

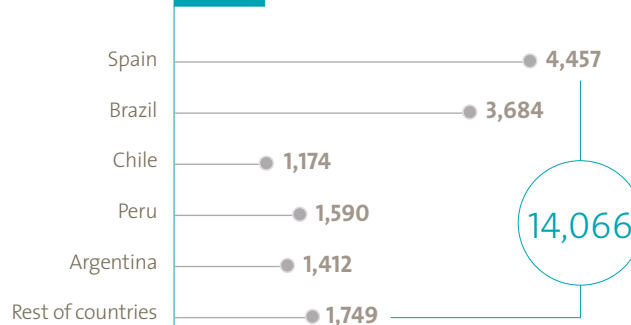
suppliers

equality of opportunities
and mutual benefit

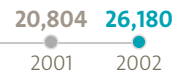
1 Telefónica works with a wide range of suppliers

2 The company endeavours to build relationships based on transparency and fair competition...

1.1 Telefónica Group works with over 14,000 suppliers



2.1 Mechanisms that promote transparency
Registered suppliers



2.2 Suppliers' website



www.telefonica.es/proveedores

1.2 Telefónica's purchases are managed by means of an advanced and efficient system

«Sistema Avanzado de Compras» (SAC)

109 companies have adopted the system

7 purchases offices

(Madrid, Sao Paulo, Rio de Janeiro, Lima, Buenos Aires, Santiago de Chile, Mexico D.F.)

1.3 Supporting local suppliers

Number of contracts awarded to local suppliers; breakdown by country (data in percentages)



3

... for the mutual benefit of both...

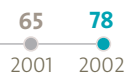
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... seeking to foster ethical standards throughout the supply chain

3.1

Implamantation of on-going improvement procedures in the supply chain

Number of supplierdevelopment projects



3.2

The Purchasing Club

Attractive purchase prices for suppliers

→ 93

Registered suppliers

→ 18

Offers available

3.3

B2B e-commerce

→ 256

Millions of euros' worth of transactions in 2002

→ 1,145

Registered suppliers

UN Global Compact
www.unglobalcompact.org

GeSI (Global e-Sustainability Initiative)
www.gesi.org

ETNO (European Telecommunication Operators Association)
www.etno.be

suppliers

equality of opportunities
y mutual benefit

Telefónica Group's
volume of purchases

more than
10,000
million euros

more than
14,000
suppliers

1 Telefónica works with a wide range of suppliers on whom depends its success

1.1 Telefónica Group works with over 14,000 suppliers

In 2002, the value of the purchases made by Grupo Telefónica totalled more than 10,000 million euros, including investments and operating costs. These purchases were adjudicated to more than 14,000 suppliers, with the ten following groups being the largest in terms of purchase volume (listed in alphabetical order): Alcatel, Avanzit, Ericsson, IBM, Lucent, Motorola, NEC, Nokia, Samsung and Siemens.

1.2 Telefónica's purchases are managed by means of an advanced and efficient system

Fully aware of the importance purchasing and the need for excellent relations with its suppliers have on the success of its operations, Telefónica uses a single purchasing management system for all the companies within the Group, known as the «Sistema Avanzado de Com-

pras» (SAC). The aim is to optimise purchasing on three levels: price, quality and service in order to reduce costs, increase levels of competitiveness and generate value.

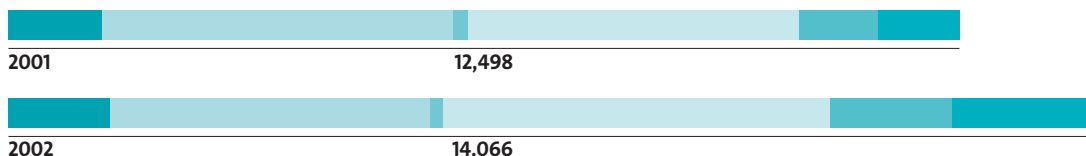
In order to implement this system, Telefónica Group has set up a Purchasing Structure with a dual orientation: Global and Local (country/company):

- Global, in order to allow for the design of general strategies and to administer joint purchases whenever necessary; and
- Local, in order to be able to adapt global policies to the situation and specific circumstances of each country, thereby guaranteeing sufficient contact with suppliers and with the user areas through the purchasing teams set up in each company, which allows us to offer quality service.

One hundred and nine Telefónica Group companies in more than 15 countries currently use this purchasing system. It is based on the «Mesas de Compras», forums providing an opportunity for the various areas involved to undertake analyses, establish targets or prices, and ultimately to reach a consensus regarding whom the supply contract should be awarded to.

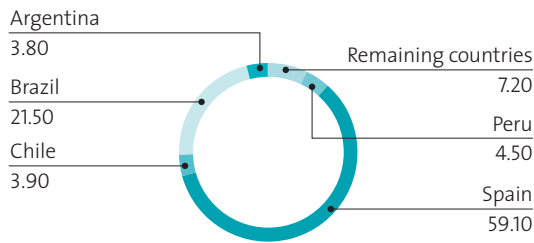
Number of contracted suppliers

Argentina Brazil Chile Spain Peru Remaining countries



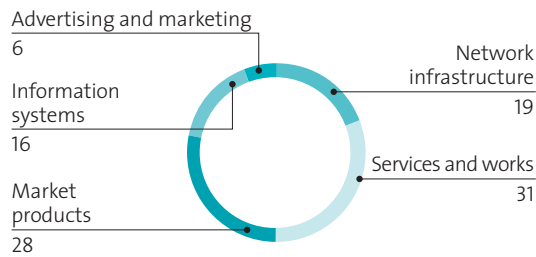
Distribution of purchases per country

(data in percentages)



Distribution of purchases according to product lines

(data in percentages)



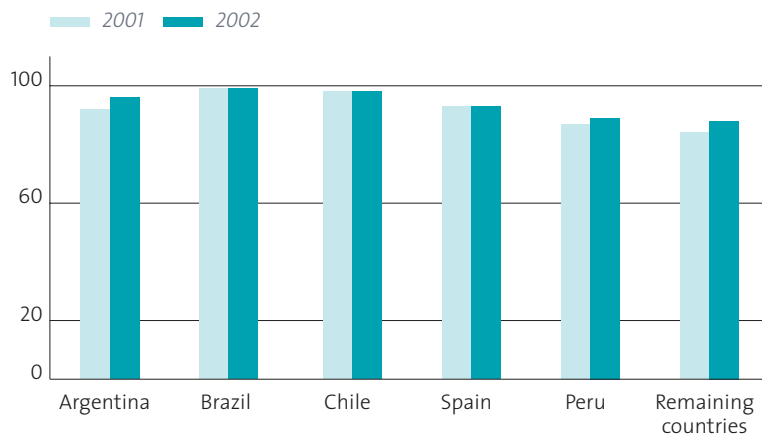
There are currently seven «Mesas de Compras» located in Madrid, Sao Paolo, Rio de Janeiro, Lima, Buenos Aires, Santiago de Chile and Mexico DF, thereby making it possible for a global or local purchasing policy to be implemented at any given time, in accordance with the specific circumstances of each case.

1.3 Supporting local suppliers

Telefónica is a multidomestic company that is firmly committed to promoting economic and social progress in the countries in which it is present. This commitment may be seen in the large number of contracts given to suppliers in the same country, who are awarded more than 75% of all contracts in the majority of countries in which the Group operates.

Percentage of local suppliers per country

(data in percentages)



2 Telefónica bases its relations with suppliers on transparency and objective consensus...

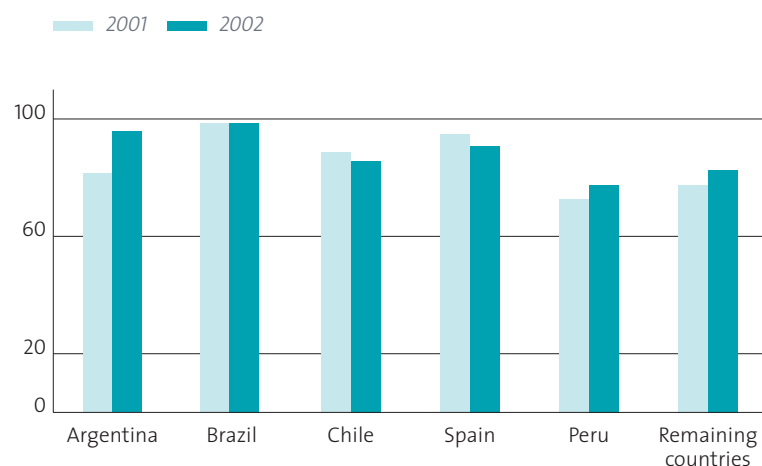
2.1 Mechanisms that promote transparency

The «Sistema avanzado de Compras» (SAC) includes a number of mechanisms and features designed to make processes more transparent. The most important of these are:

- The possibility of being included in Telefónica's Catalogue of Suppliers, that is available for all companies interested in working with Telefónica. By the end of 2002, the total number of firms included in the Catalogue as potential suppliers for Telefónica stood at 26,180 (20,804 at the end of 2001).

Distribution of purchases made from local suppliers per country

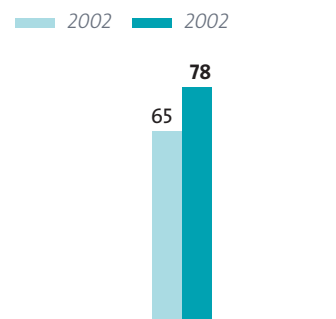
(Data in percentages)





The Supplier's website
www.telefonica.es/proveedores.

Number of supplier development projects
 (Spain, Brazil, Chile y Peru)



Purchasing Club

93
 registered suppliers

18
 offers available

- Fair treatment and equal opportunities for suppliers making bids.
- Adjudication by the «Mesas de Compras» unanimously, in all areas involved with purchases.
- Informing suppliers making bids if they have been selected or not, and in those cases when they are not selected, give reasons.
- SAC Style Manual, describing the general principles, values and guidelines governing the professional conduct and activity of the purchasing teams as well as all other departments involved in the purchasing process, including their relations with suppliers.

2.2 The Suppliers' website

The Supplier's website www.telefonica.es/proveedores aims to act as the main channel of communication and information exchange between Telefónica and its suppliers.

In addition to supplying global information regarding how to become a supplier for Telefónica Group, as well as the purchasing process and Telefónica's main projects, this portal also provides access to other specific portals for companies within the Group, in particular «e-Agora», Telefónica de España's portal for purchases.

This portal allows companies to register their request to be included in the Suppliers' Catalogue of Telefónica Group, access «Adquirat», the e-commerce platform, the Suppliers' Club, and also provides details of a range of other initiatives and applications that Telefónica has made available to its suppliers.

3 ... for the mutual benefit of both...

Telefónica has developed a series of tools designed to bring about improvements at all stages of the supply chain.

3.1 Implementation of on-going improvement procedures in the supply chain

Through its «Supplier Development» scheme, Telefónica offers its suppliers free of charge a team of professionals and methodology designed to assist the supply company in implementing on-going improvement procedures. The objectives of this scheme are described below:

- To collaborate with the supplier, providing methodology aimed at identifying opportunities for improvement.
- To facilitate the implementation of on-going improvement procedures by the Supplier as part of a philosophy based on active involvement.
- To identify procedures where opportunities for reductions in costs exist, thereby allowing for increased competitiveness and providing added value for the end client.

During 2002 these on-going improvement procedures were carried out in Spain, Brazil, Chile and Peru.

3.2 Access for suppliers to special benefits for purchases: The Purchasing Club

The Purchasing Club is another initiative designed to foment collaboration among suppliers. Through



this Club, Telefónica offers its suppliers the chance to take advantage of a number of special deals on certain products. During 2002, this initiative was set up in Spain and Brazil. Over the next few months it will also be implemented in Argentina, Chile and Peru.

3.3 B2B e-commerce, an ever-closer reality

Telefónica aims to be at the forefront of the use of state-of-the-art technology in its dealings with its suppliers, setting up new and improved communication channels, simplifying access to the market, optimising procedures and transactions and in general favouring all aspects of collaboration. In this sense, Telefónica wishes to bring e-business technology closer to its suppliers through the use of an electronic market designed to administer and negotiate bids online.

During 2002, the value of purchases administered by this electronic market totalled 256 million euros, with a total of 1,145 suppliers included by year-end 2002, distributed as follows: Spain 797, Brazil 225, Argentina 79, Peru 44, Total: 1145. For suppliers, these e-business initiatives imply a reduction in sales costs, improvements to documents and procedure monitoring systems and greater efficiency and flexibility in the exchange of information. The use of these new technologies will help to strengthen links between Telefónica and its suppliers.

In addition to the benefits listed above, this platform provides added sales opportunities for suppliers thanks to the access to a virtual market which not only includes all the Telefónica companies, but also

firms such as BBVA, Iberia or Repsol-YPF.

4 ... seeking to foster standards throughout its supply chain

Telefónica not only requires full compliance regarding all legislation affecting working conditions, health and safety in the workplace or environmental impact, as stated in its general terms and conditions regarding supplies, but also makes a major contribution to the promotion of responsible practices at all stages of its supply chain. This commitment has been made public through its adherence to the UN Global Compact, as well as through the initiatives set up by the ETNO (European Telecommunication Network Operators) and the GeSI (Global e-Sustainability Initiative).

One of the highlights of these initiatives is the involvement of Telefónica Móviles España in the Business and Sustainability pilot scheme «Calificación Ambiental de Proveedores» (Suppliers' Environmental Certificate). This is an initiative promoted by the «Fundación Entorno» and sponsored by Spain's «Ministerio de Ciencia y Tecnología» and is designed to offer environmental certification for suppliers at a number of stages, thereby encouraging our suppliers and contractors to improve their environmental management systems.

All contracts for the supply of materials drawn up by the logistics division at Telefónica España include the stipulation that the suppliers comply with «Ecoembes», offering environmentally friendly packaging including the recycling logo, plus payment of the corresponding fee.

In addition, Telefónica de España has set an environmental management objective for 2003, consisting of creating a «Code of Good Practice» for subcontractors

Volume of online purchase

256
million euros

1,145
registered suppliers