



02

Intangible assets

02/01

corporate values

The Telefónica Group values underlie and guide the way we develop our businesses

27 instances of public recognition

02/02

brand

Telefónica has redefined its brand strategy and architecture, adapting them to its business vision

TELEFÓNICA'S BRAND ARCHITECTURE MODEL

10 essential principles

02/03

corporate responsibility

A way to handle its relations with stakeholders and to fulfil the commitments of the *Global Compact*

7 subsidiary corporate responsibility reports
4 country corporate responsibility reports

02/04

institutional presence

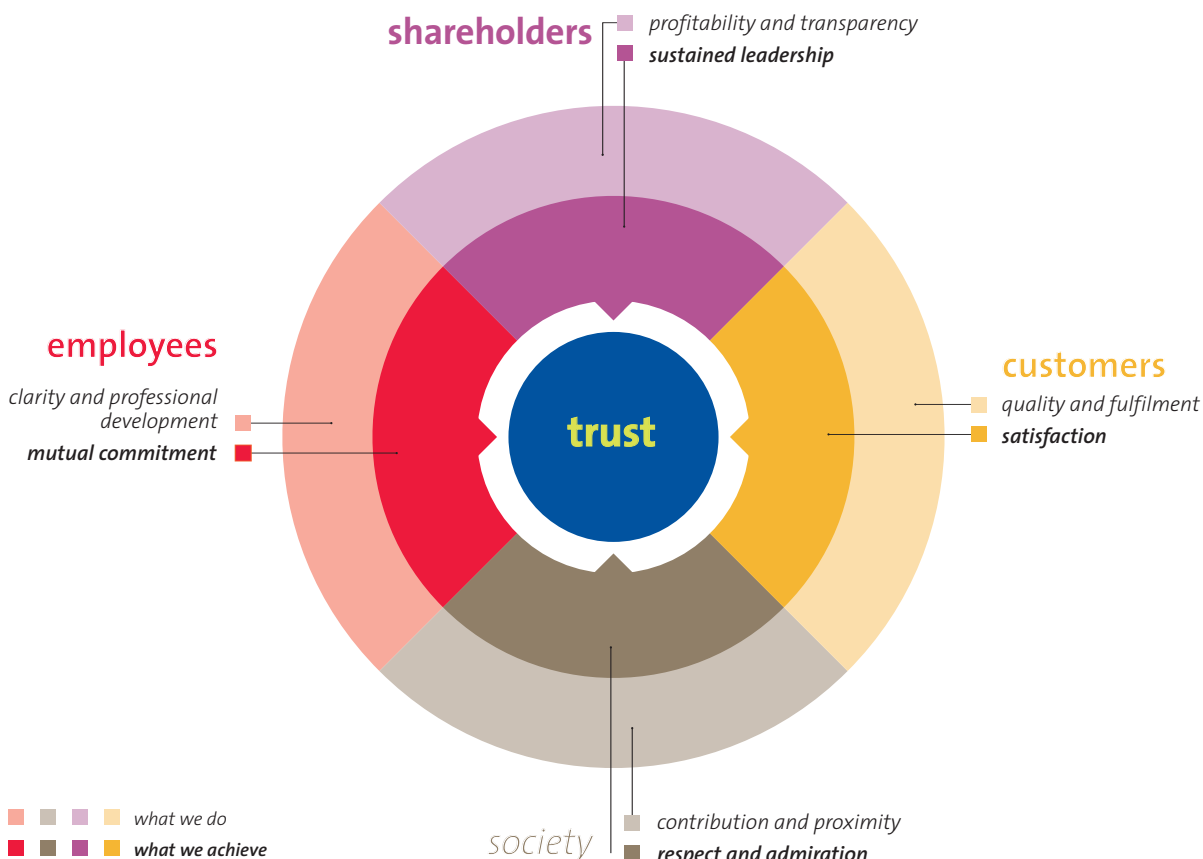
Channelled through sponsorships, forums, conferences and participation in international bodies

515 sponsorships



The Telefónica Group aspires to be the best and largest integrated telecommunications operator in the world. Its values, the prestige of its brands, its identity and responsible, proactive conduct are keys to achieving this goal

THE VALUES OF THE TELEFÓNICA GROUP (02-1)



With our shareholders and investors

- **Transparency:** we strive to ensure that shareholders, investors and all our other stakeholders have unlimited access to all the information they need.
- **Profitability:** through a solid and future-oriented business model.

With our customers

- **Quality:** we take care to ensure that the products and services we provide, in addition to our customer service, are always tailored to their requirements.
- **Fulfilment:** we promise to do what we say.

With our employees

- **Clarity:** we ensure the Group's employees have access at all times to comprehensive, quality information.
- **Professional development:** we guarantee Telefónica employees the best possible opportunities throughout their career.

With society

- **Contribution:** to build a relationship with society based on trust thanks to our contribution to all levels of society through specific solidarity-based, environmental and integration policies.
- **Proximity:** as a global and multi-domestic company that offers a comprehensive range of products and services, but which also responds to the needs and specific characteristics of the societies in which we operate.

01 VALUES: CONFIDENCE IN MEETING COMMITMENTS

a) The Values of the Telefónica Group

Telefónica's goal is for its customers, employees, shareholders and societies in the countries where it operates to trust in its ability to fulfil the commitments it makes.

Telefónica knows it is not enough just to speak about trust; it has to be earned on a daily basis by making the right commitments and fulfilling them, whilst demonstrating in the process that it can deliver on its promises.

b) Recognition of the commitments fulfilled.

During 2004, several companies in the Telefónica Group have received public recognition for meeting their commitments. This recognition is but an example of the trust shown in Telefónica and its operations.

Argentina

- Telefónica topped Apertura magazine's ranking of the 100 public service companies with the best image. In terms of communication and institutional advertising, Telefónica was ranked sixth, the same position it held in 2003.
- Telefónica was ranked in the top five of *Negocios magazine's* list of the *best companies to work* for employing more than 1,000 people. Telefónica is positioned among the top five companies evaluated.
- The Telefónica Group's Corporate Voluntary Scheme received the *Caring Entrepreneur Prize*, an award made by the Social Ecumenical Forum in recognition of initiatives fostering a spirit of solidarity in the community as a whole.

- The *Risolidaria* portal: declared by the Ministry of Social Development as a website "of social interest".

Brazil

- For the second time Telefónica was named *Company Providing Assistance to São Paulo* in recognition of its contribution to the city's development.
- Atento Brasil was the only Brazilian company in the contact centres sector to receive a prize at the Fifth Annual *AMAUTA Awards* in 2004, presented by the Latin American Federation of Direct and Interactive Marketing Associations (*ALMADI*).
- In recognition of its contribution to the use of new ITCs in high school and secondary education, the *EducaRed* Programme was named a finalist in the education category of the 2004 *IT Mídia Awards*.
- Both the *Risolidaria Portal* and the *São Bartolomeu Dressmakers Cooperative Project* were named finalists in the 2004 *EXAME Guide of Good Corporate Citizenship Awards*.

Spain

- According to the report *The Best Perceived Companies in Terms of Social Action 2004* published by the *Business and Society Foundation*, the Telefónica Group is among the three most valued companies in terms of commitment to social issues in conducting business activity. The Telefónica Group is also the best perceived company in terms of its financing and sponsorship schemes in a number of areas.
- In 2004 the *Spanish Corporate Reputation Monitor* (*Merco*) named Telefónica as among the three companies with the best reputation in Spain.

- Telefónica was recognised as the Spanish company providing the most *transparent and reliable corporate and financial information on the Internet* by the Spanish Association of Accounting and Business Administration (AECA) at its third annual awards.
- Fonditel Pensiones, Telefónica's pension plan provider, was awarded the prestigious *European IPE Award* for the best core-satellite strategy in recognition of the European fund that best combines its asset portfolio with risk structure. Furthermore, *Intereconomía, Standard & Poors, Mi Cartera de Inversión* have all recognised the quality of Fonditel's management.
- *PC Actual* magazine announced Telefónica de España as the winner of its Best Broadband Provider Award *in recognition of the quality broadband services marketed by the company.*
- The magazine *Computing España* awarded Telefónica de España first prize in the *Systems Integration and Consolidation* category for implementing the High Business Availability (ADN) Project.
- Telefónica Móviles España's *Customer Relations Centre (CRC)* was awarded the *2004 First Prize for CRC Excellence* in the telecommunications sector, organised by Izo System. In addition, Telefónica Móviles España also received the National Gold CRC Second Prize for Service Excellence in 2004, awarded by the same organisation.
- Telefónica Móviles España won the *AUTELSI Award* for its project *Mobile City*.
- The award for *Best Employee Portal in 2004* went to Telefónica de España for *e-domus*. This award was sponsored by *Inforpress, the Instituto de la Empresa and Capital Humano*.
- The magazine *Actualidad Económica* awarded Distrito C its prize for the Most Representative Real Estate Project in the Community of Madrid.
- The Telefónica Foundation also picked up the 2003 CERMI.ES *Social and Cultural Action Prize* awarded by the Spanish Committee of Representatives of the Disabled, for its *valuable work in supporting society's most disadvantaged groups and for having developed a range of programmes designed to bring about social integration and improve living conditions for disabled people.*
- The Telefónica Group Corporate Voluntary Scheme was named finalist in the *Codespa Caring Company Awards*.
- The theme-based website *www.infomedula.org*, the result of a partnership between the Telefónica Foundation and the National Hospital of Paraplegics in Toledo, won the 2004 IMSERSO *Princess Cristina Communication Award*.
- In recognition of the ongoing support provided by the Telefónica Foundation ever since the inaugural *National Heart Week* in 1984, last year saw the Company receive the *Golden Heart Award*.

Morocco

- Médi Telecom, Telefónica Móviles' subsidiary in Morocco, received the Moroccan government's *National Quality Award for 2003* in recognition of the operator's exemplary management and the outstanding quality of its technology and customer services.

Peru

- Winner of a technological *innovation award* for the *Llaqtared Project*, La Red del Pueblo, which has brought the Internet to 14 remote

Peruvian communities. The project was rewarded with the Business Creativity Award and highlights Telefónica's commitment to promoting the development of the Information Society in Peru.

- In a survey conducted by the University of Lima in 2004, the country's leading businessmen and women identified Telefónica Group as the second highest ranked company, in recognition of its commitment to social responsibility through programmes tackling domestic violence, and its support for education, art, sport, technology, culture and the integration of the disabled.

Mexico

- Thanks to the support of the Telefónica Foundation, in 2004 the *Guía-T Programme* organised over 100 academic guidance talks and workshops during the school year attended by students, teachers and parents alike. The programme has been endorsed by the National Parents Association (FENAPAF) and also won the 2004 *Latin American Award for Educational Excellence*.
- Telefónica Móviles México was awarded *Socially Responsible Company* status in 2004.

02 THE BRAND: A KEY TO REACHING OUR GOAL

Throughout 2004 and at the beginning of 2005, the Telefónica Group commenced a process of re-organising its brand strategy and architecture, adapting it to its goal (to be the biggest and best integrated telecommunications group in the world) and striving to consolidate the trust of its customers.

The new Brand Strategy and Architecture Model set into operation fulfils this goal: on the one hand it enhances maximum commercial

relations with customers and, on the other, it transmits the corporate goals and the values to the stakeholders with which the Company interacts on a daily basis.

Thus, it reinforces Telefónica's role as a commercial and institutional reference point by encompassing the cornerstones for transformation defined by the Company, opting for an integral vision of the Group's brands in response to customers' expectations of the needs in a converging business.

In an increasingly complex market environment, it is essential to have a system that defines the roles, criteria and hierarchies of the Group's brands, and maximises their relationship to the Telefónica brand. The new brand strategy and architecture not only meet these objectives, but do so with a view to the future.

Telefónica's goal: to be the largest and the best integrated telecommunications group in the world

Telefónica aspires to become the best and biggest integral telecommunications group in the world within the next three years. To attain this goal, the Telefónica Group has focused on the customer as its priority in all its business lines.

The Group has moved from a basis of company product and service development criteria to an integral group oriented toward satisfying its customers' expectations through the provision of flexible, relevant services adapted to their needs, regardless of the technology applied.

Along with this new focus, the Group has implemented a new Brand Strategy and Architecture Model, which on the one hand, enhances the commercial relationship with customers and, on the other, is backed by one of the leading telecommunications operators in the world in terms of market capitalisation.

MODEL OF THE RELATIONSHIP BETWEEN COMMERCIAL BRANDS AND THE MASTER BRAND (02-2)

	Model	Description	Example
Masterbrand	Telefónica	Use of Telefónica as a commercial brand	
Commercial brands	Telefónica + commercial brand	Commercial brand associated to Telefónica Brand	
Non-associated	Independent brand	Use of own Brand without the backup of the Telefónica master brand	

In 2004, Telefónica commenced a new role-based Brand Strategy and Architecture Model

The new Brand Strategy and Architecture reinforce the business goal established

The new Brand Strategy and Architecture Model allows efficient management of the Group’s twofold profile, institutional and commercial, within an increasingly complex market environment where stakeholders other than customers have progressively greater impact on the business (shareholders, employees, regulatory bodies, suppliers, the environment, society, etc...)

This model, which could be described as a *family system*, defines the roles, criteria and hierarchies amongst the Group’s brands as a source of business and differentiation, the relationship and leverage between commercial brands and the Telefónica brand through a series of principles of identity (values, positioning, messages, tone...) and includes a coordinated system of graphics (colours, codes, formats, styles, typography...) that transmit a balanced and coherent vision of the Group.

The Role of the Master Brand

Due to its institutional profile and the values associated to it, the role of the Telefónica master brand is to support and guarantee the commercial offer related to the commercial brands, as well as to enhance their *stature*.

The Role of the Commercial Brands

On the other hand, the role of the commercial brands consists of contributing proximity and freshness in complement to the master brand. Moreover, these brands differentiate for the commercial offer, adding relevance, making it closer and more credible, whilst also breathing new life and freshness into the master brand.

Brand Family System

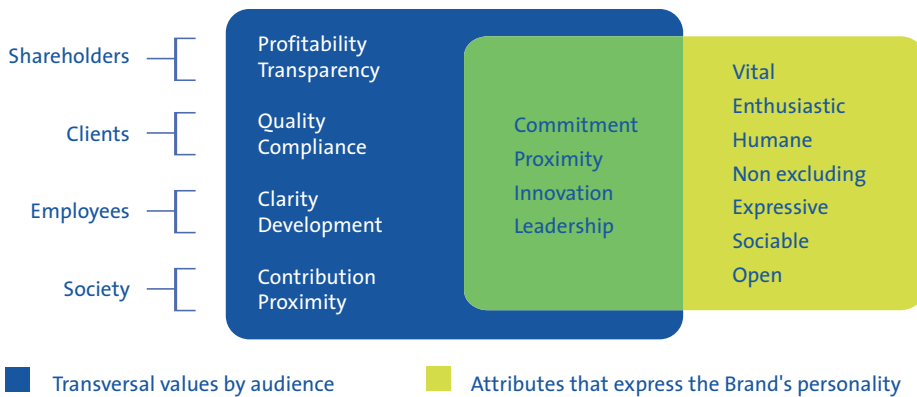
The brands coexist through the *family system* in a solid, inseparable relationship. This is not *co-branding*; it is a new system that favours the feedback of values amongst the Group brands.

ESSENTIAL PRINCIPLES IN THE TELEFONICA GROUP BRAND STRATEGY AND ARCHITECTURE MODEL

- 1 Telefónica is the Group master brand
- 2 The Telefónica brand provides all the businesses in the Group with a common identity and culture
- 3 Telefónica is the only player from an institutional standpoint
- 4 Telefónica interacts with its customers through its commercial brands
- 5 The commercial brands do not compete with the Telefónica master brand, but rather complement it

ATTRIBUTES OF THE TELEFÓNICA BRAND AND VALUES (02-3)

The attributes of our brand are: Leadership, Innovation, Proximity and Commitment.



Brand Strategy and Architecture Principles

Telefónica manages its brand strategy and architecture through the principle of identity and a system of coexisting graphics among the brands:

Identity

a. Corporate Values

Corporate values are the true foundation of the Group. They comprise the starting point and establish the line that defines the specific content of the commitments Telefónica undertakes with its stakeholders in order to gain their trust. Thus, for shareholders, trust is the result of profitability and transparency; for customers it lies in quality and fulfilment, for employees, it is clarity and professional development; and for society, trust is born of proximity and contribution (*see section on values*).

Telefónica knows that one cannot simply talk about trust; it must be gained day by day, acquiring commitments and fulfilling them, proving without doubt that it is able to do what it says it will do.

b. Brand attributes

The attributes of the brand define the company and express its personality. Telefónica builds its brand on two functional attributes: Leadership and Innovation, backed by the Group's capacities; and two emotional attributes: Proximity and Commitment, which strive to give the brand its personality and engender closer links to those with whom it interacts.

c. Telefónica's positioning

Telefónica's paramount goal is to understand and meet the needs of the people with whom it interrelates.

This is the only possible means for Telefónica to turn its technological innovations into accessible communications solutions that make life easier and better for its customers and contribute to the development of society.

And this is the only way that Telefónica will be able to develop long-lasting relationships based on trust that will make partners of the groups with which it interacts.

6 The commercial brands add freshness to the Telefónica brand

7 The commercial brands communicate simply and clearly

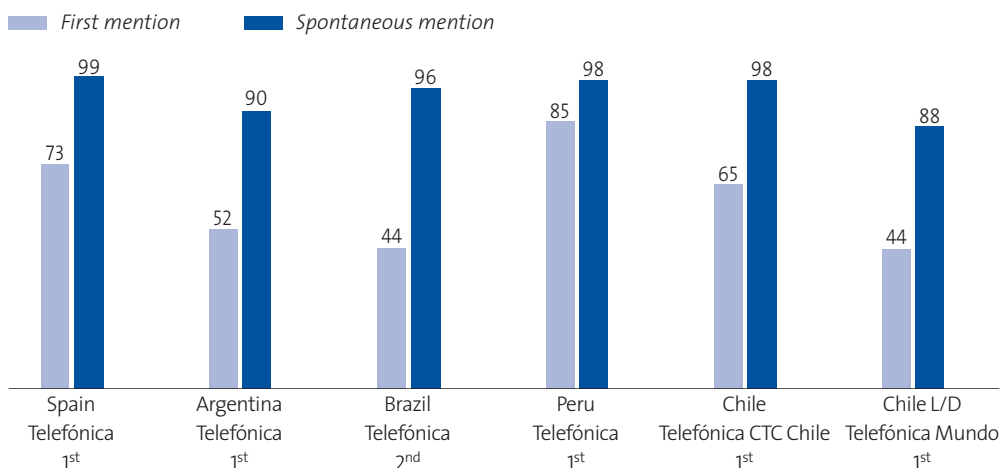
8 Products are not commercial brands

9 Telefónica and its commercial brands co-exist within a system

10 The system of co-existence ensures coherency in the values and messages underlying the commercial brands and Telefónica

BRAND AWARENESS IN FIXED TELEPHONY* (02-4)

(Data in percentage)



*Source: Advertising Tracking and Brand Equity 2004. Millward Brown.

d. Tone of voice

2004 witnessed the development of the *Brand Manifesto*, which establishes the voice limits and tone of Telefónica communications.

In line with the Brand Manifesto, *five communication lines* were established for the Group.

- From reliability to commitment
- From customers to people
- From the latest technology to quality of life
- From global to proximity
- From Telefónica to you

Graphics Coordination System

This is embodied by the coexistence of the Telefónica master brand and the commercial brands, via a link that connects the brands.

The graphics system defines the colours, formats, styles and typography chosen to transmit a balanced and coherent vision of the Group.

Brand Management

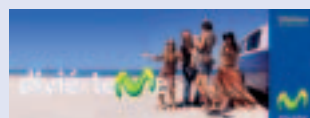
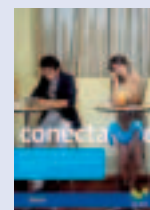
The objective of brand management is to enhance the value of one of the company's most valuable assets, its brands, and to ensure their soundness and coherency at each point of audience contact.

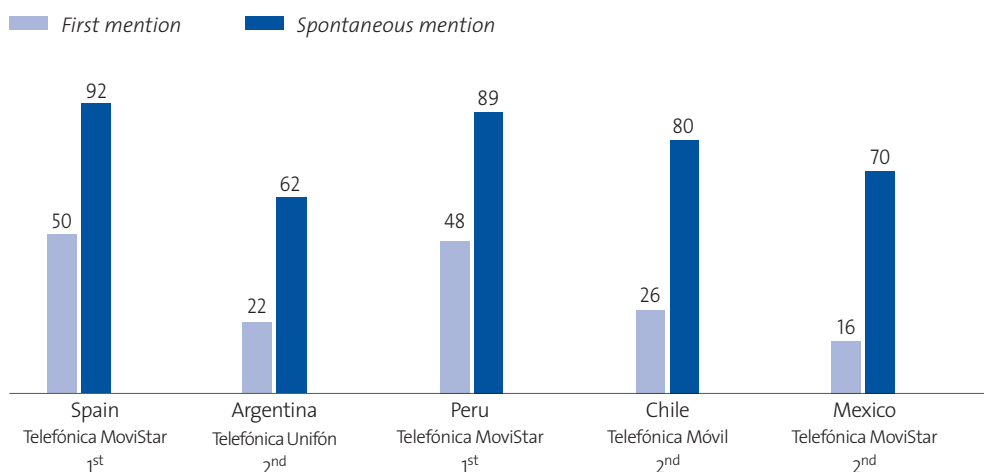
CASE STUDY

TELEFÓNICA BRINGS YOU MOVISTAR (02-6)

Movistar, the first piece in the system

Movistar was the first commercial brand to adapt its identity to the new Telefónica Group brand strategy and architecture. This new model is implemented through the coexistence of the Telefónica master brand and the commercial Movistar brand on the blue band that serves to connect the two. This is not merely a modernisation of the Movistar logo, but rather presents a brand that reaches closer to the public, in line with its personality and values.



BRAND AWARENESS MOBILE TELEPHONY* (02-5)*(Data in percentage)*

*Source: Advertising Tracking and Brand Equity 2004. Millward Brown.

Brand Committee

Also established in 2004 was the Brand Committee, a technical body reporting directly to the Management Committee and headed up by the General Manager of Corporate Communication. It is composed of the technical experts in the various business lines and country corporate centres, and will eventually also include other corporate areas regarding specific issues. Its mission is to oversee the proper implementation of the new Brand Strategy and Architecture Model in the Group.

To this end, the Committee has full authority:

- As a consultative body reporting to the Telefónica S.A. Management Committee, to catalyse the views, objectives and needs of the different business lines and countries.
- To oversee all brand-related Group initiatives (communication, advertising, sponsorships, trade fairs, events, etc...) with a view to ensuring that they are in line with the established Brand strategy and architecture.
- To drive the process of implementation of the brand architecture system, developing rules, processes, projects and specific initiatives to reinforce the same, should this be necessary.

Brand Portfolio Management System

At 31 December 2004, the Telefónica Group's portfolio of brands and domains encompassed over 16,272 registered brands and 4,947 domain names throughout the world, managed in coordination amongst the Group companies.

Tools for Measuring Brand Strength

Telefónica has developed a series of tools for the management and analysis of the information common to the different business lines and countries, in order to continually and systematically monitor and control awareness, image, satisfaction and the affinity of its brand in its many audiences. Moreover, these tools provide a global, coherent view of the brand status in all the markets in which Telefónica operates.

Within the realm of fixed telephony, the Telefónica brand maintains its leadership in awareness in all countries except Brazil, where it holds second place.

In terms of mobile telephony, the Telefónica brand leads in awareness in the majority of the countries in which it is present. The progressive growth of awareness of the Telefónica Movistar brand in Mexico is worthy of note, having moved from fifth position at its launch in 2003, to second place in 2004.

A strong brand with a solid position on the market reverts in lower costs in recruiting new customers and maintenance of existing customers, as well as the extension of the product lines encompassed within the same brand. Brand strength contributes to the generation of revenues both in the present and future. Telefónica is a member of the Intangibles Analysis Institute (IAI), an organisation comprised of large corporations from a diversity of sectors, as well as members of the academic world. The goal of IAI is to draw up the parameters to measure brand and corporate reputation, with a view to their evaluation and management.

03 CORPORATE RESPONSIBILITY: MANAGEMENT PRINCIPLES

Throughout its history, Telefónica has time and again shown itself to be a responsible company. Here are just some examples of this: the creation of the *Telefónica Association for the assistance of the disabled* (ATAM) in the 70's; the publication of the first Social Balance Sheets in the 80's; or the environmental commitments undertaken in the 90's.

In October 2001, the Telefónica Group began to study Corporate Responsibility (CR) as a means of managing business processes so that they contribute long-term sustainable value creation for all those interacting with the company.

Telefónica's *Corporate Responsibility Management Model* seeks to balance the economic growth of its business and fulfilment of the expectations of all its stakeholders.

This section looks at the management bases used to guide the Group's corporate responsibility policy and which link the various CR projects promoted by its management divisions and business lines.

a) Proactive risk management

Since the introduction of the *Corporate Reputation Project* in 2001, Telefónica has monitored and measured the main risks related to its reputation and corporate responsibility.

One of the first steps taken in the project involved the internal diagnosis of risks to its reputation in the eyes of its stakeholders. Of the 750 potential risks identified 150 were considered critical and were grouped together into six categories: product, management, technology, society, communication and regulatory risks.

In 2004, Telefónica completed this internal diagnosis with external analysis. The Group

conducted a study of the importance of corporate responsibility in each of its major markets (Spain, Argentina, Brazil, Chile, Mexico and Peru). As a result of this analysis, areas of risk were identified along with opportunities to promote Telefónica's image linked to its behaviour as a responsible company.

This kind of study enables proactive risk management through the implementation and promotion of uniform policies aimed at managing these risks and ensuring that all companies act responsibly and in the same line when interacting with their stakeholders.

b) Flexibility and adaptability

From the moment they are conceived, corporate responsibility policies are designed to apply to the Group as a whole, the objective being to create greater cohesion and a stronger internal Group culture.

In this context, the *Principle of Flexibility and Adaptability* aims to engender respect for the social, political and economic environment of all the countries the Telefónica Group operates in and for the specific characteristics of each business unit.

The principles are based on three broad lines:

- **Adaptation to the specifics of the country:** the Telefónica Group has started publishing Corporate Responsibility Reports on the countries in which it operates. In the final quarter of 2004, for example, the Group's Corporate Responsibility Report on Brazil was published, with similar reports on Argentina, Chile and Peru due for publication in 2005.
- **Adaptation to the environment:** the requirements of the various stakeholders in each country with regard to corporate responsibility have been studied. Telefónica has found that the most developed country

CORPORATE RESPONSIBILITY PORTAL (02-7)*(www.telefonica.es/responsabilidadcorporativa)*

in this respect is Brazil, followed by Spain. There has been only moderate development in terms of corporate responsibility in Argentina, Chile and Mexico with Peru the least advanced country in this area.

- **Adaptation to the progress and specific aspects of the business lines:** *Telefónica Móviles' Code of Ethics* was approved in July 2004. The document sets out the corporate values and principles that shape the behaviour of the Company and the employees that represent it across the world. The *Code of Ethics*, which also applies to the operators acquired from BellSouth, ensures fair and proper treatment and provides employees with a procedure for channelling their concerns or requirements. In addition to the Code, an *Ethics Committee* was created in order to clarify any points of uncertainty that arise, resolve complaints regarding breaches of the Code, and to ensure its dissemination and application to all the activities the company engages in.

c) Relations with stakeholders

Telefónica upholds a policy of actively listening to its stakeholders, through surveys addressed at customers, employees, society in general, shareholders...as detailed in the corresponding chapters.

Furthermore, the purpose of participating in public and private initiatives generating debate on corporate responsibility and reputation is to establish a dialogue and gather information. The Telefónica Group is present in several groups in which a broad range of actors take part: academics, the non-profit or third sector, trade unions, civil society, etc.

This *Principle of Relationship* has been reinforced in recent years, leading to specific partnerships and commitments between the Company and representatives of its stakeholders. These areas of participation and

the most notable examples of progress in 2004 are detailed below:

INTERNATIONAL INITIATIVES*The United Nations (UN).*

Telefónica works closely with a number of UN agencies and initiatives. During the course of 2004, a series of partnership projects between the two were set up, inspired by their global and multidisciplinary vision of corporate responsibility.

- Telefónica signed the Global Compact in March 2002, and in 2004 the body formally became an association under the name ASEPAM (*Spanish Global Compact Association*). Telefónica now sits on ASEPAM's Executive Committee.
- *The Blue Paper on the Global Compact* in Spain, based on the questionnaire completed by the signatory companies, Telefónica among them, has now been published.



- Telefónica lent its assistance to the publication of the guide *Communication on Progress*. The guide is a practical tool that helps companies implement the 10 *Principles of the Global Compact*, and to gauge and report on their compliance. It also provides a reference for guaranteeing the so-called *Integrity Measures* announced by the *Global Compact* in 2004 which, although not binding, do seek to safeguard the reputation of both the *Global Compact* and the companies signing up to it.
- In 2004 Telefónica was invited by the United Nations to take part in a further two projects: the *Stakeholder Engagement Manual*, linked to UNEP (*United Nations Environment Programme*); and the *Responsible Lobbying Manual* promoted by Global Compact. Both projects will be overseen by Accountability, a pioneering social responsibility initiative, and will come



to a conclusion in 2005 with the publication of the conclusions reached.

- Also promoted by the UN's Global Compact, the *Global Responsibility Initiative* brings together companies and academic organisations with a view to analysing management models in relations with stakeholders. The initiative is being run by the *European Foundation for Management Development* (EFMD) and seeks to become a catalyst for research and analysis into the many corporate social responsibility programmes currently being implemented in the academic and business world.



- Telefónica also helped – following the request of the *Office of the High Commissioner for Human Rights* – draft of the report entitled *Responsibilities of Transnational Corporations and Other Business enterprises with Regard to Human Rights*, and took part in the consultation process preceding it.



The European Union

Following an invitation to present its management model at the European Multistakeholder Forum in 2002, Telefónica has closely monitored the European Commission's activity with regard to Corporate Social Responsibility, both through its Regulatory Office in Brussels and the other forums it takes an active part in: the CEOE, the International Chamber of Commerce, and the GRI.

- Telefónica's participation in the European Multistakeholder Forum is summarised in the Forum's conclusions published in July 2004.

The Global Reporting Initiative (GRI).

The *GRI guidelines* represent an internationally recognised framework for gauging and communicating the activities businesses engage in. In March 2003, Telefónica's Managing Director of Corporate Reputation

and Social Responsibility became a member of the *GRI's Stakeholder Council*.

- Telefónica has been an Organisational Stakeholder since December 2004.
- Participation in the working group and discussions outlining recommendations on information consolidation boundaries featured in the Boundaries Working Group, and Financial Working Group.

The International Chamber of Commerce (ICC).

Telefonica has been a member of the Social Responsibility and Anti-corruption groups since 2002. The work of both groups involves monitoring the main guidelines laid down by major international forums on social responsibility. Highlights of this work in 2004 were:

- As part of the Social Responsibility Group, in 2004 it monitored the activity of the *International Standardisation Organization (ISO)* with regard to the international standardisation of corporate social responsibility.
- In the Anti-corruption Group, the Company has worked on the *Draft norms on the Responsibilities of Transnational Corporations and Other Business enterprises with Regard to Human Rights*.

The Global e-Sustainability Initiative (GeSI).

Telefónica joined this initiative in 2002. Sponsored by UNEP (United Nations Environment Programme) and the ITU (International Telecommunications Union) it brings together manufacturers and operators in the IT sector in order to promote sustainable development. Below are some of the areas worked on in 2004:

- The development of partnership standards and tools in areas connected to the supply chain.





Telefónica was included on the European and world *Dow Jones Sustainability Indexes (DJSI)*, which groups companies that lead their industries on the basis of sustainability criteria. Telefónica's presence on the DJSI is clear recognition of its firm belief in corporate responsibility as a basic cornerstone in the business strategy implemented by a telecommunications operator. Likewise, Telefónica confirmed its presence on the FTSE4good.



- Study of the impact of telecommunications services on society and the environment.
- Study on climate change and how it affects the telecommunications sector.

European Telecommunication Network Operators (ETNO).

ETNO represents European telecommunications operators and manufacturers. Telefónica joined its Environment and Health and Safety groups in 2002. In 2004 Telefónica:

- Signed the *ETNO Sustainability Declaration* (which evolved out of the Environmental Declaration).
- Was involved in drafting the *Regional Sustainability Report*.
- Participated in the first European Conference on Telecommunications and Sustainability, held in Budapest.

The Latin American Association of Research Centres and Telecommunication Companies (AHCJET).

Telefónica has been working closely with AHCJET to promote best practices with regard to corporate responsibility in Latin America's telecommunications industry. In 2004:

- Telefónica joined forces with AHCJET to organise the *Forum on Telecommunications and Disability* held in Santiago, Chile.

The Reputation Institute

Since 2002, Telefónica has been a member of the *Reputation Institute*, a North American academic organisation that is a pioneer in the study of business trends in communication, ethics, reputation, responsibility, identity and corporate governance.

- In 2004 the *Reputation Institute* and the Corporate Reputation Forum (FRC) signed a

partnership agreement by which the FRC became the RI representative in Spain. (see the Corporate Reputation Forum below).

SPANISH INITIATIVES

The Spanish Confederation of Employers (CEOE).

Telefónica is a member of the CEOE's Social Responsibility Commission, which analyses trends and the progress made in social responsibility by Spanish companies.

This partnership has been strengthened in the last few years by joint cooperation in implementing and monitoring a range of social responsibility projects promoted by other organisations. In 2004, the CEOE and Telefónica worked together in the following areas:

- Participation in and monitoring of work conducted by AENOR and the *International Standardisation Organization (ISO)* on social responsibility.
- Cooperation with the International Organisation of Employers (IOE) and the International Labour Organisation (ILO) in areas linked to human rights.
- Under the coordination of the CEOE, Telefónica has played an active role in putting together a joint ILO/Spanish Government project designed to promote youth employment in Latin America. In this groundbreaking initiative, companies work directly with the ILO. Youth employment is among the UN's *Millennium Development Goals* and is a key factor in reaching other millennium goals such as those combating poverty. It also figures among the Regional Objectives for Latin America and the Caribbean in 2004/2005.



CORPORATE RESPONSIBILITY REPORTS PUBLISHED IN THE TELEFÓNICA GROUP (02-8)

	1997	1998	1999	2000	2001	2002	2003	2004
Telefónica, S.A.						■	■	■
Telefónica de España			■	■	■	■	■	■
Telefónica Móviles							■	■
Telefónica Móviles España			■	■	■	■	■	■
Telefónica I+D	■	■	■	■	■	■	■	■
Terra							■	■
T.P.I.							■	■
Atento								■
Brazil								■
Argentina								■
Chile								■
Peru								■

■ Environmental Report

■ Sustainability Report

■ Corporate Responsibility Report

Note: 2004 reports may still be in the draft phase at the time of publication



The Spanish Association of Accounting and Business Administration (AECA).

Telefónica sits on the AECA's Corporate Social Responsibility Study Commission.

- Telefónica was a member of the drafting committee for the AECA's *Conceptual Framework for Social Responsibility*, published in 2004.



The Corporate Reputation Forum (FRC)

Founded in September 2002 by Aguas de Barcelona, BBVA, Repsol-YPF and Telefónica, the FRC is an initiative that allows companies to share management expertise and experiences in corporate reputation. With the incorporation of Abertis, Ferrovial, Gas Natural, Iberdrola, Iberia, Inditex and RENFE in 2003, the FRC now accounts for nearly 50% of the IBEX 35. Above all, the FRC aims to become a meeting point for analysing and disseminating trends, tools and corporate reputation models in business management.

- The FRC raised its international profile in 2004 by signing a partnership agreement with the Reputation Institute (RI) as a means of developing tools gauging reputation and its intangible assets, as well as organising joint meetings, seminars and conferences. As a result of the agreement, the FRC will also act as the RI's representative in Spain.

d) The creation of sustained value for all stakeholders

Over the last few years, the Company has drawn up action plans divided into management areas. These plans set out to apply corporate responsibility across all departments and ensure it permeates all levels of the organisation.

The CR policy is driven by Telefónica's Corporate Centre and is founded on collaboration between all areas involved in managing relations with stakeholders in coordination

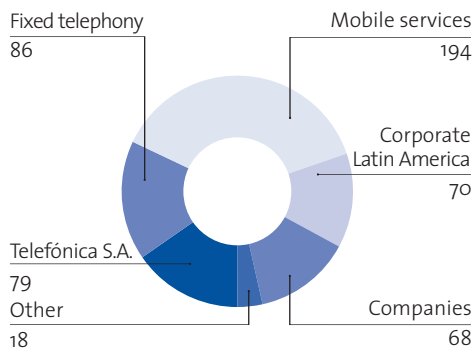
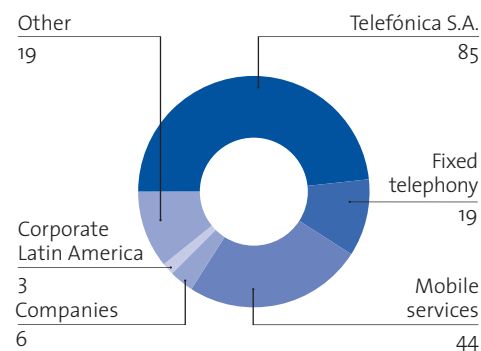
with the major business units. The Committee's main objective is to combine initiatives and synergies and increase the social value contributed by the Group.

Thus, all the cross-departmental corporate responsibility policies drawn up by specialised technical groups are thus integrated within a single working framework. During 2004 these groups have dealt with areas such as (see details in the relevant chapter):

- Telecommunications and Disability (07).
- Management of Responsible Purchasing in the Telefónica Group (09).
- Analysis of the impact of telecommunications on sustainable development (08).
- Minimum environmental requirements in the Telefónica Group (08).
- Uniform workplace environment indicators in the Telefónica Group (06).
- Customer Relations Principles in the Telefónica Group (04).
- Management of Adult Content in the services provided by the Telefónica Group (04).

e) Transparent information

The Telefónica Group is firmly committed to providing transparent information on its impact on the various stakeholders, its goal being to bring to light the value of the Company to its customers, shareholders, employees, suppliers, the media, the environment and society as a whole. As a result, it provides exhaustive information on corporate responsibility, publishing reports specific to its business lines (Telefónica de España, Móviles, TPI, Terra, Atento) and to the countries in which it operates.

BREAKDOWN OF COMMERCIAL SPONSORSHIP BY BUSINESS LINES 2004 (02-9)**COMMERCIAL***(Data in units)***INSTITUTIONAL***(Data in units)*

In drafting its Annual Corporate Responsibility Reports, Telefónica conducted a preliminary analysis to identify the indicators demanded by its major stakeholders. This analysis, in conjunction with the *guidelines* contained in the *GRI Sustainability Report and its Sector Supplement on Telecommunications*, provide the basis for the Telefónica Group's CR reporting methodology.

The Corporate Centre rolls this methodology out to the business lines and countries so that the value each of them provide in themselves, for their environment and for the Group can be measured and assessed. The methodology provides the various audiences with a streamlined presentation of Group performance from a range of perspectives: overall, by business line or by country.

Telefónica also has a corporate responsibility section on its website, available in the same format as the Annual Report. The page received nearly 60,000 hits in 2004.

Telefónica's CR management model generated a large number of queries and requests for information in 2004. The Company's policy is to respond to all these requests for information, interviews and queries wherever possible. These requests mainly involved the following: questionnaires on socially responsible investment, enquiries from students writing theses and dissertations, research projects and presentations for CR forums and conferences, amongst others.

04 INSTITUTIONAL PRESENCE

As one of the leading companies in each of the countries where it is present, Telefónica maintains a high-profile institutional presence in all its fields of activity.

a) Sponsorships

Telefónica plays an active institutional role in society by sponsoring a host of sporting, cultural, social and other activities. In 2004 it sponsored no fewer than 515 initiatives.

Its commercial sponsorship agreements are designed to support high-profile events and activities that help its companies promote their products and services. These sponsorship programmes tend to be more focused, therefore, on the Group companies, and specifically on its commercial brands.

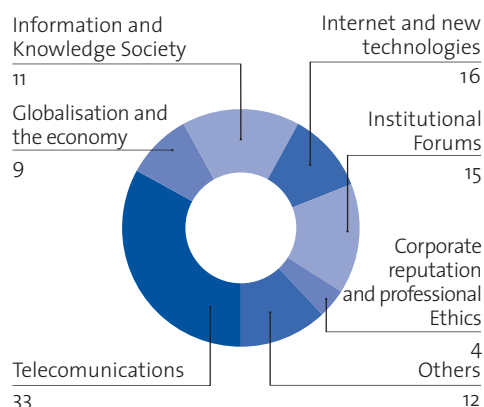
Due to its high social impact, sport accounts for most of the Telefónica Group's commercial sponsorships (110 in total in 2004), particularly motor sport (Formula 1, Motorcycling), soccer (Real Madrid, FC Barcelona) and sailing. Music is another of the fields that received the strongest support in 2004.

Telefónica's institutional sponsorships are related to those activities and events where its presence as an institution is the most relevant. In terms of institutional sponsorships, Telefónica gave its support to the following events in 2004:

- *The Universal Forum of Cultures - Barcelona 2004 and the Xacobeo (Holy Year of St. James) 2004*, two major cultural events of international significance.
- *The Third International Language Conference*, held in Rosario (Argentina), 17 - 20 November. Organised by the Real Academia Española and the Cervantes Institute, the conference was attended by the King and Queen of Spain and the President of Argentina.
- *Events commemorating the 25th Anniversary of Democratic Town and City Councils.*
- The Group's partnership with Spanish universities through the Telefónica Lectureships is still ongoing.

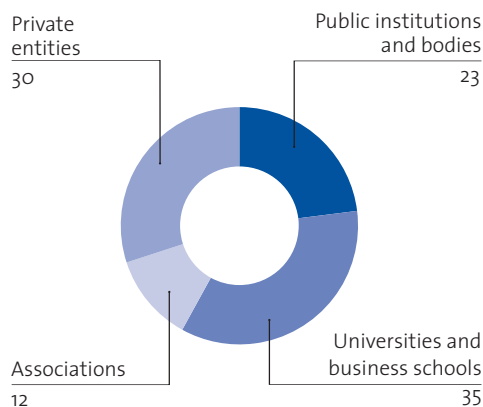
MOST RELEVANT TOPICS OF THE FORUMS SPONSORED AND PARTICIPATED IN DURING 2004 (02-10)

(Data in percentage)



DISTRIBUTION OF FORUM SPONSORSHIP BY ORGANISATION 2004 (02-11)

(Data in percentage)



b) Forums and Conferences

The presence of the Telefónica Group in international forums and conferences, particularly those related to the development of the telecommunications industry, economic progress and the Information Society, is another example of its institutional involvement.

In 2004, Telefónica sponsored a total of 17 forums and conferences and took part in a further 107 (8 more than in 2003). Sponsorship of forums was directed mainly at non-profit organisations and essentially at institutions, public bodies, universities and business schools.

In 2004, 216 speakers from the Telefónica Group participated in forums and conferences. These events were held mainly in Spain (89%), as well as in Europe (5%) and Latin America (6%).

c) Collaboration with International Bodies

Telefónica is a member of a number of prestigious international associations and bodies, and dedicates an annual budget of 1.45 million euros to this area. The main

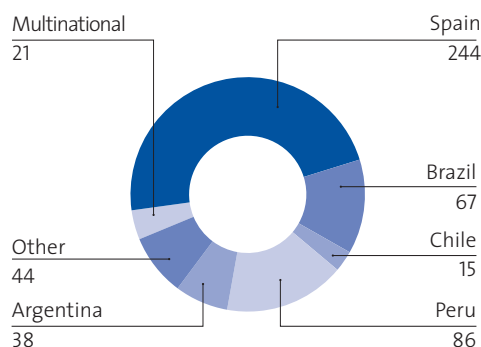
associations and forums it participates in are linked to the telecommunications industry, most of them within the Company's sphere of influence (Spain, Europe and Latin America)

International associations and bodies operating in or influencing the sector and in which Telefónica is present:

- AHCIET (*Latin American Association of Research Centres and Telecommunication Companies*).
- BRT (*Brussels Round Table*)
- CITEI (*Inter-American Telecommunication Commission*)
- DSL Forum
- EIF (*European Investment Fund*)
- ERT (*European Round Table of Industrialists*)
- ESF (*European Services Forum*)
- ETP (*European Telecommunications Platform*)
- ETNO (*European Telecommunications Network Operators*)
- ETSI (*European Telecommunications Standards Institute*)
- GBDe (*Global Business Dialogue on e-commerce*)
- GeSI (*Global e-Sustainability Initiative*)
- GSMa-GSMe (*GSM Association - GSM Europe*)
- ICANN (*Internet Corporation for Assigned Names and Numbers*)
- ICC (*International Chamber of Commerce*)
- Ipv6 Forum
- MEBF (*Mercosur European Union Business Forum*)
- ITU (*International Telecommunications Union*)
- 3GPP (*3rd Generation Partnership Project*)
- Transatlantic Policy Network
- DVB (*Digital Video Broadcasting*)
- OMG (*Object Management Group*)
- Telemanagement Forum
- OSGI (*Open Services Gateway Initiative*)

BREAKDOWN OF SPONSORSHIPS BY COUNTRIES 2004 (02-12)

(Data in units)



Spanish associations and bodies operating in or influencing the sector and in which Telefónica is present:

BREAKDOWN OF SPONSORSHIP BY SPANISH REGIONS (02-13)
 (Data in units)

- AECE (Spanish e-commerce Association)
- AETIC (Spanish Association of Electronics, IT and Telecommunications Enterprises)
- AESPLAN (Spanish Association of Strategic Planning and Management)
- AUTELSI (Spanish Association of Telecommunications and Information Society Users)
- CEOE (Spanish Confederation of Business Organisations)
- CIECAT (Spanish Round Table for Quality in Telecommunications)
- Spanish Round Table of Industrialists
- COTEC
- N-ECONOMÍA
- SEDISI (Spanish Association of IT Enterprises)

