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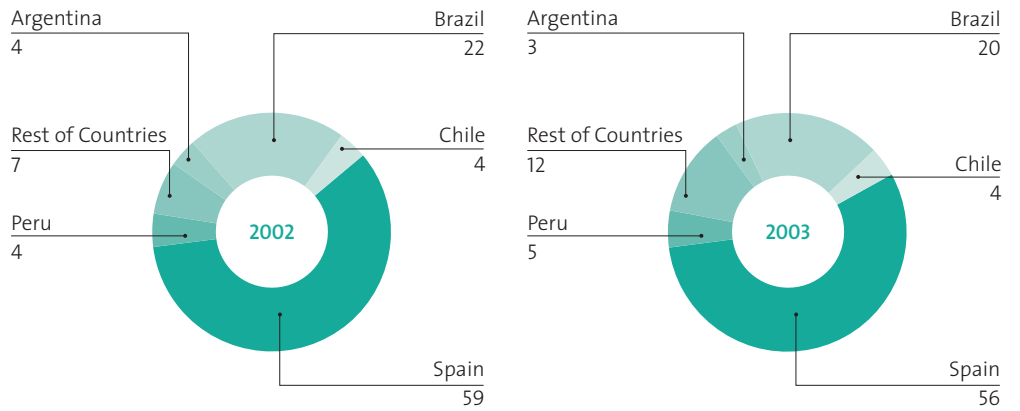
Suppliers: equal opportunities and mutual benefit



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>

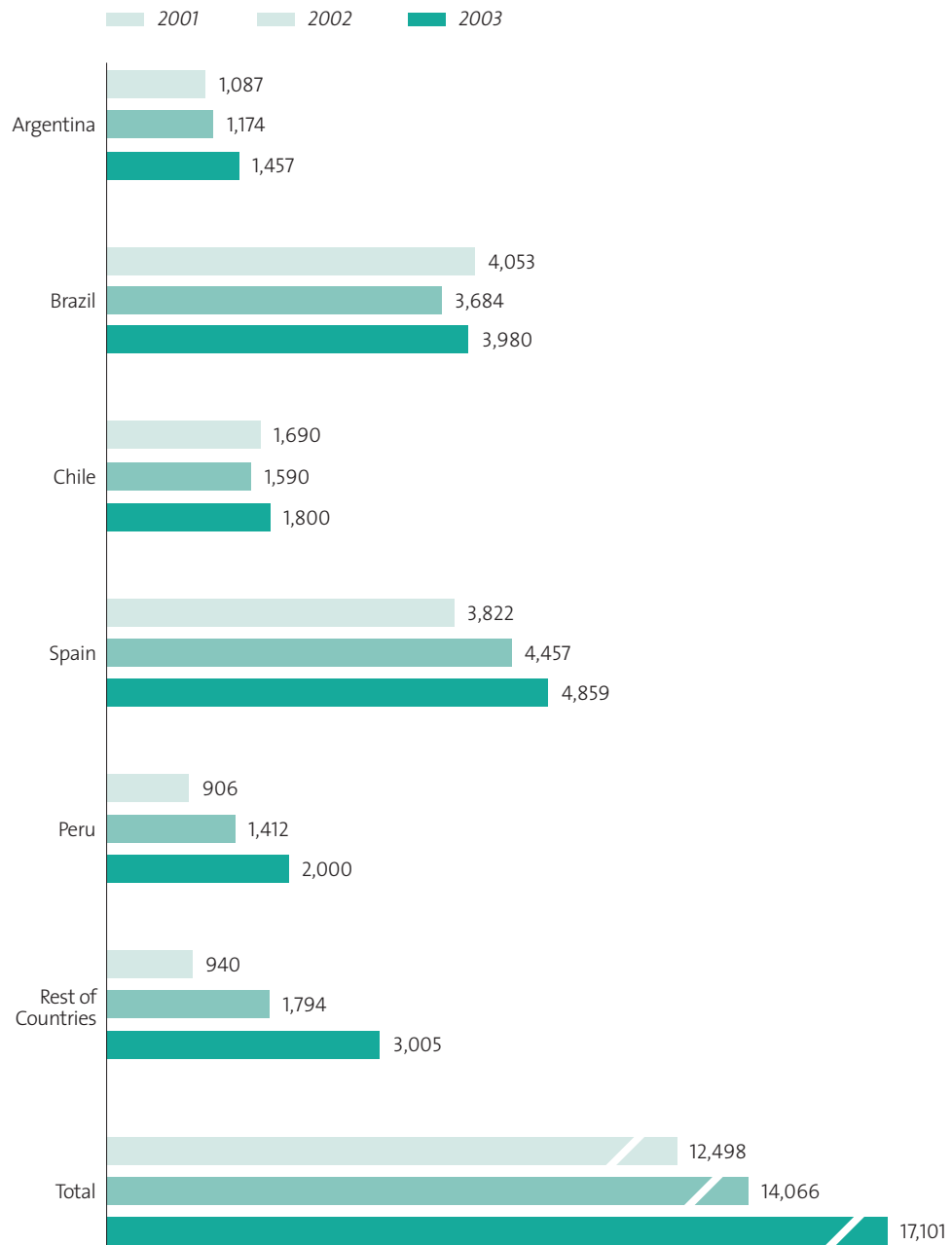
DISTRIBUTION OF PURCHASING VOLUME BY COUNTRIES

(Data in percentages)



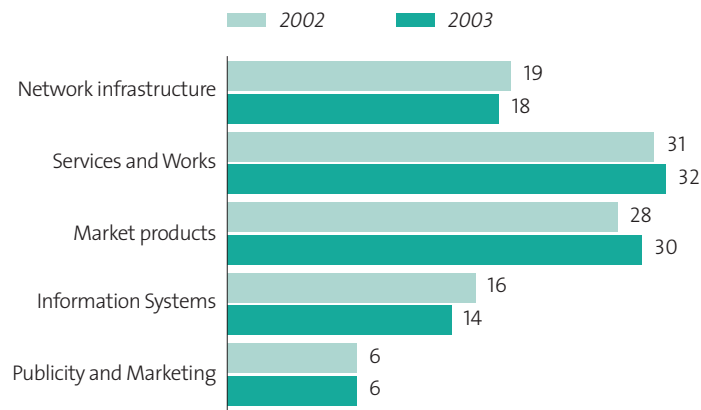
NUMBER OF AWARDEE SUPPLIERS

(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:

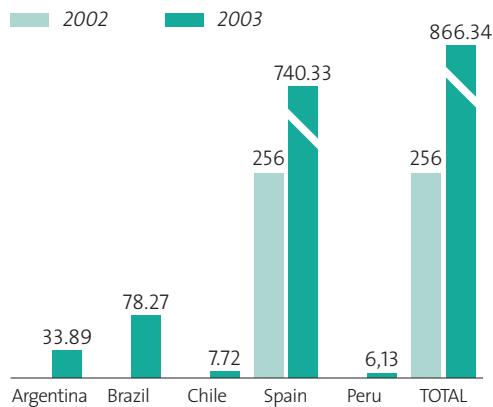
- The possibility of inclusion in the Telefónica Catalogue of Suppliers is available to all those companies interested in working with Telefónica. There were 33,153 suppliers registered in the Telefónica catalogue as possible bidders at the end of 2003.
- All the departments involved in purchasing participate 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

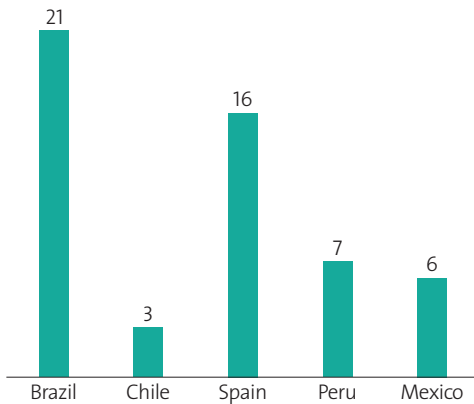
At present, electronic management of bids (*e-sourcing*) for certain products and services is already a reality in Spain, Brazil, Argentina, Chile and Peru. The volume of procurement managed in 2003 through the electronic market of Adquira amounted to 866 million euros, and at the end of 2003 a total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

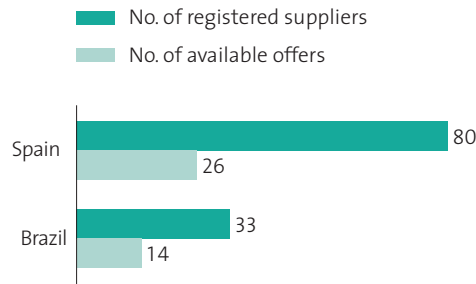
This activity is aimed at:

- 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

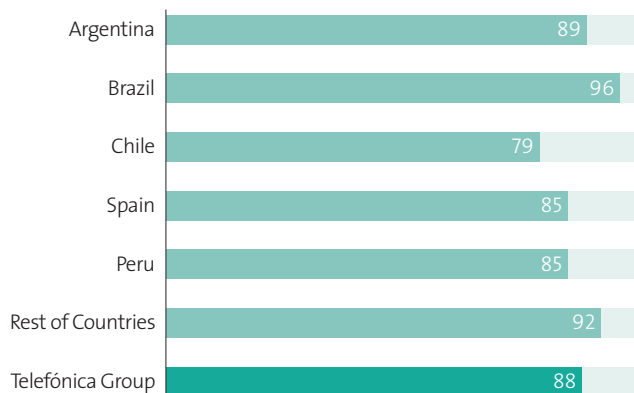
Telefónica de España, in collaboration with Educaterra, has developed a Specific Training Project for the 3,000 Distributors on its Indirect Channel. A new e-learning training project, in which people from outside the Telefónica Group participate for the first time, provides continually updated quality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

**PERCENTAGE OF LOCAL SUPPLIER AWARDEES
PER COUNTRY**

(Data in percentages)



04 SUSTAINABLE DEVELOPMENT OF SOCIETIES

a) Boosting local suppliers

Telefónica is a company that is committed to the economic and social progress of the countries where it is present. That commitment is embodied in the high proportion of contracts with suppliers located in the actual country, who are awarded an average of 88% of the contracts awarded in each territory.

b) Encouraging ethical standards in the supply chain

In addition to demanding fulfilment of current laws on working conditions, safety and hygiene at work or environmental impact in the general conditions for supply of goods, Telefónica contributes to promotion of responsible practices throughout its whole supply chain.

That commitment is made public through adherence to or participation in some of the social responsibility initiatives, that work in greater depth in relation to companies with their suppliers, such as the United Nations Global Compact, or the projects developed by the ETNO (European Telecommunication Network Operators).

Telefónica also participates in the work group on the supply chain, imposed by GeSI (Global e-Sustainability Initiative), that is aimed at the identification and implementation of corporate responsibility initiatives in relation to the supply chain in the telecommunications sector.

b.1. Fulfilment of the current laws

In the General Terms for Supply of Goods to Telefónica S.A and companies in its Group, a document that is sent to the suppliers with the sheet of conditions, they undertake to

fulfil social, labour and environmental obligations. Since 2001, suppliers of goods who apply to be registered in the Catalogue of Suppliers must deliver, among other information, a signed copy of that document.

“The supplier – or subcontractor as appropriate – is bound to fulfil the legal provisions in force at all times concerning labour matters, the Social Security, Safety and Hygiene and Health at work and the Environment.

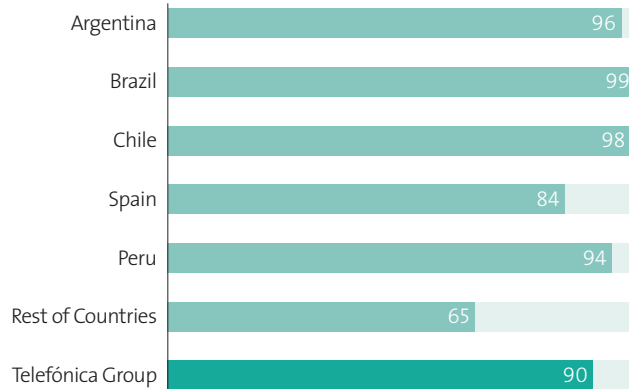
The supplier – or subcontractor as appropriate – hereby undertakes, under exclusive title, the status of principal or employer in relation to the personnel it employs to execute the contract. In this respect, the Telefónica Group is not party to the relations between the supplier and, if appropriate, the subcontractor, and the said personnel; and the supplier guarantees the Telefónica Group absolute indemnity for any liability that may arise from relations with its personnel, and as appropriate, that of the subcontractor.

The supplier undertakes and binds itself to fulfil, exactly and directly, all rights and obligations that are due to and arise from its condition as employer or principal, it bearing exclusive liability for payment of salaries, Social Security contributions, labour accident insurance, Labour Mutual Company fees, etc., as well as each and every social obligation imposed on the principal or employee from time to time by the laws in force, and the supplier also undertakes to require fulfilment of identical obligations by the subcontractor in relation to its personnel.

However, if the supplier breaches those commitments and such breach leads to any liability for the Telefónica Group, the supplier shall be obliged to compensate the amount of such liabilities, including any expenses or judicial costs arising from defence of the Telefónica Group.”

PERCENTAGE OF VOLUME OF PURCHASING
AWARDED TO LOCAL SUPPLIERS BY COUNTRY

(Data in percentages)



b.2. Initiatives exceeding the requisites
of the law

In addition to these corporate initiatives, there are others developed by the different Telefónica companies, such as, for example:

- *Telefónica de España published a guide of Good Operating Practice, aimed at the employees of collaborating companies. Specifically, the guide addresses companies performing installation of products and services at the customer's home and records the need to include environmental criteria in the processes and activities in which personnel from collaborating companies are involved. The guide provides a brief legislative summary concerning waste, its definition and classification (urban, hazardous, electric and electronic appliances), in each case identifying the waste that may be generated in such installations and the correct action to follow in each case. This edition is aimed at creating awareness among people performing such activity at collaborating companies concerning the importance of correct management of waste generated while performing their duties.*
- *Telefónica Móviles España has prepared, with support from the Intercentre Health and Safety Committee, a Contract Co-ordination module, that establishes an accreditation control system for workers at these companies and fulfilment of minimum standards in labour risk prevention. The aim is to ensure*

this series of criteria in prevention matters is taken into account when hiring such suppliers.

- *As a means to incentivise quality among the suppliers, in 2003 Telefónica Móviles España organised the III Edition of the Quality Prizes. The prizes were awarded to collaborating companies classified in three groups: generic collaborators with products and/or services, that includes logistical management of terminals, maintenance and operation of the network and network platforms; collaborators with content for Movistar and e-moción, whether general, premium or technologically innovative, and collaborators with good environmental conduct in relation to the activities carried out for Telefónica Móviles España.*
- *A recommendation was also sent from the Purchasing Department at Telefónica S.A. to the purchasing departments at the companies in the Group, asking them to bear in mind, in the award decision, social aspects such as fulfilment of the Act on Social Integration of the Disabled (LISMI).*

These corporate criteria are for general application, without detracting from the fact that in some countries or companies, other additional ones may be considered. Likewise, in the case of certain products and services, the contracts consider other aspects in addition to those discussed here, which are more directly related to the product or service being bought.