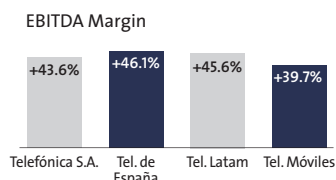
93,000 m\$ in market capitalization

3rd Company in terms of market capitalization in our sector

5th European company in terms of market capitalization

in efficiency

...with the best efficiency ratios in the sector...

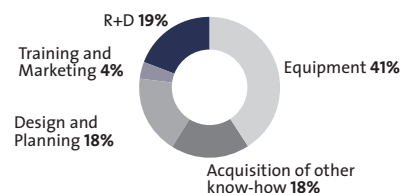


in innovation

...with an investment of

2,398 Million €

in R+D+i...

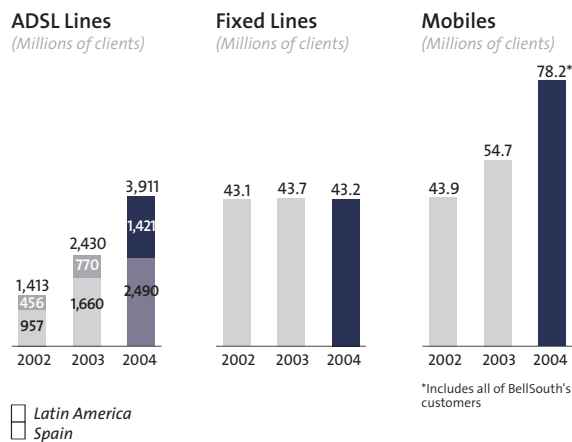


telecommunications group in the world...

in our customer base

...with over **122** million clients worldwide...

Increase of **+26.4%**



in shareholders remuneration

...with one of the best investment options...

22.7% total return in 2004

+25% Dividend

+

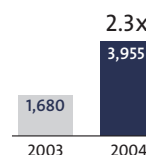
Distribution of treasury stock at a ratio

1x25

+

Buyback plan up and running

Shareholder Remuneration (Millions of €)



Highlights 2004

in development of societies

...with a generated income by the group of

38,973 Million € which represents

1.8% GNP of the countries...

in employees

...with over **173,000** and

9,000,000 training hours.