



04

Customers: quality and fulfilment

04/01 customer-oriented team

Customer satisfaction is one of the cornerstones of the transformation of the Telefónica Group world wide

CUSTOMER RELATIONS PRINCIPLES

04/02 quality of service

Telefónica is aware that customer satisfaction begins with the quality of service it offers

NETWORK EFFECTIVENESS

98.46%

Mobile Networks worldwide

04/03 communication with our customers

Telefónica is engaging in more proactive communication with its customers

REGISTERED CUSTOMERS

1,926,200

in www.telefonicaonline.com

04/04 responsible service

Guarantee customer rights, respect for our competitors and responsibility for the impact of our services

RESPONSIBILITY WITH

- our competitors
- data protection
- confidentiality in telecommunications
- undesired services



The trust of our customers is based on the reliability of our operations, our efforts to listen and anticipate their needs, and our continual quest for excellence

In 2004, Telefónica continued to make great strides in its commercial reorientation strategy, developing from a model based on product-driven companies to an integrated Group geared to meeting the global communication needs of its customers. Telefónica has identified major market segments upon which to restructure and bolster its commercial activity: Residential customers, Households, SMEs, Large Corporations and Government Agencies.

Telefónica's goal is to transform technology into accessible solutions and services providing tangible benefits for customers. By making effective use of the eight million contacts it has with its customers everyday the Group aims to identify and anticipate their needs better, improving its services and products as well as the distribution and sales channels it operates.

With this in mind, Telefónica offers quality products and services, and strives for continuous improvement and permanent innovation by drawing on skilled human resources and optimising technology. This commitment is embodied by the following principles:

- To build a competent, service-oriented team committed to the organisation's philosophy and principles, and dedicated to guaranteeing satisfaction for our customers and shareholders.
- To use our technology efficiently so as to offer quality products and services at competitive, profitable prices, and innovate and continuously improve these products and services for the benefit of customers and society as a whole.
- To increase customer confidence by maintaining a close relationship with them, providing clear information on the products and services offered and always listening to their opinion.

- To provide a responsible service by fulfilling agreements and the regulations in force-both those imposed by the regulatory body and the organisation itself.

The following sections from the customers chapter outline how Telefónica complies with these principles.

01 A TEAM GEARED TOWARDS CUSTOMER SATISFACTION

a) Customer orientation

Customer orientation is the key for Telefónica to reach its stated goal to become the best and largest integrated telecommunications group in the world. Having this in mind, Telefónica drew up the *Telefónica Customer Relations Principles* in 2004. Their objective is to define a customer relations framework to ensure and unify standards for interacting with customers. These principles will be implemented from 2005.

To drive the programme forward, motivate the entire organisation and revolutionise the working culture, a number of initiatives were introduced in the business lines in 2004 such as *Meta: Cliente* at Telefónica de España and *Compromiso Cliente* at Telefónica Latinoamérica.

b) Customer satisfaction

The main objective of the Telefónica Group is the satisfaction of its 122 million customers. In order to follow the evolution of this satisfaction and verify the effects of the different measures adopted by Telefónica, the Group's companies regularly monitor satisfaction levels through surveys.

To guarantee their reliability all customer satisfaction surveys feature a *Quality Clause* comprising the following information: survey title, description of the data collection method, date of field work, type of questionnaire, type of

CASE STUDY

COMPROMISO CLIENTE (04-1)

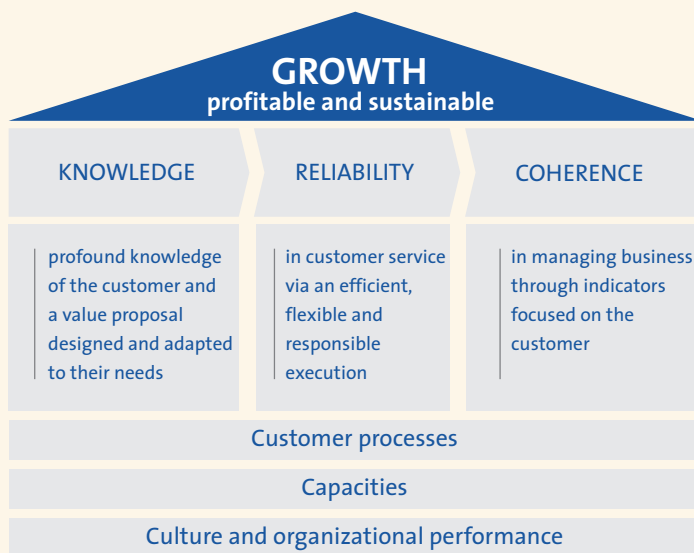
In 2004 Telefónica Latinoamérica defined the company's strategy as customer oriented, identifying the customer as key to growth. The strategy was put together under the slogan *Compromiso Cliente*, whose objective was to ensure the profitable and sustainable growth of its operators.

The programme is based on three key pillars: Knowledge, Reliability and Coherence. A series of 23 regional projects were then defined for the three customer segments: Residential, SMEs and Companies.

Compromiso Cliente is:

- A 1,000-day plan: with specific business and transformation objectives.
- A plan in which each operator drew up its own programme and priority projects, and which is reinforced by common goals and regional projects that maximise the advantages of scale, thus giving rise to a regional company project.
- The Programme was launched in March 2004 in Sao Paulo, at an event attended by 300 managers of Telefónica Internacional and the Group's Senior Management.

Its implementation included commercial and customer satisfaction indicators into management of the companies as means of gauging progress. The fact that Telefónica is now oriented more towards the customer will maximise the new opportunities afforded by structural changes in the telecommunications sector.

**META: CLIENTE (04-2)**

The process of transformation Telefónica de España embarked on in 2000 took a new step forward in 2004 thanks to the *Meta:Cliente* programme, comprising four strategic programmes: *Grow, Promote, Advance, Motivate*. The programme titles point to the goals that Telefónica de España is committed to achieving as a result of a continuous and far-reaching transformation process designed to achieve the following objectives:

- A company with a clear commercial goal (over 2,000 employees working on sales promotion initiatives)
- A company that optimises and reviews key processes and which becomes increasingly efficient, involving 21,000 employees in specific programmes (*Optima, Precision*) designed to increase employee commitment and flexibility.
- A company that makes employee motivation one of its four main pillars.

The results achieved in 2004 through the *Meta:Cliente* programme have led to its continuation in 2005 with new objectives that expand on Telefónica's vision of the customer as the main driver of the company.



TELEFÓNICA'S CUSTOMER RELATIONS PRINCIPLES (04-3)

1	Knowledge	At the Telefónica Group we aim to give our customers what they need. We listen to them so we can identify, understand and respond to their concerns and requirements
2	Innovation	By venturing where no other company does, and innovating in what we do and how we do it, we provide our customers with products and services that make their lives easier
3	Quality	Our work is geared towards gaining customer confidence. We strive day after day to bring quality to everything we do and everything our partners do, in our products, our services and our everyday work
4	Customised service	At the Telefónica Group we work for Sarah, Peter, Helen, John ... people not numbers, men and women with needs and concerns that we have to respond to, when they want and how they want
5	Team commitment	We are all part of the Telefónica Group, and all of us – in each post and in each area – work towards maintaining and strengthening the relationship we enjoy with our customers
6	Transparency	Our aim is to communicate transparently and clearly with our customers and allow them to interact with all the companies in our integrated group
7	Satisfaction guarantee	Our ability to recognise our failures and offer our customers the right solution means we can guarantee their satisfaction over time

sample design, type of survey team, quality of results and final appraisal by survey manager.

Customer satisfaction with the various products and services marketed by the company is a variable checked regularly at Telefónica de España. Every year indicators to be analysed are identified and the opinion surveys are conducted in order to assess customer satisfaction levels over the course of the year. In 2004 the average customer satisfaction level was 80% with over 300,000 customers assessed.

A service satisfaction level of 82% was recorded for customers of Telefónica Empresas España, 75% of whom stated that Telefónica Empresas either meets or exceeds expectations in terms of the service contracted.

As part of its *Regional Quality Plan*, Telefónica Latinoamérica began standardising the satisfaction surveys it carries out in seven countries and eleven operators. In 2004, 5,600 telephone customers, 4,400 SME's business customers and 4,400 *Speedy* customers were surveyed. These indicators encompass various satisfaction-related aspects such as the perception of service quality levels or whether customers would recommend the service to others, with customers broken down into

different segments: residential, large accounts, SMEs, businesses and professionals. The relevance of the service and the growth in the customer base is reflected by the fact that 80% of *Speedy* customers in Brazil said they would recommend the service to others and 80% of the customers in the region would continue to use the same service.

The results of the surveys influenced the content of the initiatives encompassed by the Customer Commitment 2005 programme, with particular emphasis on the following:

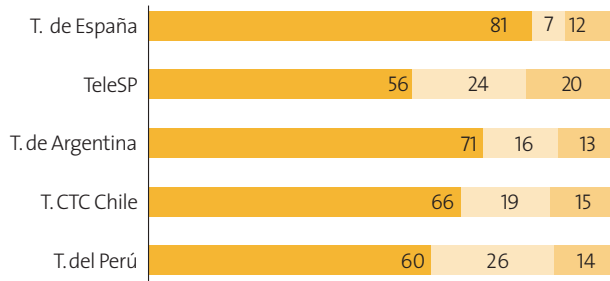
- Optimisation of the Call Centre service model in the Residential segment.
- *Excellent Speedy*, which seeks operational excellence in Broadband.
- *100% of the company oriented toward the Customer*: integration in network processes.
- *Global Customer Model*: technical and sales service for Corporations.

Telefónica Móviles España has been conducting customer satisfaction surveys since 1995. These surveys represent a vital tool for collating first-hand information not just on customer satisfaction with the service but also

SATISFACTION OF FIXED TELEPHONY CUSTOMERS (04-04)

(Data in percentages of satisfaction)

■ satisfied customers ■ neutral customers
■ unsatisfied customers



on their expectations and future needs. In 2004, Telefónica Móviles España saw its customer satisfaction levels increase by one percentage point with 23,600 customers surveyed during the year.

Telefónica Móviles’ remaining operators around the world surveyed nearly 100,000 customers on their opinion of the services they receive, gathering valuable information on their expectations in the process. These surveys were analysed and the results published in Telefónica Móviles’ Corporate Responsibility Report. A series of initiatives were subsequently implemented in order to channel the strategies of product development and innovation, business processes and customer service. Some of these initiatives are listed below:

- Improvement and/or increase in the number of face-to-face service centres in Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Panama, Peru and Uruguay.
- Increase in the capacity of *call centres* in Argentina, Brazil, Spain and Guatemala.
- Service segmentation at *call centres* in Argentina, Brazil, Spain and Guatemala.
- Standardised customer service in all channels in Colombia, Spain and Guatemala.
- Improved information on customers to enable more personalised service in Brazil and Spain.
- Introduction of new *online* channels in Colombia.
- Logistical improvements for the provision and delivery of new handsets and/or repairs in Argentina, Ecuador and Spain.
- New greeting for *call centres* and welcome calls in Ecuador and Guatemala.
- Training of customer service personnel in Argentina, Chile, Colombia, Ecuador, El Salvador, Spain, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela.

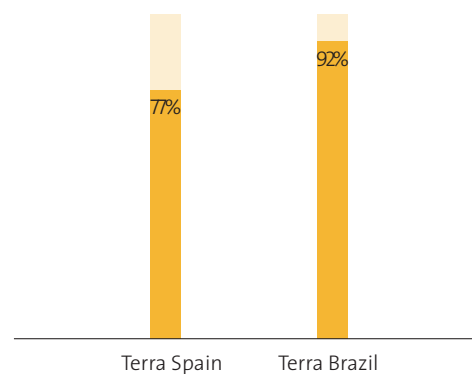
In 2004, Terra conducted more than 63,000 online interviews in Argentina, Brazil, Chile,

Spain and Mexico to gauge the profiles of its portal users in those markets. Terra has seen satisfaction levels among its high-value customers (linked to ADSL products) increase significantly. It has been particularly successful in Brazil where customer satisfaction has risen and the company has now emerged as the top-of-mind Internet brand leader.

The TPI Group uses a range of tools to measure customer perception of the products and services it provides. In its last 2004 survey, 79.5% of TPI España’s customers said they were satisfied with the company’s products and the way it operated, an increase of 3.5% on 2003.

TPI’s ability to understand the needs of its customers and turn them into products and services was clearly recognised, as customer satisfaction with the service stood at 89%, with over 93% of customers perceiving the quality of information positively.

SATISFACTION OF TERRA’S ADSL CUSTOMERS IN SPAIN AND BRAZIL (04-5)



CASE STUDY

TELEFÓNICA DE ESPAÑA OFFERS THE BEST QUALITY/PRICE RATIO IN SPAIN ACCORDING TO THE UCE (Spanish Consumers Association) (04-6)

Telefónica de España continues to provide its customers with the best quality/price ratio on the market, according to the *Spanish Consumers Association's* annual study, published in January 2005 and based on official data provided by SETSI (*Department of Telecommunications and the Information Society*) and the CMT (*Telecommunications Market Commission*).

Telefónica consolidated its leadership in this area for the second year running, extending the gap between it and most of its competitors. Telefónica de España already topped the rankings in the first annual study on quality/price ratios published in 2004.

The rating in quality achieved by Telefónica (8,13 out of 10) was two points higher than the second-placed operator (5,96 out of 10). A series of quality criteria were measured and excellent results were recorded in terms of fault repair times, line connection times, failed calls and call connection times.

Telefónica's price rating (9,34 out of 10) was the second highest, although the gap between it and the leading operator was relatively small (0,66). In compiling data on this area the UCE took into consideration the typical consumption made by a residential customer in addition to the cost per minute in the various time frames, call connection charges and minimum fixed charges.

Lastly, Telefónica's quality/price ratio (8,73 out of 10) was up on the previous study (8,25 out of 10) and was more than a point higher than the rating of the second-ranked operator.

CUSTOMER SATISFACTION WITH TELEFÓNICA'S SOLUTIONS (04-7)

Telefónica Soluciones has been carrying out customer satisfaction surveys since 1998 in order to assess overall customer perception of the product in addition to other parameters such as compliance with deadlines, problem response times, service and documentation.

1,625 surveys were sent out in 2004. Based on the total number of completed surveys, Telefónica Soluciones' customer satisfaction rating reached 96,28%, two points above the target of 94% of projects with an overall rating of at least three points (on a scale of 1 to 5).

Survey ratings:

Satisfaction with product	3.94
Compliance with deadlines	3.69
Response times	3.89
Service provided	4.27
Documentation provided	2.92
Overall impression	3.96

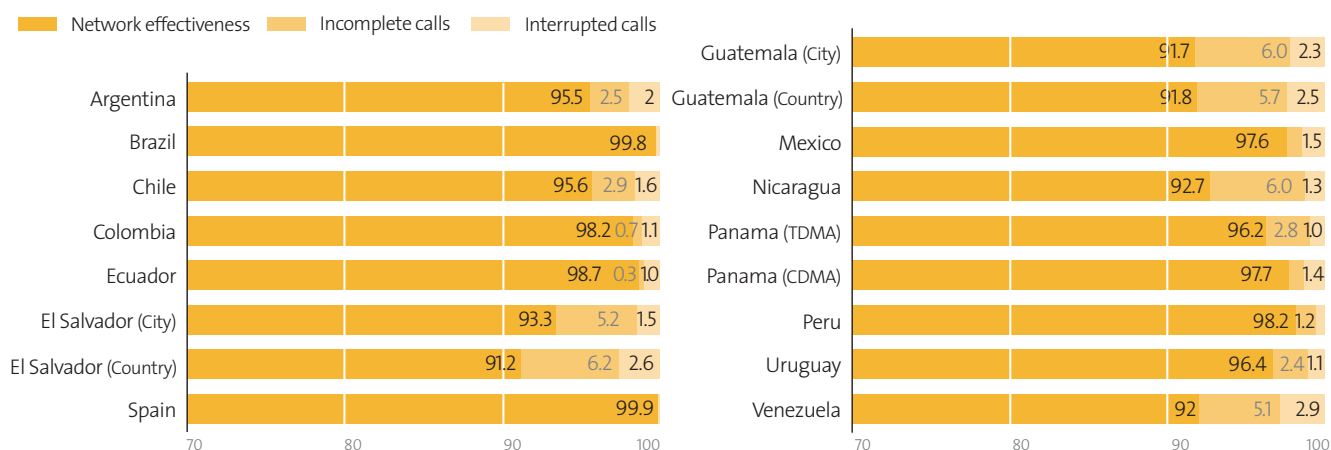
CASE STUDY

TELEFÓNICA'S SERVICE: AWARDS AND RECOGNITION (04-8)

Company	Award
Telefónica de España	<ul style="list-style-type: none"> • Awarded first prize for <i>System Integration and Consolidation</i> by <i>Computing</i> magazine. • Named Best Broadband Provider by <i>PC Actual</i>. • Palm ONE awarded Telefónica de España the prize for <i>Best Wi-Fi Solution</i> for its <i>ADSL Wi-Fi Zone</i> initiative.
Telefónica Móviles España	<ul style="list-style-type: none"> • First Prize for <i>Excellence in Customer Service Centres (CSC)</i> 2004 in the Telecommunications Sector. Awarded by <i>Izo System</i>. • <i>Second National Award (Gold CRC)</i> for Customer Service Excellence 2004 • <i>Extra Europa Technology Award 2003</i>, presented by the Spanish Confederation of Hauliers (CETM) in recognition of its outstanding work in developing mobility applications for the transport sector. • Gold EFi. <i>Efficiency Awards</i>. Presented by the Spanish Association of Advertisers to Telefónica Móviles España for its <i>Orgullosa</i> advertising campaign.
TeleSP	<ul style="list-style-type: none"> • <i>Gold Award</i> in the <i>B2C</i> category at the 10th Annual ABEMD (Associação Brasileira de Marketing Directo) <i>Awards 2004</i> for the Speedy and Bronze customer acquisition and retention programmes. • <i>Detecta and Cuenta Garantizada</i> win the <i>Top de Marketing 2004 Award</i>.
Medi Telecom	<ul style="list-style-type: none"> • National Award for Excellence granted by the Moroccan <i>Ministry of Trade and Industry</i> in January 2004.
Telefónica Empresas Brazil	<ul style="list-style-type: none"> • Gold Award at the 10th Annual <i>ABEMD Awards 2004</i> for the Telefónica Empresas customer loyalty programme. • <i>2004 Modern Consumer Award for Customer Service Excellence</i> in the corporate access provider category, repeating the success of 2003. • The financial journal <i>Ejecutivos Financieros</i> awarded the operator prizes in the <i>Voice-over-IP</i> solution and Telecommunications Networks categories. • <i>Top de Vendas 200</i> Award for the second year running, presented by the <i>Associação dos Dirigentes de Vendas e Marketing do Brasil (ADVB)</i>. • <i>ABRAREC (Associação Brasileira das Relações Empresa Cliente)</i> Award for the projects <i>Em Primeiro Plano</i> (telecommunications category) and <i>Operação Sorriso</i> (marketing category).
Atento Brazil	<ul style="list-style-type: none"> • Atento Brazil was the only Brazilian company in the call centres sector to receive a prize at the 5th Annual <i>AMAUTA Awards</i> in 2004, presented by the <i>Latin American Federation of Direct and Interactive Marketing Associations (ALMADI)</i>. • In the <i>Endomarketing/not-for-profit organisations</i> category, the company won a second silver award for its support of the <i>APCD/Anti-Drug Alliance Association</i> initiative. • Silver award in the special Telemarketing category at the 10th Annual <i>ABEMD Awards</i>. • Atento Brazil was among the prizewinners at the 3rd Annual <i>ABRASA Technical Support Awards</i> organised by the <i>Associação Brasileira de Serviços Autorizados</i>. • Atento Brazil also won a further six awards at the 4th Annual <i>ABT/Customer Service Excellence Awards</i> presented by the Brazilian Association of Telemarketing (ABT).
Terra Brazil	<ul style="list-style-type: none"> • Preferred national Internet provider in Brazil in a survey conducted by the <i>Synovate Institute</i>. • For the second consecutive year, <i>Rumbo</i> was voted best tourism website in Brazil and won the <i>iBesi 2004 Award</i>. • Winner of the award in the portal category at the 18th Annual <i>Communication Vehicles Awards</i> organised by the magazine <i>Revista Propaganda</i>.

EFFECTIVENESS OF MOBILE TELEPHONY NETWORKS (04-9)

(Data in percentage)

**02 QUALITY OF SERVICE**

Telefónica is mindful that customer satisfaction begins with the quality of service it offers. With this in mind all Group companies focus all their resources on monitoring objective service-quality parameters, promoting improvement initiatives and obtaining quality certificates.

a) Service parameters

Each of the companies in the Telefónica Group systematically monitors internal service parameters (installation time, number of faults, average resolution time, service availability) to oversee and make an objective assessment of the quality of service provided.

Mobile telephony

All the companies in the Telefónica Móviles Group monitor quality on a permanent basis through a range of indicators that allow network and service status to be checked regularly. These indicators are also used to set objectives and validate the results of network improvement or expansion projects. The average weighted network effectiveness of Telefónica Móviles' operators is 98.46%, a figure that takes into account the operators joining the Group in 2004.

Fixed telephony

According to the *Report on service quality in the provision of fixed telephony services in Spain*, Telefónica leads the way in the provision of telephone services to its customers. The report was compiled in 2003 and published on 30 June 2004 by the *Department of Telecommunications and the Information Society (SETSI)*, part of the Industry, Trade and Tourism Ministry. The data it contained was confirmed by an independent audit of the ten leading operators at the end of 2003.

In terms of overall service quality and in comparison to its main competitors Telefónica

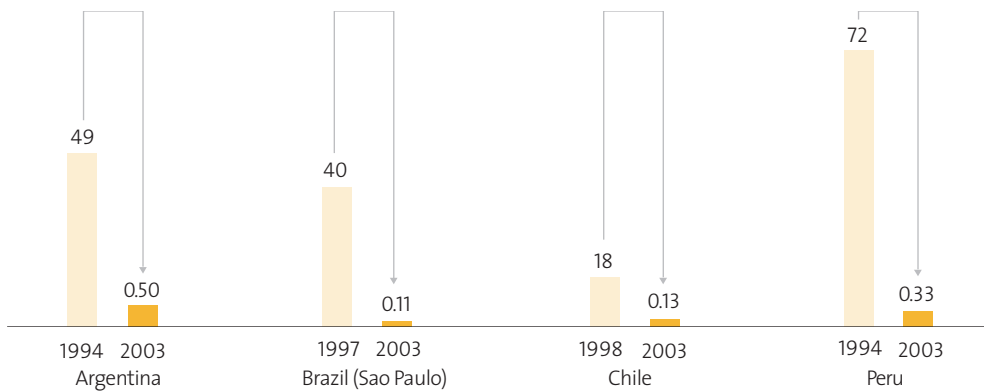
BASIC TELEPHONE SERVICE PARAMETERS (04-11)

	Argentina	Brazil	Chile	Peru	Spain
Average line installation time (days)	17.83 *	3.24	2.93	10.4	6.53
Failures per 100 access lines (residential)	5.31	3.26	1.82	3.3	2.07
Average fault resolution time (hours)	89.06	13.52	31.32	8.37	16.02

(*): The average line installation time for Argentina includes the average prepay period – commercial policy is for customers to pay for services in advance..

ADSL SERVICE PARAMETERS (04-12)

	Argentina	Brazil	Chile	Peru	Spain
Average line installation time (days)	11.80	9.93	2.13	2	9.8
Failures per 100 access lines (residential)	3.27	8.41	2.57	6.68	1.13
Average fault resolution time (hours)	42.52	21.10	29.29	9.93	10.36

AVERAGE LINE INSTALLATION TIMES (04-10)*(Data in months)*

obtained very satisfactory results in the 10 quality parameters covered by the report. Its strong points include telephone network efficiency and line installation times.

The Company's commitment and exacting standards are also reflected in the Minimum Service quality values set by each operator in 2004. As the designated *Universal Service* operator, Telefónica is obliged to meet these minimum values, whereas they are non-binding for its competitors. In 2004 Telefónica de España's service availability was 99.78%. Every quarter Telefónica de España compiles a detailed report for the *Department of Telecommunications and the Information Society (SETSI)* regarding compliance with the parameters adopted with the government.

In view of the fact that the average values do not accurately reflect maximum customer waiting times, in 2004 Telefónica de España implemented its *Proyecto Precisión*, which reviews each and every case where delays in responding to service and installation requests exceed the stipulated threshold. The project's mission is not to focus on average customer satisfaction levels, tackling any dispersion with decision and guaranteeing the satisfaction of all the Company's customers.

In the Latin American fixed telephony sector, the drive towards continuous service improvement has led to significant results with average line installation times in Argentina, Brazil, Chile and Peru being cut during the second half of the 90's from 72 months to 12 days, in the case of Peru.

Telefónica Latinoamérica keeps working on the guidelines set at the *Regional Quality Plan*, launched in 2003. As outcome of this initiative was the definition of *Key Quality Parameters*, a set of common and homogeneous parameters that allow the companies to track objective quality (operational parameters) and have direct link to perceived quality (satisfaction surveys and customer claims).

ADSL

ADSL is one of the most requested services by Telefónica's customers. It is essential, therefore, that maximum quality is guaranteed both during installation and in tackling faults. In Spain the ADSL service was available 99.98% of the time during the year.

In 2004 Telefónica doubled its ADSL Internet access speed in Spain, Chile, Brazil and Peru at no extra cost to its customers, a clear demonstration of the Company's desire to offers its clients an enhanced service.

Services for companies

Telefónica provides extremely reliable broadband circuits and services for its customers. In 2004 service availability in Spain reached 99.47% with faults occurring on 4% of two Mbps lines. The average fault resolution time was 7.1 hours.

As regards other services (*Interlan, Frame Relay, Macrolan*) with a speed of over 2 Mbps, service availability was 99.9586% and the average time for resolving problems with the Interlan service was 15.3 hours and 12.3 hours for the Macrolan service.

Directories services

In 2004, a total of 441,460 customer incidents were reported to TPI (223,650 in Spain; 78,770 in Brazil; 91,490 in Chile and 47,550 in Peru), 94.9% of which were resolved.

b) Quality certificates

The Telefónica Group has gone to great lengths to achieve excellence in each of the services it offers its customers, a fact reflected in the number of certified processes it operates.

- At Telefónica de España, all the processes identified on the *Process Flowchart* and all the centres located throughout the country are backed by *Quality Management System* certification in accordance with the UNE-EN

SIX SIGMA PROJECTS IN FIXED TELEPHONY (04-13)

Country	No. of projects	No. of trained employees
Spain	161	600
Argentina	10	66
Brazil	78	1,066
Peru	8	70
Total	257	1,802

ISO 9001:2000 standard. In addition to this certificate, renewed in 2004, the Company was awarded the *European Seal of Excellence* in 2004 by the Quality Management Club, and the *Madrid Excelente Seal of Approval*.

- Its fixed telephony operators in Latin America are well on the way to receiving ISO 9001:2000 quality certification for their business processes.
- All Telefónica Móviles' processes in Spain, Chile, El Salvador and Guatemala have received certification and the company is now working towards certification of its operating processes.
- In 2004 TPI confirmed its commitment to quality targets in Spain by renewing its ISO 9001:2000 registered company status following an audit conducted by the certification body AENOR. For its part, TPI Perú has been awarded ISO 9002:94 quality certification.
- All Atento's customer service centres boast ISO 9001:2000 certification, demonstrating the importance the Telefónica Group places on guaranteeing maximum quality in customer service.
- Lastly, Telefónica I+D's quality certificates illustrate the importance the Company attaches to quality in its innovation programmes.

Telefónica de España's Intranet quality channel comprises the quality-related information and tools used in the Company's processes, enabling all employees to learn about any of these in particular.

c) Service improvement initiatives

Quality improvement initiatives are essential if the Company is to create good service parameters and certify all its processes.

The *Six Sigma* methodology, based on process improvement and employee training, aims to generate customer satisfaction and ensure objectives are reached. This methodology has been applied throughout the Telefónica Group to optimise processes and in the words of the Group president: *Six Sigma is key in adapting to the needs of our customers.*

Telefónica de España

At the end of 2000 Telefónica de España became the first major company in Spain to introduce this methodology. In 2004, it embarked on 161 improvement projects using Six Sigma, 109 of which have been completed with 52 still ongoing. These figures refer only to projects in which the stated objectives were achieved.

A total of 600 Telefónica de España employees have now been trained in *Six Sigma*, including most managers and the members of the improvement teams, trained as *Sigma* champions.

The strategic *Meta:Cliente* programme, due for implementation in Telefónica de España in 2005, heralds a new wave of improvement initiatives structured into four modules, one of which – *Operational Excellence* – specifically focuses on customer satisfaction.

Operational Excellence pursues and expands on the objectives of previous programmes with a view to increasing their efficiency and reliability and nurturing customer confidence. The *Óptima Project*, the joint brainchild of the Operations and Infrastructures departments, was just one of the service improvement programmes implemented in 2004.

In the company services segment, Telefónica has taken a more proactive approach to detecting faults. The proactivity index rose significantly in 2004 – from around 50 to 70% – thanks to improvements made in client network tracking systems.

THE TELEFÓNICA GROUP QUALITY CERTIFICATES (04-14)

Business unit	Country	Scope	Status
Telefónica de España	Spain	· All identified processes	Certified
Telefónica Latinoamérica	Argentina	· Service at sales centres (UNRe)	In progress
		· Telephone service and commercial management at AMBA (UNPre)	In progress
	Chile	· Technical telephone support service (UNPre)	In progress
		· Storage, distribution, transport, payment authorisation and quality control of telephony products. (T-Gestiona)	Certified
	Brazil	· Planning, design and development of communication products and services for businesses. (Telefónica Empresas)	Certified
		· Maintenance	In progress
		· <i>Ombudsman</i> management support and service	Certified
	Peru	· Certificate of compliance with billing processes (certified by the Brazilian Association of Technical Standards)	Certified
		· Speedy residential and commercial installation, operations and technical support	In progress
		· Speedy residential and commercial marketing billing and customer service	In progress
		· Monitoring of fixed telephony services billing process	Certified
		· Management of billing claims for voice services and ADSL Internet services for Residential, SME and Professional customers	Certified
		· Management of complaints received in Lima regarding voice services for corporations and large and medium-sized enterprises, and data services for Telefónica Empresas' customers	Certified
· Customer service process: confirmation of orders, information and customer management		Certified	
· Operational networks and services and maintenance process		Certified	
· Handling of fixed telephony orders, information management and management of fixed telephony and ADSL Internet service customers	In progress		
Telefónica Móviles	Argentina	· Allocation and installation of fixed telephony lines	In progress
		· Corrective and preventive maintenance for fixed telephony services and data transmission	In progress
	Brazil	· Management of payments, financing and reconnections	In progress
		· Product development	In progress
	Chile	· Fixed telephony sales	In progress
		· National customer management processes including: telephone, personalised, online and technical support services	Certified
	Colombia	· Quality management system	Certified
		· All identified processes	Certified
	Ecuador	· Customer care and complaint service processes: renewal and replacement of equipment; plan switches; after-sales technical service; handling of enquiries; queries, complaints and claims; suspension and reconnection of service and billing explanations	In progress
		· Product development; sales and sign-ups; after-sales service; handling of opportunities; customer life cycle; billing and payments	In progress
	El Salvador	· All identified processes	Certified
		· All identified processes	Certified
	Guatemala	· All identified processes	Certified
· Network management, and prepay, contract and business management processes		Certified	
Peru	· All identified processes	Certified	
	· Handling of claims, appeals and complaints	Certified	
Atento	Spain	· All identified processes	Certified
	Argentina	· All identified processes	Certified
	Brazil	· All identified processes	Certified
	Central America	· All identified processes	Certified
	Chile	· All identified processes	Certified
	Colombia	· All identified processes	Certified
	Morocco	· All identified processes	Certified
	Peru	· All identified processes	Certified
	Puerto Rico	· All identified processes	Certified
Telefónica Soluciones	Spain	· All identified processes	Certified
TPTI	Spain	· All identified processes	Certified
Telefónica I+D	Spain	· All identified processes	Certified
Terra	Spain	· Customer service centre	Certified
		· Other management processes	In progress
TPI	Spain	· All identified processes	Certified
	Peru	· All identified processes	Certified

Telefónica Latinoamérica

The Company's four Latin American operators are using *Six Sigma* as a key tool for identifying critical quality improvement processes and levers. As a result, in 2004 the overall *Six Sigma Implementation Standards* were outlined.

Up to this point a total of 96 projects have been put into operation in the region, with over 1,200 employees working on them. Implementation of the methodology in Chile is scheduled for 2005.

Telefónica Móviles

The priority actions in the 2004 Telefónica Móviles España *Annual Quality Action Plan* were as follows:

- Identification of five critical processes as a means of improving its effectiveness and efficiency, resulting in an approximate increase of 3% in performance.
- Shaping of network and service test plans in order to pinpoint root causes of problems, leading to an increase in customer satisfaction of between 0.7 and 1.2%.
- Training of a total of 34 improvement groups in different processes (21 completed and 13 ongoing). The improvement groups have produced 168 action plans, 156 of which have been implemented with a further 12 in the process of being implemented.

Telefónica Móviles' operators around the world are introducing a series of projects designed to ensure customers receive a quality service:

- In Argentina work is focusing on improving the way *Saldo Express* is managed and computer security.
- In Chile the promotions monitoring process is being standardised and improvements made to the procedures for returning and replacing handsets.

- In Colombia *Six Sigma* is being applied to improve line reinstallation and plan switch processes, cut the number of claims made to sales representatives, reduce Internet access blockage and to make more handsets available at points of sale.
- In Ecuador *Six Sigma* projects linked to automatic credit approvals, data network availability, service levels at customer centres and the 5 Estrellas quality perception programme have all been introduced.
- In Guatemala and El Salvador objectives have been set for cutting average response times at face-to-face service centres.
- In Mexico the *Quality Route* methodology is now being applied in day-to-day customer management.
- In Nicaragua a customer relations platform has been set up in addition to workshops at service centres.
- In Panama the *Six Sigma* projects are designed to improve quality in sign ups, reduce response times at customer service centres, and improve the quality and distribution of bills.
- In Peru the claims handling process is awaiting certification.
- In Uruguay a *Six Sigma* project aimed at resolving problems during the first contact with call centres is now up and running.
- In Venezuela the *Q Plan* covering network service quality levels has been introduced.

Terra

Terra introduced the *Six Sigma* initiative in the middle of 2001, creating a single working methodology applicable to all Group companies to replace existing process and

CASE STUDY

TELEFÓNICA DE ESPAÑA'S COMMITMENT TO INSTALLATION TIMES (04-15)

In its quest to give customers a quality service Telefónica de España has introduced a number of customer contact initiatives through which it promises to install services at a specific time.

In 2004, the percentage of line installations with a confirmed installation date set by the Company rose to 99.89%, a highly significant figure given that over one million installations were requested during the year. Out of this number a total of 99.28% of installation dates were met.

As for the ADSL service, the percentage of line installations with a confirmed date rose to 99.99% for more than 800,000 lines, with 91.22% of installation dates being met.

	Basic telephony service	ADSL
% of installations with confirmed installation date set by the Company	99.89%	99.99%
% of commitment days met	99.28%	91.22%

PLAN TO REDUCE CLAIMS IN TELEFÓNICA DE PERU (04-16)

Due to the growing importance of reducing the number of complaints presented at Telefónica de Perú, the *Plan to Reduce Claims* was drawn up in June 2004, with the goal of significantly reducing the monthly average of 919 (in the first half-year) to 60 (in the second half-year). To achieve this goal, the following actions, amongst others, were implemented:

- Reinforcement of training and quality control in the Courier service.
- Selection and training of *Front Line* personnel, making them specialists in handling complaints.
- Implementation of a Direct Technical Support Line, exclusively for queries and immediate handling of claims.

PROYECTO BANDERA IN TELEFÓNICA DE ARGENTINA (04-17)

The *Proyecto Bandera* was put into operation in Argentina in 2004, with the objective of identifying and assessing the processes and features that affect customer satisfaction, as well as the thresholds or key levels that have impact on this area.

It is based on a methodology that enables the identification, through the most relevant features for customers, of an optimum set of improvement initiatives, with the greatest possible impact on customer satisfaction and the cost of this improvement for Telefónica.

In 2004, 341 improvement initiatives were identified, of which 60 have been prioritised by the Company management.

customer satisfaction enhancement methodologies. Since then the company has given 200 employees specialist training in Six Sigma and all employees have taken an introductory course in the methodology. Employees can also expand on their knowledge by taking an e-learning course.

In 2004 the focus of all Six Sigma projects switched from reducing costs to raising customer satisfaction levels. In 2004 a total of twelve Six Sigma projects were up and running in Spain, 11 in Chile and a further five in Brazil.

03 COMMUNICATION WITH OUR CUSTOMERS

Telefónica uses several channels to collate the opinions of its customers, and all contacts with them – requests for a new service, expansion of an existing service, requests for maintenance, or queries and claims – allow us to pinpoint their needs.

As part of our customer orientation and commitment initiatives, Telefónica is engaging in more proactive communication with its customers, providing them with improved offers and taking on service installation commitments.

a) Online communication

In each of the countries in which Telefónica operates, its Internet strategy involves presenting customers with a raft of services that meet their communication and service requirements in full. As part of this strategy, Telefónica has built its Internet presence around a conceptual multinational model that respects the operational independence of its business units.

The model sets out to meet two main objectives: firstly, to maintain an Internet presence that enables Telefónica to operate and be perceived as an integrated service provider

and, secondly, to maintain communication and service channels clearly designed to respond to customers' needs.

Telefónica's Internet strategy is thus founded on a new portal model: *telefonica.country*. Operating as a one-stop shop, the portal acts as a gateway to the global Telefónica brand on the Internet.

The *telefonica.country* portal operates as a content aggregator; it packages services and contents offered by business units for each customer segment, acting as a link manager and a communication interface between the Group's operators and their customers.

Telefónica.country portals are now operating in Germany, Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Spain, the US, Guatemala, Morocco, Mexico, Nicaragua, Panama, Peru, Puerto Rico, the UK, Uruguay and Venezuela.

To complement this model the companies in the Telefónica Group are developing specific channels that customers can use to configure their services, check their bills and manage their profile. Many of these services have now been integrated into the *telefonica.country* portals, particularly those connected to Telefónica Latinoamérica.

- All Telefónica de España's customers can now access personalised *online* information on their account and the service they receive. At the end of 2004, the number of registered customers totalled 1,926,200, 21% of which had visited the website in the preceding three-month period.
- Telefónica Empresas' *eAtencion* portal allows data and Internet service customers to track and check *online* the status of the services they request, complete problem and claim reports, make general enquiries and access traffic statistics for the services they use. The Company Management System portal also

CASE STUDY

TELEFÓNICA DE ESPAÑA'S ONLINE CUSTOMER SERVICE (04-18)

Telefónica de España's Internet sales channel, www.telefonicaonline.com, is an interactive information service that allows customers to sign up for products and services, contact customer services and access bills online.

It is designed to meet the needs of all customer segments (residential, SMEs and large enterprises or corporations), showcase all Telefónica's products and deal with all problems arising during the sales cycle (pre-sale, sale, after-sale and e-marketing).

The content is tailored to registered users who regularly use the website and consumers looking for information on a specific product or service. Content is available in Spanish and Catalan.

75.6% of the more than two million registered users are residential customers and 18% are from the professional and telesales segments. User traffic is highest on working days (80% of traffic) and the most used services are:

- order tracking – the most popular products are ADSL and *Telefónica.Net*.
- enquiries, particularly online billing, product and service data and ADSL enquiries.
- customer operations, particularly downloading of manuals, user management, SMS web and customer surveys.

Customer satisfaction with the service stands at 80%. The flexibility offered by the website means we can identify aspects that customers would like to see improved such as browser enhancement, content grouping, more visible online help and larger text size. In 2005 Telefónica de España aims to improve the portal by incorporating all these suggestions.

allows customers to generate and receive statistical reports on these services. This system, used by over 7,000 major customers, enables customer configuration information to be linked to usage and claims data.

- Telefónica Móviles has continued to develop new facilities for its *online* channels to give customers a further option for obtaining information, tracking claims and managing their portfolio of services. In 2004, a free service, *Tu Factura*, was introduced for all contract customers in Spain, giving them the opportunity to consult their last six bills and accumulated usage over time, list calls according to days and contact numbers, personalise phonebooks and track the cost of calls to certain telephone numbers.
- In Brazil, nearly 400,000 customer enquiries of this type were handled using online tools such as chat or *email* in 2004.
- In Peru, the *online* channel has been developed as a means for communicating with customers. In 2004 *Telefónica On Line* received 1,531,061 sessions, and boasted 116,547 registered users and 33,439 account

holders (with access to a variety of services such as itemised call lists).

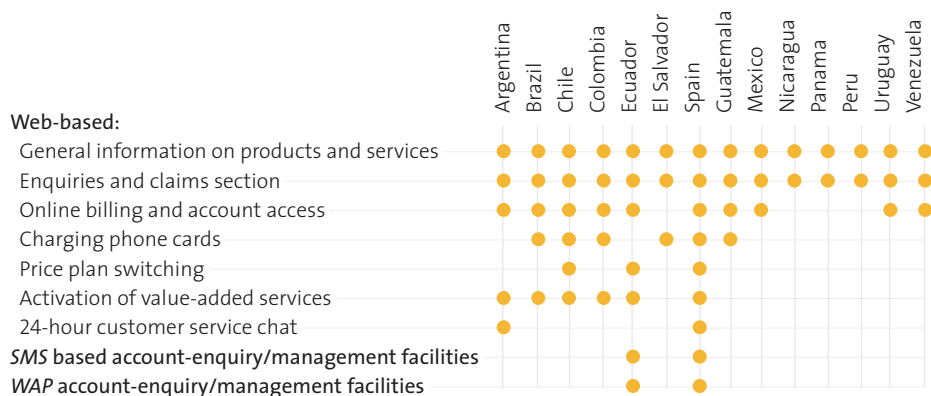
- In Chile, 133,219 customers signed up through *online* channels, an option available to all Telefónica CTC's customers. Approximately 26% of these customers access the service every three months to manage their account and make enquiries.

b) Telephone communication

Telefónica's customers use the telephone more than any other means of communication to channel their questions, requests and claims to the Company.

In 2004, Telefónica de España handled nearly 70 million calls from its customers, answering 87.6% of them in less than 20 seconds. A further 48 million calls were made to the Company's information centres and a million more were made regarding Telefónica de España's telephone-based added value services. In addition a total of 828,000 calls were received from large businesses and corporations (96.2% of which were answered in less than 20 seconds).

ONLINE SERVICES AVAILABLE TO TELEFÓNICA MÓVILES' CUSTOMERS (04-19)



CALLS HANDLED BY CUSTOMER SERVICE CENTRES (04-20)

(Data in thousands of calls)

	Country	2003	2004
Telefónica de España	Spain	65,530	69,809
Telefónica Latinoamérica	Argentina	69,450 ³	33,630
	Brazil	128,000 ¹	152,655
	Chile	22,927	16,495
	Peru	25,005 ¹	12,165
Telefónica Móviles	Argentina	12,600	13,728
	Brazil	not available	383,000⁴
	Chile	13,700	18,537
	Colombia	not applicable	14,900
	Ecuador	not applicable	10,596
	El Salvador	1,270	1,511
	España	72,671 ²	42,000
	Guatemala	990	1,063
	Mexico	13,710	21,243
	Nicaragua	not applicable	931
	Panama	not applicable	2,032
	Peru	7,200	7,613
	Uruguay	not applicable	583
Venezuela	not applicable	16,062	
Terra	Spain	not available	2,139
	Brazil	not available	16,447

(1) Does not include calls made to information centres.

(2) The total number of calls for 2003 included those handled by IVR, whereas the figure for 2004 only includes calls answered by call centre personnel.

(3) Includes calls answered by information services.

(4) Data published in the Vivo Corporate Responsibility Report.

TELFÓNICA MÓVILES CUSTOMER TELEPHONE SERVICE QUALITY PARAMETERS (04-21)

Business unit	Country	% enquiries handled satisfactorily	Call response efficiency
Telefónica Móviles	Argentina	83.9	62% (20 secs)
	Brazil	83.1	90% (20 secs)
	Chile	81	76% (10 secs)
	Colombia	82	80% (20 secs)
	Ecuador	98	74% (10 secs)
	Spain	81.2	87% (10 secs)
	Mexico	73.56	66% (10 secs)
	Nicaragua	95	70% (10 secs)
	Peru	80.56	45% (10 secs)
Uruguay	80	61% (10 secs)	

Personnel answering calls on the *ADSL Wi-Fi Zone* service at Telefónica de España's Customer Service Centre (CSC) have been trained to answer calls in English as many of the customers visiting Telefónica's Hot Spots are overseas nationals.

In Brazil, TeleSP took 146 million calls from its customers. A further six million calls were made by business customers and 198 million calls to information services, bringing the total number of calls handled by the company during the course of the year to 350 million, nearly one million per day.

In Peru, Telefónica answered more than 12 million customer service calls, 68% of which were answered within 10 seconds. The directory enquiries service received 42 million calls, 94.46% of which were answered in less than 10 seconds. In addition to the 33 million called taken in Argentina, a further 38 million were made to the telephone directory service.

Telefónica Móviles España won the *First Prize for Excellence in Customer Service Centres (CSC)* 2004 in the Telecommunications Sector, awarded by *Izo System* (a consultancy specialising in measuring and raising quality standards at customer service centres).

Telefónica Móviles España's CSC also won the second national award, the *Gold CSC*, for service excellence in 2004, also awarded by *Izo System*.

The satisfaction level of Telefónica Móviles España's customers was 81%. 31.3% of these calls were information requests, 30% service requests, a further 9.6% were billing requests and 0.4% concerned faults. Telefónica Móviles is trying to extend these quality-oriented practices to the other countries it operates in as call response efficiency data shows.

Terra handled more than two million calls from its customers in Spain and over 16 million in Brazil. Customer service satisfaction was 61.2% in Spain and 82.3% in Brazil.

The TPI Group provides a customer care service (CCS) in all the countries it which it operates. The CCS deals with all queries and claims relating to products and services, and TPI is fully aware that in many cases the CCS is the first point of contact for customers looking to sign up for new services. The CCS thus adopts a proactive approach and supports the company's sales activities.

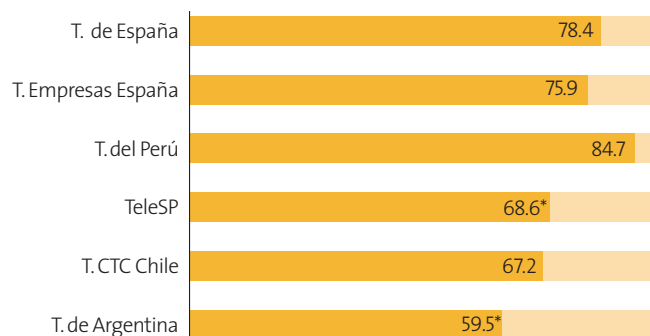
c) Face-to-face communication

Telefónica de España has a total of 104 retail outlets (Tiendas Telefónica) where customers can manage their account with Telefónica, find out about its services and check out the latest handsets. Thanks to distribution agreements with other companies Telefónica's products and services are also available at 1,982 other points of sale.

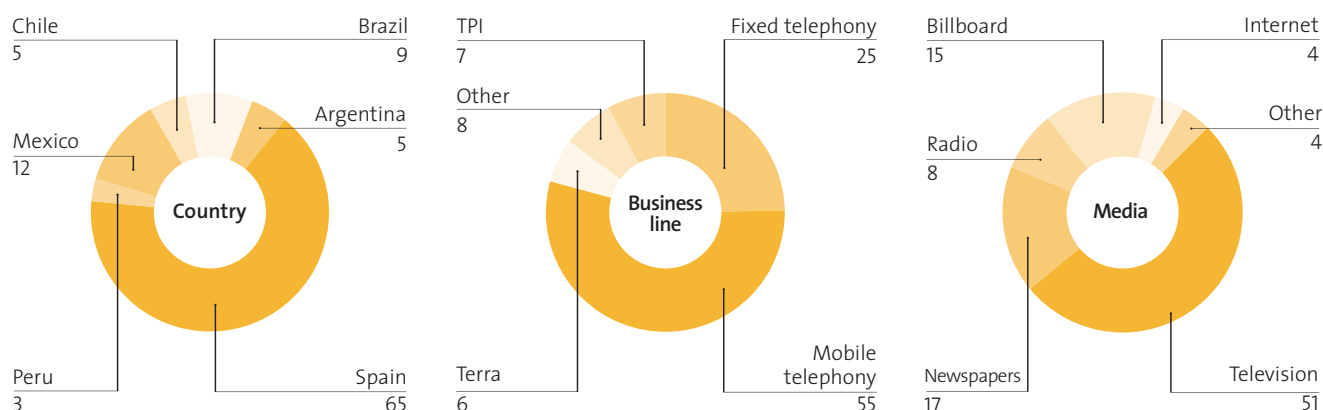
TeleSP has 130 retail outlets and also markets its products and services through 120 partner companies. It also works closely with the Spanish postal service, Correos, which sells phone cards at more than 1,100 of its post offices.

SATISFACTION WITH TELEPHONE CUSTOMER SERVICE* (04-22)

(Data in percentage)



(*) Residential customers

ADVERTISING INVESTMENT (04-23)*(Data in percentage)*

Telefónica del Perú has 29 sales offices throughout the country offering a wide range of services to customers looking to buy new products and use the company's after-sales services. It has also signed a series of distribution or licensing agreements (in the case of mobile telephony) for the sale of its products and services at 336 other retail outlets.

Telefónica CTC Chile runs 56 retail outlets providing face-to-face customer service, and has signed distribution and licensing agreements covering the sale of its products and services at 34 other service centres. The Group's customers can also pay their bills at 197 payment centres operated by third companies, as well as at 15 supermarkets, 17 electricity company offices, 223 *Servipag* payment centres and 707 *de Sencillo* payment centres.

Telefónica de Argentina runs 51 retail outlets of its own and sells its products through third companies at a further 59 retail outlets. Its customers can also pay their bills at its 3,449 sales offices and at nearly 4,000 bank branches.

Telefónica Móviles' products and services are available at over 30,000 company retail outlets, distributor outlets and shopping centres throughout the world in which it is present.

d) Advertising

Advertising is the main channel for informing customers about the Company's new products and services. The most active business lines in terms of advertising are mobile telephony followed by fixed and long distance telephony. Television, newspapers, radio and billboard advertising account for most of the investment in advertising, some 92% in total.

In all the countries it operates, the Telefónica Group is committed to implementing a clear

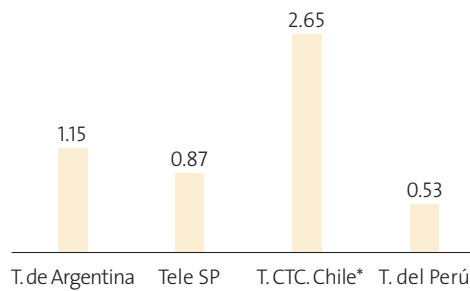
and respectful advertising policy. All Telefónica's advertising material is double checked prior to final publication or broadcast. Campaigns are approved by chief legal officers at each company to ensure respect for both the regulations and our competitors. Campaigns are also *pre-tested* with focus groups to make sure that customers will be able to understand the messages and promotions clearly.

Some of the initiatives being implemented to ensure respect for consumers in our advertising campaigns around the world are listed below:

- In Spain the Telefónica Group is a member of Autocontrol (*Association for the Self-Regulation of Advertising*), an organisation made up of advertisers, agencies, the media and other advertising organisations accounting for over 80% of total advertising investment in Spain. Autocontrol is itself a member of the *EJNetwork and the European Advertising Standards Alliance (EASA)*. Its mission is to prevent and resolve controversy generated by advertising by creating an ethical framework promoting responsible, accurate campaigns.
- In Chile all press and TV advertisements are required to state the legal conditions and characteristics of the promotion in question.
- In Ecuador Telefónica Móviles is the only operator in the country to include taxes in the purchase prices it advertises.
- In El Salvador Telefónica sits on advertising monitoring and verification committees chaired by AMPS (*El Salvador Advertising Media Association*) and ASAP (*El Salvador Advertising Agencies Association*). It also sits on the committee of ANAES (*National Association of Advertisers of El Salvador*) and the CNP (*National Advertising Council*).

BILLING CLAIMS MADE TO TELEFÓNICA LATINOAMÉRICA (04-24)

(Number of claims per 100 lines)



*Telefónica CTC is obliged by law to include all claims billing-related, although these may not directly associate to fixed telephony services.

- In Guatemala the Company is a member of the *Advertisers' Association*, which has reactivated advertising self-regulation in matters of this type.
- In Mexico Telefónica Móviles sits on the *Advertising Self-Regulation and Ethics Board*, whose mission is to create and disseminate responsible advertising.
- In Peru the operator forms part of the *National Association of Advertisers (ANDA)*, an organisation that boasts an *Advertising Self-Regulation Board* and which sets out to promote and safeguard best practice in advertising.
- In Uruguay the Company is a member of the *Chamber of Advertisers*, a body representing advertisers before its professional partners, the authorities and society in general and whose mission is to defend freedom of expression in advertising while promoting honest and ethical practices.
- In Venezuela, INDECU (*Institute for the Defence and Education of the Consumer and User*) must be informed of all advertising campaigns.

e) Billing

Telephone billing is an issue close to customers' hearts, and the bill represents a permanent source of interaction for building trust. The Group's companies strive to issue customers with clear, accurate bills featuring additional information that may be of interest to them.

Billing claims made by customers of our fixed telephony services have fallen recently, a particularly significant development given that the *FAST* and *ATIS* billing systems were introduced last year in Spain and Latin America respectively.

Telefónica Móviles is also redesigning its billing system for its more than 78 million customers all over the world:

- In Argentina certain items have been changed to make bills easier to understand and an explanatory leaflet was sent out to customers. A *Braille* billing service was also introduced for visually impaired customers.
- In Chile, *SMS* alerts notify customers when bills are sent out and that they can consult them at the website.
- In Colombia e-billing was introduced in 2004. A breakdown of *SMS* services was also included on bills for the first time.
- In Ecuador the *Six Sigma* project has led to a 50% reduction in credit notes issued to customers for billing errors, and to shorter billing times.
- In Spain the *Tu factura* service was introduced allowing all contract customers to check their bills online.
- In Panama payments and charges for equipment and accessories are now listed in chronological order on bills.
- In Peru bills were redesigned and the number of items not covered by the *Credit Limit* extended.

Telefónica CTC Chile has now issued over a million e-bills to its customers. These documents have exactly the same legal and tax value as the traditional bills they replace, can be printed on paper, and may be entered into customers' accounts in the usual way. Telefónica CTC Chile is the first company to develop a large-scale e-billing application. Currently, 360,000 of its customers receive monthly bills for the services they use.

CASE STUDY

BILLING AT TELEFÓNICA DEL PERÚ (04-25)

Customer satisfaction surveys and *focus groups* organised by Telefónica del Perú revealed that monthly billing was an extremely important issue for customers. With this in mind the company continued to enhance its telephone bills in 2004 to make billed items and information easier for its customers to understand. The following changes were made to bills:

- Free delivery of the breakdown of fixed-to-mobile local calls.
- Data location changes: *amount due, due date and invoice breakdown.*
- A clearer description of Telefónica del Perú's rates and charges, and those of third companies.
- Business customers receive billing information on CD and by email.
- Billing process ISO 9000 certification logo included on bills.

As a result of these improvements customer satisfaction with the billing process now stands at 84% in the residential segment and at 86% for SMEs. All aspects of bill itemisation have been improved but the best performing of all indicators is ease in *understanding what is being charged for services consumed.*

The bill is also being used to provide customers with useful information on the telecommunications sector. In 2004, information was given on the procedure for presenting claims and appeals as well as changes to the complete service cancellation period following the amendment of the New Conditions of Use Regarding Telecommunications Services.

04 RESPONSIBLE SERVICE

a) Respect for our competitors

Through its operations in the wholesale and retail voice, data and broadband markets it is present, Telefónica continually interacts at all levels with all market players, and is acutely aware of the fact that it must not operate as if it were an independent entity. Consequently, given the fierce competition in these markets, in making its decisions Telefónica must take into account the activities and pressures exerted by customers, competitors (existing and potential ones), suppliers and Government.

In all the markets it operates in Telefónica is faced with a level of competition that restricts its weight in the market and, on occasions, prevents it from becoming the market leader. These markets are not protected by entry barriers that allow players to consolidate their dominance.

Spain

On 1 April 2004, The *Spanish Anti-Trust Court* issued a ruling determining that Telefónica de España was guilty of conduct restricting competition prohibited by *Article 6 of Fair Trading Act 16/89 of 17 July*, and *Article 82 of the EC treaty* consisting abuse of its dominant position by linking the provision of certain services to the non-existence of pre-allocations for competitor operators and conducting unfair advertising campaigns. An appeal has been lodged against the ruling and is currently being considered by the *National High Court*, with execution provisionally suspended pending a decision.

On March 2 2005, the *Ruling from the Anti-Trust Court* was issued terminating the SMS Mobile prices file, number 2550/04, filed by the *Andalusian Federation of Associations, Consumers and Users (FACUA)* against Telefónica Móviles, Vodafone and Amena, determining that the alleged conduct was not suitably proven. The Ruling concludes that the

CASE STUDY

BILLING AT TELEFÓNICA DE ESPAÑA (04-26)

The main aspects of Telefónica de España's billing process are as follows:

- All calls are itemised on the bill. A breakdown of metropolitan calls can be accessed at www.telefonicaonline.com (this message appears on the bill at the foot of the daily breakdown of metropolitan calls)
- There is also a section headed *De interés para Vd* (useful information) showing the number of *Travel Club* points obtained as well as information on the answerphone service, *Innovatel* points, average daily usage and how to get the most out of *Telefónica Online*.
- A message at the foot of the bill tells customers where they can find information specific to their market segment.
- Commercial and legal information leaflets are also sent out with bills and can be targeted specifically at each type of customer. In 2004, over 100 million leaflets detailing the latest products and services were included with bills.
- The first page of the bill features a graph indicating bill amounts for the previous thirteen months.
- Telefónica de España issues bills on a monthly or bi-monthly basis depending on the type of contract or the market segment the customer belongs to.

The most significant innovation made by Telefónica de España in 2004 was the FAST (*Advanced Telecommunications Services Bill*) bill which brought about the following improvements:

- The bill is customer-oriented – lines can be invoiced at the short-term for separate or combined bills that state the charges and discounts applicable.
- FAST is a multiservice bill (currently basic telephone service and ADSL) and identifies both services clearly.
- Greater capacity to identify usage, rates and discounts.
- Clearer information on regular and specific charges.
- Lists calls to the 118* directory enquiries line separately to other calls.
- Itemisation of *Additional Fee Services* and separation of the Supplier section.
- Presentation and guide on the *Factel programme* (analysis and display of itemised bills) created and sent out to customers.

A total of 1,900,000 customers can now access their Telefónica de España bills online. Of these, 120,000 have signed up for the *aviso por email* (email alert) service whereby customers receive their bills in electronic format only.

The percentage of billing errors in relation to the total number of bills issued was 0.0191%.

situation is not one of identical prices among mobile operators, given that the equal base prices of the three mobile operators is normal market conduct.

Details of the main regulatory penalties imposed on Telefónica in previous years and which the company is still in the process of appealing, can be found in the official documentation supplied by the Company to the various Stock Exchanges on which it is listed.

b) Data protection

In 2004 the MADRE (*Automated Regulation Monitoring*) Project was introduced at Telefónica. Its mission is to collate the requirements and functions the integrated application must fulfil through its various functional modules, and it was designed as a tool to help oversee compliance with the *Data Protection Act* and the *Safety Procedures Code*.

Maintenance of the application involves constantly adapting it to the legal framework and the organisational, regulatory and technical circumstances of the companies that make up the Telefónica Group. A joint working group was set up with Telefónica in 2004, and its recommendations are due to be introduced in the first quarter of 2005.

Fixed telephony

Telefónica de España was one of the first companies in Spain to pledge to protect and safeguard personal data. In July 1994 it drew up the very first code of ethics to be registered with the *Spanish Data Protection Agency* (AEPD).

Telefónica respects and observes the directives set by the AEPD regarding the confidentiality of sensitive consumer data. In 2004 Telefónica de España passed no fewer than 10 inspections and implemented a series of initiatives designed to ensure compliance with these requirements:

- Review of *Directive 3* regarding the Application of Data Protection Legislation at Telefónica de España.
- Drafting of the *Ten Data Protection Standards* that legal firms working in conjunction with Telefónica de España must observe.
- Drafting of *Ten Data Protection Standards* that must be observed by the indirect channel (channel and distributors).
- Proposal for extending the model Telefónica de España Data Protection Code to all companies in the Telefónica Group.

In 2004, customer claims filed with the Spanish Data Protection Agency has commenced the following proceedings:

- 86 claims gave rise to the initiation of Informational Proceedings.
- 5 claims were raised to Protection of Rights cases.
- 3 claims gave rise to the initiation of Sanction Proceedings.
- The Telefónica de España insert requesting customer consent to process their billing and consumption data for use in third party advertising services produced over 10,000 complaints that caused 98 claims by customers, which brought about a Proceeding against Telefónica de España by the Spanish Data Protection Agency. The Proceeding was resolved favourably for Telefónica de España, after two inspections carried out in the matter.

In other countries Telefónica's customers' data is confidential. The Company guarantees adoption and compliance with data security measures at its service centres and shops, and in its equipment, systems and programmes, and also ensures that personnel handling such

CASE STUDY

OMBUDSMAN IN BRAZIL (04-27)

Ten years ago Telesp gave the customer a say in the operator's everyday business by creating an *Ombudsman* especially for the purpose. Its mission is to ensure that Telefónica fully understands the needs and expectations of its customers and that they are protected.

It represents the customer before the Company's internal bodies, presenting their demands and supporting them through to the end of the process, a process it sees as an opportunity for improvement. As of November 2003, customer satisfaction with the process stood at 83%.

The fact that the Brazilian *Ombudsman's* service procedures have been awarded ISO 9001:2000 quality certification is an indication of its importance to TeleSP.

data also complies with these measures in accordance with the functions and measures outlined in the *Security Measures Regulations* and other internal personal data regulations.

Mobile telephony

The regulations and procedures implemented by Telefónica Móviles's companies to safeguard personal customer data stipulate that information is only be given to account holders and that only service-related applications made directly by them may be processed. Authorisation from the courts or the relevant authority in each country is required before third-party requests for information on customers can be furnished.

All Telefónica Móviles' companies comply with these data protection regulations although some have also introduced their own initiatives:

- In Spain and Panama external audits of procedures and systems are conducted to verify the validity of the same.
- A *Security Sub-Committee* was set up in Spain to increase the security of customer data and the company's assets and systems at the lowest possible cost. The 2005 Strategic Security Plan was also approved and progress was made in implementing an automated process allowing customers and users to manage their personal data in accordance with current legislation.
- In Brazil an information security committee was set up to standardise procedures at all of Vivo's operators.

The Internet

In terms of the Internet and new technologies, confidentiality and security in the processing of personal data is vitally important. Complementing the measures put in place by Telefónica de España, Terra guarantees the adoption and compliance with security measures

in handling computer files at its processing centres and shops and in its equipment, systems and programmes. All employees involved in handling data have received special training in all functions set out in the *Security Regulations*.

As a result of the partnership with professional external services, the Company drafted a comprehensive report detailing the current situation as regards compliance with the legal, technical and internal monitoring requirements set out in *Act 15/99*. Terra compiled a total of 16 new files, and in 2004 it embarked on an audit in Spain of potential risks, weaknesses detected and corrective measures.

c) Confidentiality in Telecommunications

The Spanish Government's legal bodies, the *Spanish Inland Revenue Office* and other Government Agencies have been requesting information from the Company on its respective areas of competence, areas in which Telefónica must abide by the regulations these bodies issue and provide the necessary information.

The legal functions exercised by these public bodies sometimes come into conflict with the legitimate rights of individuals. Subsequently, legal requirements concerning the lifting of telecommunications data confidentiality restrictions framed within the *Spanish Constitution and the Criminal Prosecution Act* are strictly enforced in tracing or monitoring communications and tapping malicious calls.

In all other countries where it operates, Telefónica complies strictly with respect for confidentiality in telecommunications, as well as with the legal regulations to this effect.

d) Undesired services and content

Telefónica believes that its responsibilities include working with customers to combat the use of technology for unwanted purposes. In

CASE STUDY

DATA PROTECTION IN ONLINE CHANNELS (04-28)

Security codes are needed to access online channels and all corporate websites have been awarded official certification confirming that they meet data confidentiality standards. In general terms, systems containing customer data are structured as follows to protect information:

- The system is structured in such a way that individual components can be handled separately (e.g. enquiries, customer operations, etc.).
- Each user has a profile controlling access to the various sections.
- Profiles have confidentiality levels to allow the most confidential information to be monitored. Customer information can also be managed.
- User cannot use options without prior access. Certain confidential enquiries must be made using registries that enable identification of any user consulting a mobile number.
- Operations involving customer data are traceable; user information, the date, time and a comment on the operation are all made available.
- Access to the system is handled exclusively by the Computer Security unit.

2004 the Company introduced significant measures focusing on adult content, protection against spam, piracy and the theft of mobile phones.

Adult content

In 2004, an internal working group was set up at Telefónica and given a brief to *draft regulations controlling adult content*. These are due for approval in 2005 and the general principles behind them are as follows:

- To protect the reputation, brand and institutional values of Telefónica.
- To promote commercial relations between Telefónica and its customers based on *trust*, one of the Group's core values.
- To foster a philosophy designed to protect citizens from content that may be offensive to them or detrimental to their education.

- To ensure that vulnerable members of society, namely young people and children, are properly protected.
- To promote the preventive, technical and organisational mechanisms needed to prevent the young from accessing inappropriate content.
- To enable its infrastructures and networks to be put to effective use.
- To contribute to the effective development of the Information Society by screening and blocking inappropriate content without setting up access filters and blockers.
- To oppose any type of unlawful behaviour connected to adult content.

Telefónica de España offers its customers an Internet filtering service called *CanguroNet*,

which allows them to restrict access to objectionable material by installing a filter blocking obscene content (characteristic of pornography, violence, racism, religious sects, etc.). The service features up to 22 categories for which customers can choose filters or permit access. It can also block unwanted advertising banners and spyware.

Terra and Telefónica del Perú provide their customers with similar filters, and blocking software is due to be launched in Argentina next year. When System Administrators installing this software select the blocking option, users attempting to access restricted web pages ten times in the same session will have their Internet connection terminated, thereby preventing misuse.

These types of applications are becoming increasingly popular with both families and businesses looking to prevent their employees from gaining unlimited Internet access.

They also allow administrators to restrict user access to specified times, create different browser profiles, add or remove blocked or permitted sites (these lists override general filter lists), check the browser history of each user, and block Internet access following repeated attempts to enter restricted sites.

In Spain, Telefónica Móviles began working on a series of initiatives in 2004 designed to allow customers to control and block access to adult content, which will be available to customers requesting the service in 2005.

In general terms, whenever Telefónica Móviles' customers access adult content supplied by providers legally operating these platforms they are usually warned they are accessing adult-only sites and/or that these sites can only be viewed following confirmation that they are of legal adult age.

Spam

Telefónica's Security Committee has set up an *Internet Abuse/IP Incident Sub-Committee* coordinated by Telefónica de España. The objective of this subcommittee is to ensure Group companies adopt uniform policies, procedures and actions in dealing with Internet-related incidents and abuses. It also takes steps to mitigate their effect as far as possible and enhance the security and perception of the Group.

- Telefónica de España's abuse team was set up in 2004, with the mission of answering and handling email claims regarding illegal, fraudulent and abusive practices occurring within its IP network. The process has been automated as far as possible to enhance the response quality of our team, in line with the best practises implemented in other companies.
- The *Telefónica.Net* email platform now incorporates anti-spam features designed to limit nuisance emails and increase efficiency.
- The Company also offered its broadband customers an *Antivirus* and *Anti-Hacker* service 2004, protecting against remote attacks by *hackers* and virus. In the majority of cases, these attacks cause customers' PC's to generate *spam* and/or sending virus without their consent.
- Telefónica Móviles' operators have also started working on anti-spam packages for its customers. In Argentina, a control system based on statistical models has been introduced, and in Spain improvements have been made to the *Mis avisos* alerts service, whereby all messages received from a specific sender can be cancelled.
- In Argentina an anti-spam service is now available for *Speedy* and *Advance* account holders and protects customers from unwanted mail (spam and selected email

addresses). The service gives customers peace of mind by automatically identifying emails received from servers known for sending spam, so that customers need not concern themselves with this problem.

Piracy

Both the *CanguroNet* service and Telefónica's parental control software Control Paternal feature facilities for blocking access to content download sites (*MP3, DivX, WMA, .EXE files etc.*).

This allows customers to control access to pirated content uploaded to the web. Its PC *Anti-Hacker* software also blocks ports used by major file-swapping services.

With all these services, Telefónica gives its customers the freedom to block or permit access to content, and does not examine or classify the content they access as pirate or illegal. Nevertheless, Telefónica is working to make increased respect for the law an integral feature of the contracts it enters into with its customers, with a view to applying good practises in content management to the supply chain.

Finally, it should be pointed out that Telefónica has developed a *DSL Platform* to monitor copyright and content access. This is an open platform and can be used by any company wishing to exercise full legal and technical control of the content it makes available to Internet users.

Terra Música Premium is the first Internet-based digital music download platform in Spain. This new service features a database of 500,000 songs and music videos in WMA format. Terra's ADSL customers can listen to songs from the database, tune into preset stations and compile lists of their favourite songs by their individual preferences. Users can also download songs and entire albums.

In Spain, where Telefónica Móviles plays an active role in DRM (*Digital Rights Management*)

forums, improvements have been introduced in an attempt to combat content piracy, such as the launch of a mobile music service to promote legal music downloading.

Measures combating mobile phone theft

To protect their customers, all Group operators either suspend the service or block stolen phones, and many of them are also working with other sector companies and the authorities in each respective country to find solutions that not only limit the consequences of phone theft, but also help to discourage such crimes by making stolen phones useless to thieves.

e) Customer information

Telefónica is going to great lengths to keep its customers informed on the impact of its products and services on society, the companies that use them and on the environment. Initial studies are published every month at Telefónica's corporate responsibility website and look at teleworking, energy consumption in the information society, e-governance and the digital home among other issues. In 2005 further initiatives are planned to inform business customers about these results.

Telefónica Móviles' operators are constantly striving to inform customers about their products through campaigns focusing on existing service options and promoting the correct usage of their phones.

Mobile handset manuals provide users with information on the SAR radiation levels emitted by their phones. As a general rule, manuals and user guides include information on the use and security of handsets, accessories, batteries and chargers, care for electronic equipment and explosion risks, etc.

Telefónica Móviles España has engaged in a series of initiatives to inform customers and society in general about the impact of mobile telephony services:

- It has worked with various organisations to increase understanding of electromagnetic fields and their impact on health. For example, it teamed up with *GSM Europe* to organise two information seminars in Brussels in conjunction with the European Union and the *Mobile Manufacturers Forum* (MMF).
- It has published an information leaflet and drafted various reports on this matter for the European Commission and the World Health Organisation (WHO).
- It has worked with the AETIC (Spanish Association of Electronic, Information Technology and Telecommunications Companies) in organising conferences and seminars on mobile telephony and health, as well as visits to Spain's autonomous regions and Town Councils to provide information on these issues.
- It also offered all its customers an online course on *mobile telephony and health* via its website.

In other countries it has undertaken similar initiatives to keep consumers fully informed about the non-ionising radiation emitted by mobile telephony systems.

In some countries it has published information leaflets on the correct use of cellular phones:

- In Peru and Colombia these leaflets are included in mobile phone packaging at points of sale.
- In Colombia leaflets feature advice on how to use mobile phones and safety in the car.
- In Nicaragua a campaign was launched targeting the misuse of mobile phones in cinemas and theatres.