

07

Environment: respect and protection



01 Environmental Commitment

- Public commitment
- Environmental policy
- Collaboration with other organisations
- Environmental communication

UNITED NATIONS
GLOBAL COMPACT

signed by
Telefónica

02 Environmental Management

- Spain
- Latin America

CERTIFICATION

ISO14001

03 Minimising impact

- Visual impact
- Resource consumption
- Waste management
- Electromagnetic emissions

ELECTROMAGNETIC EMISSIONS

+7,000
base stations certified in 2003

04 Developing services with positive impact on the environment

- Improvement in transport and distribution systems
- Improvement in energy efficiency
- Paper saving
- Dematerialisation

TELEFÓNICA I+D

projects: **353**
environmental assessments

01 TELEFÓNICA, COMMITTED TO THE ENVIRONMENT

a) Public commitment to the environment

Telefónica considers respect for the environment to be a fundamental issue in all its activities, and therefore, the companies in the Telefónica Group have maintained a public commitment to the environment for several years:

- In 1996, Telefónica de España supported the environment commitment of *ETNO* (*European Telecommunications Network Operators Association*) and was a member of the ETNO working group on the environment. As a result of that commitment, in 1999 it adopted its Environmental Policy, structured in ten lines of co-ordinated action..
- In 1997, Telefónica I+D undertook its environmental policy, slightly amended in June 2003. It includes the commitment to develop telecommunications services that contribute to protection of the environment and sustainable development of society.
- Telefónica Móviles España defined its environmental policy in 1998, by which it acquired the following commitments:

UNITED NATIONS GLOBAL COMPACT ENVIRONMENTAL PRINCIPLES

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- 7 companies must maintain a preventive approach that favours the environment
 - 8 companies must encourage initiatives that promote greater environmental responsibility
 - 9 companies must favour development and diffusion of environmentally respectful technologies
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- To evaluate and identify the environmental aspects, either positive or negative, arising from activity by the Company.
- To fulfil the laws in force on environmental matters.
- To optimise consumption of raw materials by improving processes, recycling materials and adequate treatment of waste.
- To increase efficient use of energy.
- To gradually include environmental considerations in decisions to purchase and withdraw equipment.
- To guarantee communication and awareness, training all the company employees in environment matters.
- In 2002, the Telefónica Group signed the United Nations Global Compact, three principles of which are related to respect for the environment.
- In 2002, Telefónica Móviles España and another 15 companies formed the Sustainability Excellence Club, in order to Encourage Sustainable Development from the corporate sector, sharing responsible practices to contribute to excellence in companies and to progress in society.
- During 2003, Telefónica made an effective contribution to the GeSI (*Global e-Sustainability Initiative*), which is promoted by the UNEP (United Nations Environmental Programme) and the UIT (International Telecommunication Union), for the purpose of bringing together manufacturers and operators in the information technologies sector, in order to promote sustainable development of the information society.

- In 2003, Telefónica launched in Brazil its environmental policy based on a working group formed by experts and employees, aimed at rational use of electric power and water, as well as recycling materials and the repercussion these processes have on the environment.

In addition to these commitments, for many years the Telefónica Group has collaborated with diverse organisations and foundations dedicated to promoting respect for the environment.

- In Spain, Telefónica Móviles is a company that collaborates with the Environment Foundation and has participated in diverse working groups aimed at implementing environmental good practice in the corporate community.
- In Argentina, Unifón has provided financial support for the Wildlife Foundation for five years. This organisation, that has been operating for more than 20 years, has the mission of preserving biological diversity, proposing alternatives for sustainable use, controlling fulfilment of environmental policies, co-operating in environmental planning and educating and informing society about ecology related activities.
- In Mexico, Fundación Telefónica has created an Environmental Education Fund with the mission of encouraging communication and environmental education. Through a system of virtual information *eambiental.org*, this project will provide information, educational content and links to organisations that work in the environmental area.
- In Peru, Telefónica Móviles is the main sponsor of the 'Cambie' Environmental Conservation prize, convened annually by the Southern Scientific University (UCSUR). It aims to provide recognition for persons and institutions who have worked constantly and permanently in favour of conserving the environment.

ENVIRONMENTAL POLICY OF TELEFÓNICA DE ESPAÑA

Transform into daily practice the goal of exceeding the minimum standards established in environmental legislation.

Evaluate the environmental impact arising from development and management of processes and services.

Lead in achieving maximum energy efficiency and increasing the use of clean fuel and renewable energy.

Establish environmental criteria in research and development of new products and services that are respectful to the environment and encourage sustainable development.

Facilitate training in environmental management systems, encouraging participation by all people and institutions of Telefónica on a regular basis.

Organise management of materials, equipment and buildings with environmental criteria, reducing, reusing, recycling and minimising waste and providing specific treatment of hazardous materials.

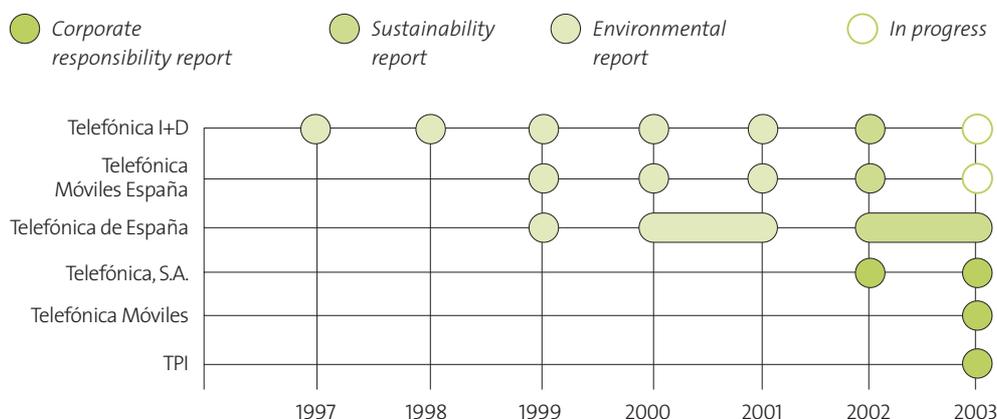
Normalize fulfilment of environmental requisites when selecting and assessing products and services provided by suppliers, evaluating the extent to which environmental systems are implemented.

Implement environmental management systems that encourage prevention and continual improvement of the environmental aspects of the Company.

Communicate the most significant events in the matter, to heighten the awareness of all economic agents, employees, customers, shareholders, public administrations and society at large.

Adopt environmental criteria in sponsorships of projects or social events

TELFÓNICA GROUP ENVIRONMENTAL REPORTS



- In Brazil, Vivo collaborates in Río de Janeiro with the prefecture of Paraty. This municipality, where the biosphere reserve of Mata Atlántica is located, is the first city to be nominated a candidate for inclusion in the World Heritage catalogue by UNESCO in the category of natural landscape.

public may pose questions concerning the natural environment This is complemented by an environmental hotline (1437) and an e-mail address (medioambiente@tsm.es). The web page of Telefónica I+D includes a specific environmental section, where its environmental policy and associated reports may be consulted.

b) Environmental communication

Different companies in the Telefónica Group publish environmental reports, which are evolving toward sustainability reports.

Telefónica Móviles España became the first Spanish telecommunications company to have a Sustainability Report certified under the GRI 2002 (Global Reporting Initiative) Guidelines.

The Environmental Report 2001 by Telefónica de España, as well as its Sustainability Report 2003 have been validated by AENOR, in the latter case under the criteria of GRI 2002 Guidelines.

Telefónica I+D has developed its Environmental Report into a Sustainability Report, based on the GRI model for preparation of sustainability reports. As part of the commitment to all the other interest groups, the report included an e-mail address (sostenibilidad@tid.es) to allow the parties concerned to make any relevant remark or suggestion. However, it plans to continue to publish the Telefónica I+D Environmental Report twice a year.

In 2003, Telefónica also published its first Corporate Responsibility Report, that group the different actions by the companies in the Group aimed at different interest groups in general, including a chapter dedicated to the environment.

The Corporate Responsibility section of the Telefónica web includes an environmental section that includes the policies of the companies in the group, as well as reports and news on the matter. Telefónica Móviles España has a environmental section on its corporate web page, where customers and the general

O2 ENVIRONMENTAL MANAGEMENT

a) Spain

Telefónica de España has implemented an Environmental Management Project since 1999 based on the model of standard UNE-EN ISO 14001. As part of that project, the Logistics Centre implemented an Environmental Management System certified by AENOR. This logistics centre, located in Villaverde, Madrid, has the main mission of reception, storage and distribution of the materials managed by Telefónica de España. The offices and laboratories to assure the quality of the materials managed by the Company are also located in the same building.

Telefónica de España has included environmental impact analysis in 480 projects by the Company during 2003. Telefónica de España runs a tele-training course called Environmental Management at Telefónica de España, the main objective of which is to heighten the environmental awareness of all its employees. In 2003, 85 students participated.

The environmental management system at Telefónica Móviles España covers 100% of its activities and it has been certified by AENOR to standard UNE EN ISO 14001:1996 since 1998. This certificate is renewed every three years and received its last validation in June 2001. During 2003, Telefónica Móviles España successfully passed two monitoring audits in which the audit team emphasised the high degree of implementation of the system in the Company, as well as the communication programme for radio electric emissions.

2003 ENVIRONMENTAL OBJECTIVES. TELEFÓNICA I+D

- Ascertaining how new technologies in the home contribute to improvement of the environment.
- Improvement of environmental and social communication by Telefónica I+D.
- Optimization of consumption and quality of water used by Telefónica I+D.
- Reduction of paper consumption, 65.4% by end 2009, reaching a maximum of 24.91 sheets / thousands € in 2009 (measured on the paper indicator / production + innovation).
- Preparation of an energy balance for the building at Boecillo

Some aspects of the Telefónica Móviles España environmental programme are: reduction of paper and energy consumption; minimising waste; environmental awareness activities (internal and external); employee training activities and checking base stations (control of emissions, noise and visual impact).

Telefónica Móviles España has a course for employees, taken by 70% of them, that includes general aspects of environmental management, waste management, visual impact of base stations and electromagnetic emissions.

The environmental management system at Telefónica I+D has had its Environmental Management Certificate since 1998. It also has several online courses to show its employees the main issues and implications of environmental management. In 2003, Telefónica I+D held a Conference on Sustainability, on World Environment Day, in which it presented the company's first Sustainability Report.

b) Latin America

During 2003, Telefónica performed a preliminary analysis of the environmental risks of the

Telefónica Group in Latin America, further to a prior study of its activities in Spain. At first analysis, the conclusion was reached that companies providing fixed or mobile telephony services were those that could have the greatest environmental impact; due to the type of activity as well as having a larger number of installations. The analysis of the companies in Latin America, through the Corporate Internal Audit department and with Telefónica I+D as an expert advisor, concentrated on identifying the main environmental risks of the fixed and mobile telephony services.

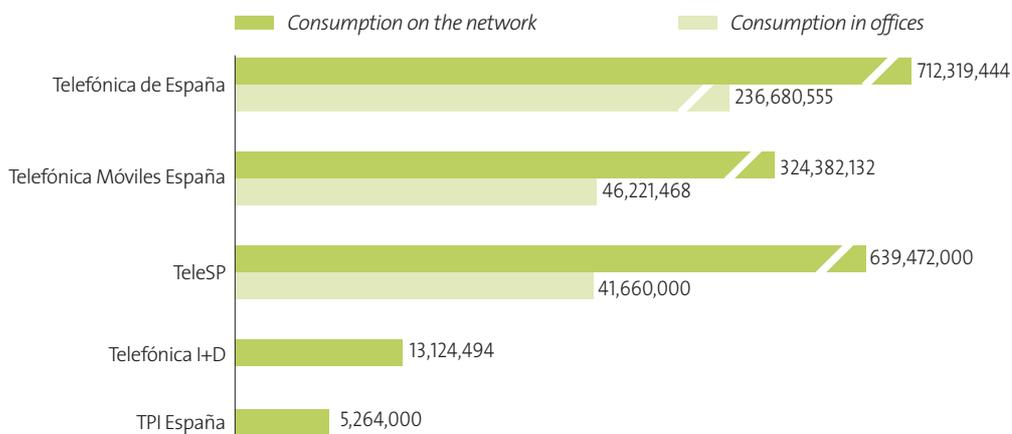
An important area of the study was analysis of legislation in the different countries, with important differences being noted between them in regulatory aspects. The existence of international agreements such as the Basle Convention of Basil or the Montreal Protocol are a help in the effort to standardise regulations in their fields of application, such as, for example, cross border transport of hazardous waste or elimination of substances that weaken the ozone layer. Other aspects, such as waste management, radio electric emissions or noise, are regulated in different ways in different countries.

2003 ENVIRONMENTAL OBJECTIVES. TELEFÓNICA DE ESPAÑA.

- Prevention and control of legionnaire's disease in cooling towers.
- Replacement of 2.7% of the fleet of vehicles without catalysts with others that comply with current regulations on emissions.
- Measures to reduce electricity consumption to 2000 levels.
- Disposal of the stocks of Halon 1211.
- Guide to environmental good practices for installers at the customer's home.
- Extension of Telefónica de España's permit for waste production.
- Reduction of micro-computer waste produced by printers at work stations.
- Reduction of micro-computer waste caused by terminals at work stations.
- Disposal of the stocks of Halon 1301 (carried forward from 2002).
- Adaptation to current regulations on fuel tanks for boilers and generators (carried forward from 2002).

ELECTRIC POWER CONSUMPTION

(Data in kwh)



This study has allowed evaluation of the main environmental issues that have arisen in the activities of the different companies in the Telefónica Group and identification of the associated risks and points for improvement. Work is now being performed on definition of standard management practice for the Group, to minimise the impact of Telefónica on the environment, following the principle of preventing pollution.

In Brazil, TeleSP and Vivo are advancing in implementation of an environmental management system. The initiative by TeleSP is based on the overall work by employees and experts in environmental management. The objective of the initiative is correct use of such natural resources as electric power and water, assuring adequate recycling of the different materials and managing the repercussion the company's processes have on the environment.

Moreover, the Advanced Environmental Management project (GAA) by Vivo, is carried out in collaboration with the Institute for Development of the Environment, Antroposphere and the Foundation for Development of Scientific, Technological and Cultural Research of the UFPR. This project received the first prize for *Brazilian Environmental Benchmarking 2003* and the *Cidadà Company Prize 2003*, in recognition of the environmental actions carried out thanks to this initiative.

On the other hand, Vivo has undertaken an internal education programme, using the channels of communication with the employees, to reduce consumption of water and electricity in the Company buildings. The first results have materialised in the buildings in Paraná and Santa Catarina, where a total 15% saving on energy used has been achieved.

Telefónica Móviles began its project in Mexico in financial year 2003 to implement the Environmental Management System, aimed at being the leading telecommunications operator

in the country to obtain ISO 14001 certification, during the first quarter of 2004. Parallel to the implementation project, a study was carried out to determine what activities by the company may interfere with the environment positively or unfavourably. An environmental awareness programme was also developed for all the company employees, and a course on the Environmental Management System.

Telefónica Móvil Chile is now developing a working plan for future implementation of its Environmental Management System. In Argentina, Unifón has had specific projects for years, such as collection of used batteries or paper recycling, and it has also begun the global environmental management process.

03 MINIMISING THE IMPACT OF OPERATIONS

The basic environmental concerns of the Telefónica Group and its management processes and systems are: reduction of the visual impact of infrastructure; collection of obsolete batteries and terminals; management and recycling of waste; efficient use of energy and other scarce resources and control of electromagnetic emissions.

a) Reduction of the impact of infrastructures on the environment

Throughout the world, Telefónica manages a large number of installations, that may be summarised as follows: more than 2,500 office buildings, more than 17,000 communications masts and more than 9,000 switching centres.

When deploying networks in natural or urban areas of special interest due to their landscape or historic-artistic heritage, Telefónica aims to reduce their visual impact. To do so, it takes into account such options as imitating the surroundings, reuse of existing structures (own or shared with other operators), reduction of the size of the equipment, or camouflaging the structures.

Telefónica Móviles España establishes minimum determining factors for the manufacture, supply and installation of solutions, to reduce visual impact to the minimum, and to integrate radiating systems in the environment by locating them on rooftops. To do so, it is working in two lines:

- Presentation of catalogued solutions that are defined in a single generic project. After passing the certification process, they may be systemically implemented on the network.
- Design of unique solutions that require approval of a complete project for each site. In 2003, a pilot project was set up to renew the image of base stations located on the roofs in the centre of Madrid.

Telefónica Móviles España performed 63 environmental impact studies in 2003, including internal and external studies and visual impact analysis. Moreover, in 2003, the company infrastructures have been modified and/or camouflaged on 194 sites.

Telefónica de España carried out environmental impact studies in 2003 on the infrastructures located on 16 sites. In seven of the cases analysed, modifications were undertaken in the layout for camouflage purposes, or to reduce their visual impact on the environment.

b) Reducing consumption of scarce resources

Electric power

Powering the communications networks is a major consumption item for both fixed and mobile telecommunications operators. Consumption by the Telefónica de España, Telefónica Móviles España and TeleSP networks exceeded 6 million GJ in 2003, compared with the 1.1 million GJ consumed by the offices of these companies. The operators in the Telefónica Group are developing important improvements in the energy efficiency of their networks through monitoring and control systems, or by increasing operating temperature of some equipment and technical rooms, thus saving energy on cooling systems.

Summary of installations

+2,500
office buildings

+17,000
communication towers

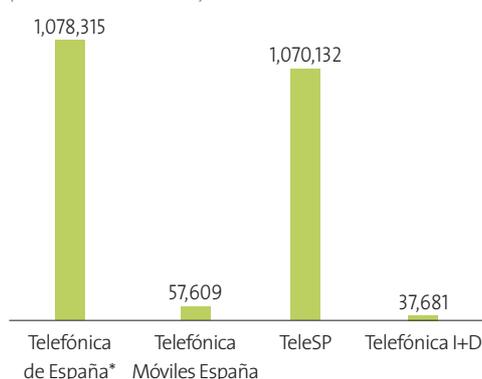
+9,000
plants

TELEFÓNICA MÓVILES ACTIONS TO DECREASE VISUAL IMPACT ON THE ENVIRONMENT

| Country | Measures |
|-----------------|---|
| Spain | <ul style="list-style-type: none"> – Minimum determining factors for the manufacture, supply and installation of solutions. – Analysis of impact on the landscape using a visual fragility index. |
| Mexico | <ul style="list-style-type: none"> – Evaluation of visual impact in the planning stage. – Use of special solutions (camouflaged towers, cylindrical antennae, etc.) – Use of shared sites (rental of towers by companies). |
| Argentina | <ul style="list-style-type: none"> – Reuse of infrastructures (existing infrastructures used in 95% of the cases in deployment of the GSM network). – Joint use of sites with other operators (remaining 5% of the network). |
| Chile | <ul style="list-style-type: none"> – Analysis of the visual impact of projects, in conjunction with municipal authorities. – Redesign of base stations that have been in service for many years. |
| Peru | <ul style="list-style-type: none"> – Plans to apply draft regulations requiring infrastructure sharing in certain areas. |
| Puerto Rico | <ul style="list-style-type: none"> – Search for locations with less visual impact. – Joint use of towers with other operators. |
| Central America | <ul style="list-style-type: none"> – Joint use of infrastructures in El Salvador, foreseen by 2004 in Guatemala. |
| Morocco | <ul style="list-style-type: none"> – Camouflage of antennae in areas of historic interest. – Joint use of infrastructures. |

WATER CONSUMPTION

(Data in cubic metres)



(*) Estimated consumption based on billing for consumption, with an estimated average price of 1,126 euro/m³

In Brazil, TeleSP reduced its energy consumption by 8.4% due to its programmes to encourage awareness of energy use and application of technical measures to improve the performance of the resources.

Water

Water consumption in the telecommunications sector has minor significance when compared with other industries or service sectors. Its main impact consists of water consumption in offices and air cooling systems.

Telefónica I+D completed the water cycle studies for its buildings in Madrid and Boecillo in 2003, aimed at optimising water quality and consumption.

Paper

The Telefónica Group companies have developed diverse initiatives aimed at rationalising paper consumption:

- The high paper consumption required to prepare some of the TPI products (more than 50,000 tonnes) is minimised in environmental impact by requiring paper suppliers to hold the ISO 14001 environmental certificate and for the raw materials used to prepare the end products to have a sustainable origin (renewable forests, the trees of which are planted by paper factories on desert or low productivity land).

- Paper consumption at Telefónica de España offices in Spain is reduced year by year due to evolution toward the paperless office concept, double sided bills and launching the electronic bill. The reduction target for 2003 was 12%, which was achieved through measuring consumption by departments, awareness campaigns among employees or implementation of technical advance, such as default double sided printing.
- Telefónica Móviles España organised the campaign "Your paper (role) is important," recycle to involve all the employees in saving on consumption of resources. To do so, it first set up an awareness and saving operation among all the employees, based on encouraging the use of e-mail, printing documents on both sides and the use of recycled paper.
- Telefónica Móviles España consumed 26 million sheets of paper in its offices in 2003, more than 68% of which were recycled paper, which was a spectacular advance over the 8% in 2002.
- Telefónica I+D reduced paper consumption 27.4% during 2003 (measured in sheets /production+innovation), thus meeting its 10% annual target by a wide margin, aiming to achieve the paperless office in 2009. That landmark was mainly achieved by encouraging awareness among its employees, by multiple printing, scanning

PAPER CONSUMPTION

(Data in tonnes)

| Company | Paper consumption in offices | Paper consumption in operations |
|---------------------------|------------------------------|---------------------------------|
| Telefónica de España | 707 | 3,474 |
| Telefónica Móviles España | 131 | |
| TeleSP | 2,302 | 1,954 |
| Telefónica I+D | 37 | |

TELFÓNICA DE ESPAÑA VEHICLE FLEET*(Data in units)*

documents, use of computer applications to replace paper and the campaigns promoted by the Environmental Committee.

- Méditel (Morocco) and TeleSP (Brazil) have developed programmes that contribute to saving of natural resources, issuing bills printed on both sides, just as it has been done since 2002 at Telefónica de España or Telefónica Móviles España.

Fuel

The telecommunications sector is not one that generates a large direct demand for fuel, since its consumption is associated with vehicle fleets, heating boilers, emergency actions or service in places with difficult access to power sources.

- The most significant fuel consumption by Telefónica de España is that of its fleet of vehicles, amounting to 8.8 million litres. Generator equipment at Telefónica de España also consumed a total 0.5 million litres.
- The 269 vehicles in the fleet at Telefónica Móviles España consumed a total 529 thousand litres in 2003.
- In Brazil, TeleSP has a fleet of 2,465 vehicles, that consumed nearly 4,530 thousand litres of fuel in 2003. The Group generator equipment consumed a total 367 thousand litres.
- In 2003, Telefónica I+D used 150 thousand litres of heating fuel oil and 266,190 m³ of natural gas, mostly at the cogeneration plant. Its small fleet of seven vehicles consumed 16,000 litres of fuel.
- The mobile telephony and fixed telephony companies in Latin America have generators, mostly only for emergencies. Only in three cases (Telefónica del Perú, Telefónica Unifón Argentina and Telefónica Móviles Perú) are there generators that run continuously, which reduces fuel consumption.

c) Responsible waste management

Telefónica separates and manages each type of waste generated by its activity separately. All the hazardous waste is processed by authorised managers. The largest waste generation is by the offices, electronic and building waste, and batteries.

Management of own waste

- During 2003, Telefónica de España generated a total 15,101,940 kilogrammes of non hazardous waste, a category that includes the paper collected, disassembly of internal plant, cables, telephone equipment, scrap aluminium, iron and wood, plastics and vehicles for scrap. The 857,400 kilogrammes of hazardous waste were biosanitary and radiological waste, stationary lead-acid batteries and waste from disassembly of equipment with Halon 1301 and Halon 1211.
- Telefónica Móviles España managed 219,753 kilogrammes of paper and cardboard, 97 kilogrammes of printing residues, as well as 448 kilogrammes of hazardous waste from fluorescent tubes. As to other waste, it set up the project "Application of the future Directive on Waste from Electric and Electronic Equipment at Telefónica Móviles España". The object of the project is to manage the electronic waste of the Company at the end of its useful life, following the guidelines marked by the European directive, that establishes requisites for management and recovery of electronic equipment.
- TeleSP managed a total 480,000 kilogrammes of non hazardous waste (most of this was held by the users) and 10,606 kilogrammes of hazardous waste in 2003.
- Telefónica I+D managed 101,889 kilogrammes of non hazardous waste and 15,848 kilogrammes of hazardous waste in 2003.

Handling of non-hazardous waste
(data in thousands of kg)

15,101

Telefónica de España

220

Telefónica Móviles España

480

TeleSP

102

Telefónica I+D

Handling of hazardous waste
(data in thousands of kg)

857

Telefónica de España

10

TeleSP

16

Telefónica I+D

Social use of waste

- In Peru, for the fourth consecutive year, Páginas Amarillas carried out its Recycling Campaign 2003, in co-ordination with Fundación Telefónica, this time to aid the General Volunteer Fire Brigade of Peru. It collected 462 tonnes of paper from the yellow and white directories, supported by the residents of Lima and Callao.
- In the area of waste management and recycling, Unifón Argentina has a Paper Recycling Programme, that donates to the Garrahan Paediatric Hospital Foundation. The average amount of paper collected is 900 kilogrammes a month, and the total, since the campaign began, exceeds 105,000 kilogrammes.
- Telefónica Móviles Perú is also concerned with waste management and recycling. One of its initiatives is with toner cartridges. These are stored and donated to FUNDADES, a non-profit organisation with the mission of promoting and arranging activities to improve the quality of life of lower income sectors, especially the disabled.
- In the field of waste management and recycling, Vivo has several initiatives in progress. Through the programme *Transforming life with art*, the used paper from the Vivo offices in Paraná and Santa Catarina is donated to environmental education projects for children in lower income communities, for use in craft objects. The paper and plastic from the São Paulo offices are sold to a recycling company and the money obtained is donated to Semear (Association for integration and aid for the disabled), a non-profit organisation designed to help children of company employees. In 2003, 115,000 kilogrammes of paper were collected, and the money obtained from its sale is donated to diverse charitable concerns.

- The initiative to recycle equipment at Telefónica I+D allows employees to be offered electronic or other kinds of obsolete but reusable company equipment, by draw. The person awarded the equipment is just asked to give a minimum donation of six euros to the NGO he prefers, or to make a cash donation in a collection box provided for that purpose for final delivery to an NGO. Nearly 1,000 euros were collected in 2003.

Management of waste held by the users

The companies in the Telefónica Group are developing diverse initiatives to manage unused terminals and batteries held by the users:

- Telefónica Móviles España has set up its own initiative aimed at selective mobile telephone batteries. There are 60 drop-off points at all the company's management buildings, which collected more than 587 kilogrammes in 2003. In the same line, Telefónica Móviles España collaborates with two initiatives: *Recycle your mobile*, by ANIEL¹ and *Mobile-swallower*, organised by ASIMELEC.
- In Argentina, Unifón has had a Battery Collection and Recycling Programme since 1999, that has collected 550,000 batteries to date. This campaign, backed by the Argentinean Wildlife Foundation, consists of bins placed in 24 commercial offices, where any customer may drop off dead batteries.
- In Brasil, Vivo has set up a telephone battery collection scheme for its customers, that also includes storage, adequate transport and return to the manufacturers. Since 1999, the operators now forming Vivo have collected more than 700,000 batteries.
- During 2003, Telefónica de España has withdrawn 1,198,005 kilogrammes of equipment from its customers homes, including terminals and telephone equipment.

(1) ANIEL: Asociación Nacional de Industrias Electrónicas y de las Telecomunicaciones.

GREENHOUSE EFFECT GASES EMISSIONS IN 2003*(Data in equivalent tonnes)*

| | Directs | Indirects | Total |
|---------------------------|---------|-----------|---------|
| Telefónica de España | 28,655 | 305,578 | 334,233 |
| Telefónica Móviles España | 1,565 | 156,024 | 157,589 |
| Telefónica I+D | | | 182 |

d) Emissions into the atmosphere

For some years, the companies in the Telefónica Group have carried out improvement actions to favour reduction of GEGs (greenhouse effect gasses):

- Renewal and reduction of the vehicle fleet, replacing vehicles without a catalyser with others that comply with current regulations on emissions.
- Measures to save electric energy, such as raising maintenance temperature in equipment rooms up to 23°C, disconnection of underused rectifiers, reducing time of use of management buildings, decreasing illumination in traffic areas in telephone centres, etc.
- Optimising spaces occupied in buildings, isolating unoccupied areas to suppress their climate management.
- Internal awareness campaigns on energy saving.
- Use of alternative energy sources to power mobile infrastructure networks.

Adoption of these measures by Telefónica de España has allowed it to achieve reductions of 11.2% in GEG emissions in relation to the base year (1998) and it aims to achieve a 15% reduction in the year 2008 compared with that same base year.

At Telefónica I+D, the target reduction of CO₂ emissions associated with energy consumption by its building in Boecillo provides a 6% monthly reduction in emissions, which is being achieved by optimising its cogeneration plant with heat and cold recovery.

e) Electromagnetic emissions

Telefónica Móviles has a solid commitment to guarantee and ensure the safety of its infrastructures. It is also scrupulously

respectful in its fulfilment of the current regulations and the laws in force. Due to this, it not only rigorously controls the electromagnetic emissions from the base stations, but also collaborates with the local authorities to achieve optimum deployment of the network, striving to provide internal and external communication of everything related to this important factor.

The base station emission measurement processes have been carried out in the different countries we operate in. They have always proven to comply, within ample margins, with the regulations in force, the limits established by the international reference bodies (ICNIRP, WHO) and health recommendations by the European Union, based on constant revision of the ongoing research.

In Spain in 2002, all the base stations were measured, pursuant to the stipulations of Royal Decree 1066/2001. As a result of this process, the conclusion was reached that the emission measurement from the antennas was 1,200 times lower than the limits set under Spanish law and the European health recommendations. Throughout 2003, measurements were taken at 5,872 sites and 100% compliance with the established limits was obtained.

In Argentina, the measurements were taken pursuant to Resolution CNC 269/2002. During 2003, 130 sites were measured, in addition to the 70 measurements taken in 2002. Of these 130 measurements, 85 were performed fulfilling the verification requisites established in Resolution CNC 269/2002; the remaining ones were taken at the specific request of the municipal authorities. At all the sites, the measurement proved compliance, with an ample margin, of the most demanding standards established in Resolution 202/95, as well as by the national and international standards set by the reference bodies.

Electromagnetic emissions

5,872

Sites audited in 2003

100%

approval

Telefónica Móviles España

In Chile, in fulfilment of current regulations, and in order to inform the authorities, emission levels were measured at 596 stations on the TDMA network and 622 GSM stations.

In Peru, specific measurements were taken at the request of certain local authorities, showing that all that the installations measured comply with international regulations. In 2004, the relevant measures were taken, in fulfilment of the regulations of the Ministry of Transport and Communications on the Maximum Permissible Limits for Non-Ionizing Radiation in the Telecommunications Sector.

All mobile telephones must comply with standards that assure that the maximum radiation levels specified in the standards are not exceeded. The World Health Organisation and the *International Commission on Non-Ionizing Radiation (ICNIRP)* supervise the levels specified in the different standards. The limit value SAR (*Standard Absorption Rate*) generally used for mobile telephones is 2.0 Watt/Kg (W/Kg) on average per 10 grammes of tissue. That value includes a considerable security margin to also protect all people and exclude divergent measurement.

The SAR values may vary depending on the demands in the different countries and network bands. Although the SAR value may vary according to the appliance or position in which it is used, all the values comply with the EU requirements for exposure to radio electric wave emissions. The practices used by manufacturers in relation to terminal SAR is the SAR measurement according to the European directive R&TTE (EC seal), checking that the limits set by the International Commission on Protection against Non-Ionizing Radiation are complied with. All that information, the SAR data measured (specific for each terminal) and the information on the ICNIRP values, are systemically provided in the instruction booklets accompanying the terminal.

The responsibility with which Telefónica Móviles has managed the social alarm in connection with electromagnetic emissions has been identified as good practice on a world-wide scale, in application of the principle of precaution. Telefónica participated in the Third Global Compact Learning Forum, held in Brazil in December 2003, with the presentation of a practical case on application of the principle of precaution in management of electromagnetic emissions.

04 DEVELOPMENT OF SERVICES WITH A POSITIVE IMPACT ON THE ENVIRONMENT

The use of telecommunications services by the industrial, commercial, agricultural and services sectors, as well as households, has a positive impact on the environment. Some of these services with positive environmental impact are:

- Tele-working, remote office.
- Audioconferences and videoconferencing.
- Tele-education.
- Electronic commerce
- Mobile service to consult personalised information (e-moción).
- Added value services (network answering machine, call identification or multimedia messaging).

These also contribute to improvement of:

- The transport and distribution systems.
- Energy efficiency in buildings.
- Paper saving through electronic catalogues and invoices.

- Replacement of individual answering machines by network voice mail (collaborating to reduce use of materials).

In January 2002, Telefónica I+D set up a procedure aimed at systemically evaluating the environmental influence of its new developments. During 2003, the results of 353 projects were analysed.

More than 20% of the projects analysed were noted to contribute to reducing energy

consumption and more than 30% contributed to reducing the need for travel, improving access to education, health assistance or remote control of installations.

Work is now being carried out, within the environmental goals set by the organisation, to improve the evaluation procedure to make it more quantitative, evaluating the impact generated by a new service in comparison with the process existing prior to its implementation.

353
projects analysed

20%
contribute to reduce
energy consumption

30%
contribute to reduce
the need to travel

08

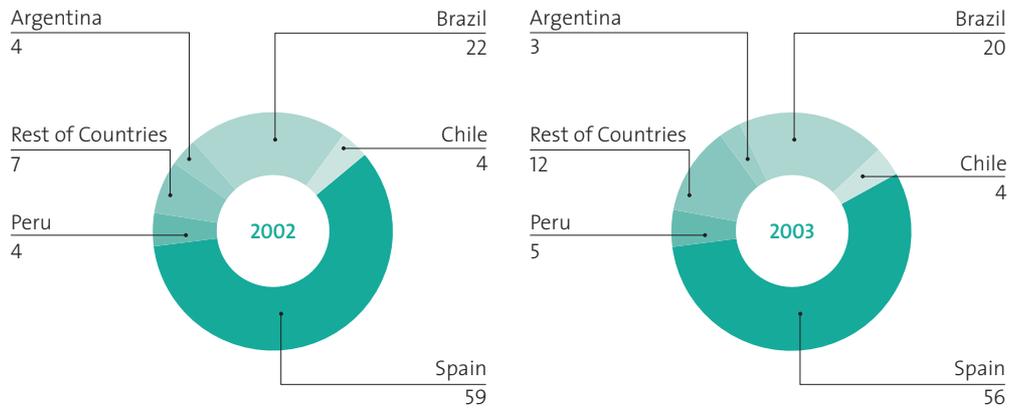
Suppliers: equal opportunities and mutual benefit



| | | | |
|----|------------------------------------|---|---|
| 01 | Large number of suppliers | <ul style="list-style-type: none"> • Volume of procurement by the Group • Number of awardee suppliers | <p>AWARDEE SUPPLIERS</p> <p>17,100</p> |
| 02 | Equal opportunities | <ul style="list-style-type: none"> • Advanced Procurement System • Mechanisms that facilitate transparent award | <p>33,153</p> <p>SUPPLIERS REGISTERED IN THE CATALOGUE</p> |
| 03 | Mutual benefit | <ul style="list-style-type: none"> • B2B Trade • Supplier website • Supplier development programme • Procurement Club for suppliers | <p>SUPPLIER DEVELOPMENT PROJECTS</p> <p>53</p> |
| 04 | Sustainable development of society | <ul style="list-style-type: none"> • Boosting local suppliers • Ethical standards • Prize for quality | <p>PURCHASING VOLUME</p> <p>88% from local suppliers</p> |

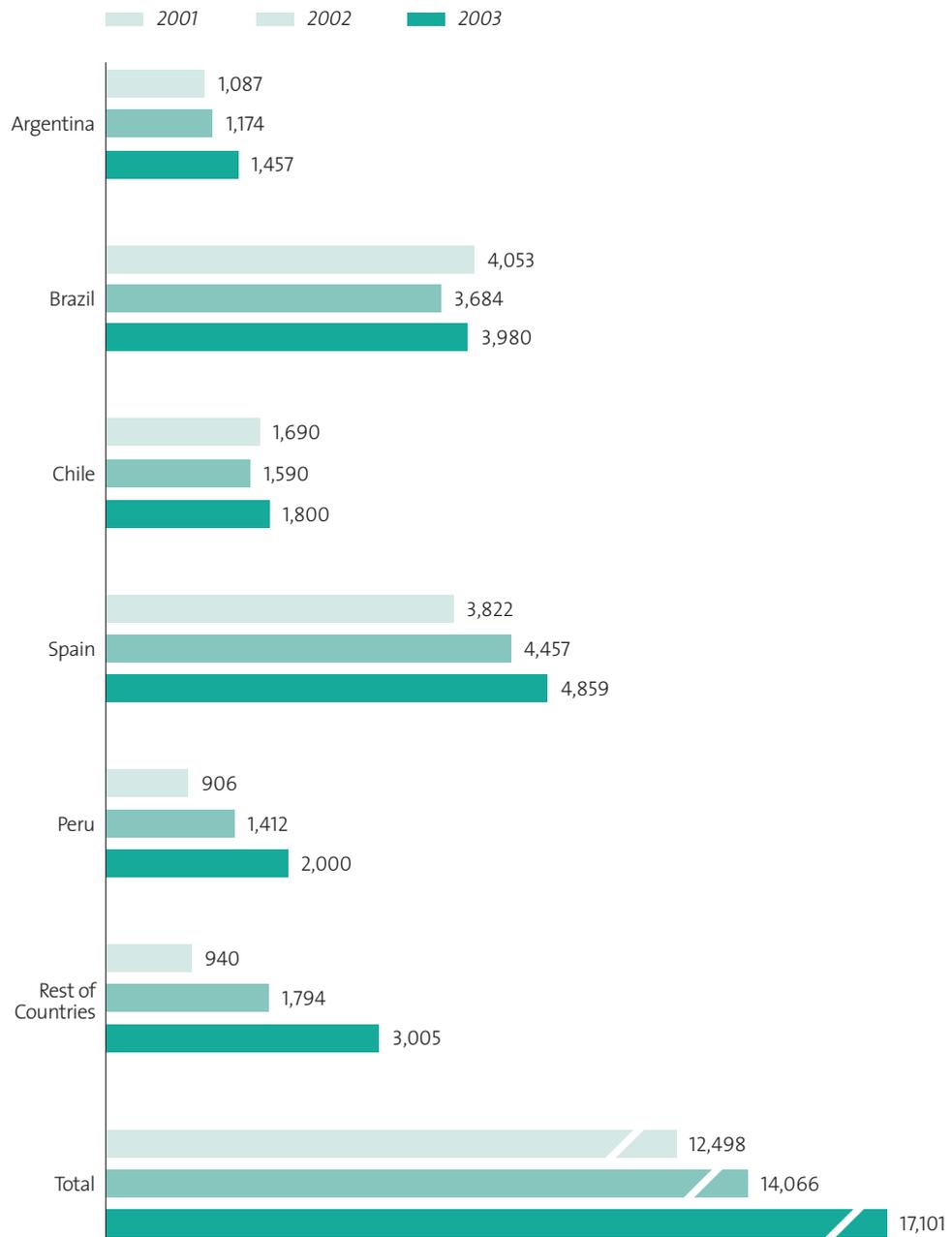
DISTRIBUTION OF PURCHASING VOLUME BY COUNTRIES

(Data in percentages)



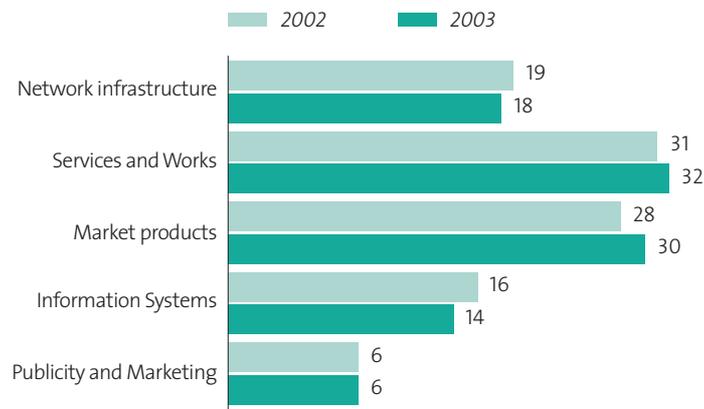
NUMBER OF AWARDEE SUPPLIERS

(Data in units)



DISTRIBUTION OF VOLUME OF PURCHASING BY PRODUCT LINES

(Data in percentages)



01 LARGE NUMBER OF SUPPLIERS...

During 2003, the volume of procurement by the Telefónica Group amounted to more than 10,500 million euros. That volume was awarded to more than 17,000 suppliers (20% more than in 2002).

The ten main suppliers, in procurement volume, were (in alphabetical order): Alcatel, Carat España, Ericsson, IBM, Lucent, Motorola, Nokia, Samsung, Siemens and Vitelcom.

02 PRINCIPLES OF OBJECTIVENESS, TRANSPARENCY AND EQUAL OPPORTUNITIES

Aware of the importance that purchasing and supplier relations have on the results of the business, Telefónica manages these using a common management model for all the companies in the Group: the Advanced Purchasing System. Its aim is to optimise purchasing in its triple dimension of price, quality and service, to reduce costs, improve competitiveness and create value.

At present, this system manages the purchases of 94 companies in the Telefónica Group, distributed among the 15 countries where it is present.

According to this model, the procurement management process is articulated around Purchasing Boards, forums that gather the different departments involved in procurement to analyse it, to establish targets or objective prices, and finally to decide, unanimously, on the award. There are now seven Purchasing Boards located in Madrid, São Paulo, Río de Janeiro, Lima, Buenos Aires, Santiago de Chile and Mexico D.F., which allows global or local management of purchasing, as most appropriate in each case.

The purchasing model used by Telefónica is designed to facilitate objectiveness and transparency in procurement:

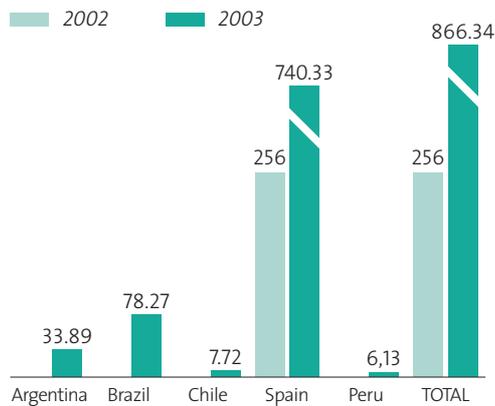
- The possibility of inclusion in the Telefónica Catalogue of Suppliers is available to all those companies interested in working with Telefónica. There were 33,153 suppliers registered in the Telefónica catalogue as possible bidders at the end of 2003.
- All the departments involved in purchasing participate in the Purchasing Boards and the decisions are taken unanimously, which ensures objectiveness and transparency, in the analysis as well as in decision making.
- Telefónica has a Style Manual SAC, that describes the general principles, values and guidelines for action that must govern the conduct and activity of the procurement managers and the rest of the areas involved in the purchasing process, as well as their relation with suppliers. A basic principle of this manual is equitable treatment and equal opportunities for all the suppliers bidding.
- Likewise, the B2B electronic commerce applications that are being used and developed at the Telefónica Group allow, in addition to automation and optimisation of the processes, a greater transparency in management of offers with the suppliers.

NUMBER OF SUPPLIERS REGISTERED IN THE TELEFÓNICA CATALOGUE

(Data in units)

| Year | N.º of suppliers |
|------|------------------|
| 2001 | 20,804 |
| 2002 | 26,180 |
| 2003 | 33,153 |

**B2B ELECTRONIC COMMERCE:
VOLUME OF PURCHASING MANAGED**
(Million euros)



03 MUTUAL BENEFIT

Telefónica has developed a series of tools to extend improvements to its whole supply chain and to collaborate with its suppliers.

a) B2B electronic commerce

Telefónica uses spearhead technology in its supplier relations, in order to automate and optimise the whole procurement process and establish new, better channels of communication and collaboration.

To that end, Telefónica applies e-business technology to management of the different stages of the purchasing process: electronic management of offers (*e-sourcing*); electronic management of service requests and orders from previously negotiated catalogues (*e-procurement*); electronic formalisation and signing of contracts; electronic billing, etc.

This is all performed through the electronic commerce platform Adquira, a leading company in Spain in solutions and negotiation and supplies services, that facilitates commercial relations between companies and institutions through electronic commerce. Five of the main Spanish companies hold a stake in Adquira: BBVA, Telefónica de España, TPI-Páginas Amarillas, Iberia and Repsol-YPF.

Numerous advantages for suppliers

These *e-business* initiatives allow suppliers numerous advantages, among which are cost reduction related to sales, improved control over the processes and documentation, and greater agility in exchange of information.

They also favour greater transparency in negotiation and, in general, in the whole procurement process, as well as equal opportunities for all the suppliers, by guaranteeing that the information to prepare

the bids is made available to all at the same time and that such information is the same for all.

In addition to these advantages, the Adquira platform increases the possibilities of sale by the suppliers through access to a virtual market in which, in addition to all the Telefónica companies, there are such companies as BBVA, Iberia or Repsol-YPF.

Progress of these initiatives in 2003

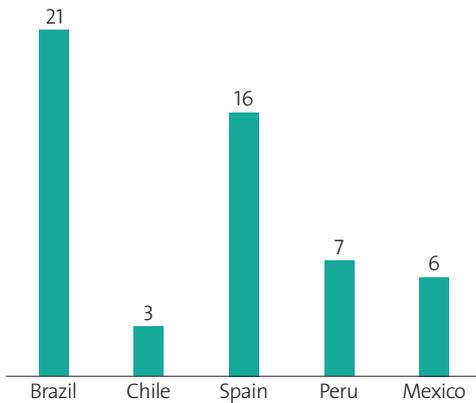
At present, electronic management of bids (*e-sourcing*) for certain products and services is already a reality in Spain, Brazil, Argentina, Chile and Peru. The volume of procurement managed in 2003 through the electronic market of Adquira amounted to 866 million euros, and at the end of 2003 a total 3,432 suppliers had joined it.

As to the rest of the initiatives, during 2003 development of an electronic stocking corporate model (*e-procurement*) was completed, to integrate the different existing initiatives at the Telefónica companies, and its implementation began at Telefónica de España and Telesp (Brasil). Corporate projects were also set up for electronic formalisation of contracts and electronic billing.

b) Supplier website

The Supplier website (www.telefonica.es/proveedores), is the main channel of information between Telefónica and its suppliers, providing access to global information on how to become a supplier to the Telefónica Group, the procurement process and the main projects that Telefónica is undertaking in relation to suppliers. During 2003, the portal had 18,601 sessions.

The Supplier Portal may also be used to manage the application for registration on the Supplier Catalogue of the Telefónica Group, to access the electronic commerce platform of Adquira (main

SUPPLIER DEVELOPMENT PROJECTS 2003*(Data in units)*

operating channel for relations with suppliers), to the Procurement Club for Suppliers and other initiatives and applications that Telefónica provides its suppliers.

It also allows access to other specific portals of the Telefónica companies, such as e-Agora, a portal for suppliers and companies that collaborate with Telefónica de España, through which they have exclusive, personalised access, by extranet, to the applications, contents and services of common interest to the suppliers of the Company.

c) Supplier development

Through Supplier Development, Telefónica provides a team and a methodology, at no cost to the suppliers, to help the supplier company implement ongoing improvement processes.

This activity is aimed at:

- Collaborating with the supplier, proving a methodology through which opportunities for improvement are identified.
- Facilitating implementation of a process of continual improvement of the supplier in the context of a participative work philosophy.
- Identifying processes in which costs may be reduced, which will allow improved competitiveness, adding value for the end customer.

The 53 ongoing improvement processes developed in financial year 2003 took place in Spain, Brazil, Chile, Peru and Mexico.

d) Procurement club for suppliers

The Purchasing Club for awardee suppliers is another collaboration initiative, through which Telefónica allows its suppliers to

SUPPLIER PURCHASING CLUB*(Data in units)*

obtain more advantageous purchasing conditions on certain products offered by other suppliers to the Company. In the experience of 2003, a total 113 registered in Brazil and Spain and 40 offers were managed.

In 2004, the club is foreseen to extend to other countries and to more widespread use by adding it to the Adquira platform.

e) Supplier training

Telefónica de España, in collaboration with Educaterra, has developed a Specific Training Project for the 3,000 Distributors on its Indirect Channel. A new e-learning training project, in which people from outside the Telefónica Group participate for the first time, provides continually updated quality training that, in principle, is to address all the shops forming the Telefónica Indirect Channel in Spain.

NUMBER OF SUPPLIERS INCLUDED IN TELEFÓNICA MARKET PLACE

| Country | 2002 | 2003 |
|--------------|--------------|--------------|
| Argentina | 79 | 906 |
| Brazil | 225 | 888 |
| Chile | | 200 |
| Spain | 797 | 1,247 |
| Peru | 44 | 161 |
| Mexico | | 30 |
| Total | 1,145 | 3,432 |