

*Telefonica*

Corporate Responsibility Annual Report 2004



You come first

Corporate Responsibility  
Annual Report 2004

*Telefonica*



# You come first

CORPORATE RESPONSIBILITY ANNUAL REPORT 2004

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# Letter from the Chairman

Dear Friend,

Telefónica would like to take this opportunity to present its Annual Corporate Responsibility Report for 2004. As a further example of our commitment to transparency, this is the third consecutive year in which we have published the most *relevant* information on how the Telefónica Group interacts with its stakeholders. This report is aimed, therefore, at our customers, investors, shareholders, employees, suppliers and to the general public.

In 2004 Telefónica established itself as the third largest telecommunications company in the world in terms of market capitalisation, reached the 122 million-customer mark and set itself the goal to become *the largest and best integrated telecommunications group in the world*. Our aim to be the *biggest* group is inextricably linked with international markets and innovation. To be the *best*, however, we must deliver on excellence and commitment. With this in mind, one of the objectives we have set in our Strategic Plan is to commit ourselves to act responsibly in the societies in which we operate. At Telefónica, we place the same emphasis on *how* we achieve our objectives and financial results as on the actual objectives and results themselves.

In this respect, the Corporate Responsibility Report is more than just an information report; it is a document we can rightly feel proud of. It represents an extraordinary opportunity for the Group to publish data and indicators and reveal, in the process, that behind every indicator lies a management process, a dedicated team of people and solid policies. Above all, however, behind every single piece of information there is a desire for continuous improvement and a series of realities that spur us on to reach even greater achievements.

The first of these realities concerns Telefónica's role as a driving force for the social, technological and economic development of the societies in which it is present. Our business activity generates significant social wealth: business opportunities for suppliers, employment, digital inclusion, education, product and service innovation, and a host of other assets. Although some of these assets are intangible, we have been able to gauge them in this Report using quantitative and qualitative indicators.

The second reality involves our status as a global company and everything that this entails. The values we hold and the key values demanded by society are one and the same. Equal opportunities, diversity and social inclusion are inescapable realities for all companies, and form a vital component in the relationships we enjoy with our stakeholders. Innovation is a lever used to create value both for society and the Company, and we are firmly committed to it. Similarly, solidarity with society is an essential element in any company's operations and which the vast majority of Telefónica employees are wholeheartedly supportive of in this respect. As a global citizen, Telefónica shares the concerns and values of society, having identified with them for many decades now.

The third reality concerns the significance of corporate responsibility itself. For Telefónica, responsibility is but a means of managing its business. By making a positive impact through our business activity we can generate sustainability for all. In our quest to reach the standards that ensure we operate responsibly, this year has seen us make significant progress on two fronts. Firstly, our financial auditor has made improvements in the rigorous verification of the data appearing in this report. Secondly, we have restated our commitment to the Global Compact by applying the Communication on Progress model proposed by the United Nations. This initiative, which we have endorsed and supported for many years, encapsulates what we see as the essence of business responsibility from a global and multidisciplinary viewpoint.

As evidence of our high standards, this Report has been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organization's economic, environmental, and social performance. As we announced twelve months ago, several companies within the Telefónica Group will be presenting their own Corporate Responsibility Reports this year, following the same lines as the overall Group report. This reporting and operating framework was also extended to Argentina, Brazil, Chile and Peru in 2004, helping us to assess the specific contribution made by the Telefónica Group in these countries.





Finally, I would like to draw your attention to the dynamic nature of the information provided in this document. The progress and improvements we make or hope to make in the years to come will be founded on dialogue with our stakeholders; it is our belief that by creating value for our stakeholders we can also create value for the Company as a whole. I would also like to express my sincere gratitude to all those of you who, through your constructive criticism, have helped us to progress. Let there be no doubt that we shall continue to promote corporate responsibility, while striving to enhance the quality of information contained in this year's Report.

Yours faithfully

A stylized, handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the bottom.

**César Alierta**  
*Chief Executive Officer of Telefónica, S.A.*



The Telefónica Group in 2004

## TELEFÓNICA: LEADERSHIP IN FIGURES

**Telefónica is the world leader in the telecommunications sector**, present in Europe, Africa and Latin America, and the main operator in the Spanish and Portuguese-speaking markets.

- At the end of 2004, the number of clients managed totalled 122 million.
- In 2004, it strengthened its presence in Latin America by acquiring BellSouth's mobile operations in 10 countries, adding 15 million new customers.
- Telefónica has over 80 years experience in Spain and 15 in Latin America.

### **Telefónica is a leading company in financial markets**

- It is the world's third largest operator in terms of market capitalisation and the 2nd biggest integrated operator.
- It ranks 5th in the EuroStoxx50 index.
- It has approximately 1.5 million direct shareholders.
- It is listed on the main national and international stock markets.

**Telefónica is the leader in the Spanish and Portuguese-speaking economic and business environment** with a **multi-domestic** orientation, as can be seen from the impact of its activities in 2004:

- It redistributed over 38.973 billion euros among its interest groups, of which 3.851 billion went to employees, 2.949 to

shareholders, 14.914 to suppliers (18.402 including Capex) and 6.302 to public administrations.

- Telefónica's economic activities contribute between 1 % and 2.3% to the GDP in the main countries in which it operates (Argentina, Chile, Peru, Brazil and Spain)
- It is the main foreign investor in Latin America with accumulated investments of over 70 billion euros between 1990 and 2004.
- The Group's consolidated workforce totalled more than 173,000 employees, of which 37% are located in Europe and 62% in Latin America.
- Over 15,000 suppliers around the world collaborate with Telefónica, 92% of which are local suppliers in each country.

### **Telefónica is the technology leader in its sector.**

- During 2004 it invested approximately 2.4 billion euros in technological innovation.
- R&D activities accounted for over 460 million euros of this investment.
- Of the over 1,700 people engaged in the Group's innovation activities, 1,271 are employed by Telefónica I+D, and 491 by other business lines. In addition, 4,139 people were involved in this activity through other collaborating companies (indirect jobs).
- It has 1,787 patents and 1,245 intellectual property rights registered.
- In 2004, Telefónica accounted for 7% of private R&D investment in Spain.



### THE BEST AND BIGGEST INTEGRATED TELECOMMUNICATIONS GROUP IN THE WORLD

Telefónica set itself the target of becoming the world's best and biggest integrated telecommunications group. The best in terms of customer orientation, innovation, operations excellence and the leadership and commitment of its professionals. And the biggest in terms of growth and profitability for shareholders and the integrated operator with the highest market value.

Telefónica's business model is consequently aimed at meeting all of its customers' communication needs, structuring its operations according to the following lines of activity:

- **Fixed telephony and broadband services** in Spain and Latin America. This activity is carried out by *Telefónica de España* and *Telefónica Latinoamérica* respectively. The Group currently has 43.2 million lines in service and 5.02 million data broadband and Internet connections (including Telefónica Deutschland).
- **Mobile and cellular telephony in Spain**, Latin America and the Mediterranean basin. Telefónica Móviles manages this service, which the Group provides to over 78 million clients (including Bellsouth customers) offering voice and data services on the latest generation mobile telephone technologies.
- **Other areas of activity.** Amongst these are *TPI (Telefónica Publicidad e Información)*, which encompasses the Company's telephone directory business in Spain and Latin America as well as Atento, the leading company in customer contact management in the Spanish and Portuguese languages with nearly 75,000 employees.

In addition to these lines of activity, the Group has a series of subsidiaries and institutions that

support the business and which include: Telefónica I+D, the subsidiary that channels the development of new products, services and applications; t-Gestiona, which provides administrative support for the Group and manages non-strategic activities common to the different companies; Telefónica Contenidos, which groups together content production and distribution; Fonditel and Antares, financial insurance, investment and pension fund companies; and Fundación Telefónica (the Telefónica Foundation), which is responsible for promoting the Group's community action and cultural initiatives that benefit less-advantaged sectors in the countries where Telefónica operates.

In addition, a Corporate Centre is responsible for defining the Group's global strategy and corporate policies, managing common activities and creating support policies. With this integrated business company structure, the Group aims to achieve reciprocal growth and to create synergies between the business units.

### ACCELERATE TO INCREASE OUR LEADERSHIP

The desire to become the world's best and biggest integrated telecommunications group is supported by a transformation programme which, with the motto "Accelerate to increase our leadership", is built on five cornerstones: customer orientation, innovation, operations excellence, commitment, leadership in people and a common Group identity.

#### A customer orientated Group

In 2004, Telefónica continued in its quest to become a marketing orientated company, moving from a product-focused business to becoming an integrated Group aiming to satisfy its customers' overall communication needs. To strengthen this approach, motivate the entire organisation and transform the work culture, various initiatives have been promoted in the

business units such as “Meta: Cliente” in Telefónica de España or “Compromiso Cliente” in Telefónica Latinoamérica.

Telefónica’s challenge is to turn technology into accessible solutions and services that are clear and relevant benefits for the customer. Accordingly, the group intends to effectively take advantage of the eight million daily contacts it has with its customers to become better acquainted with their requirements and anticipate their needs, improving the service and product offering, and the sales and distribution channels.

Telefónica has identified four major business segments for organising and strengthening business activities:

- Individuals
- Households
- Small and Medium-sized Enterprises
- Large Corporations and Public Administrations

With this strategy, Telefónica is seeking to reach 165 million customers by 2008, and to strengthen loyalty and investment through premium added services.

### **Innovation**

For Telefónica, innovation is the process that turns ideas into profitable products and services and/or into improved procedures. To foster this, the Company has created a group that is exclusively engaged in monitoring and ensuring that innovation is extended from the field of technology to the different processes in the value chain, including the area of marketing.

This is centred on meeting customer’s needs and the Group’s strategy will involve alliances with other leaders in the communications sector, a target plan for its workforce professionals and, finally, periodic communications with the investment community.

During 2004, the Telefónica Group invested close on 2.4 billion euros in R&D&I, evenly distributed between Spain and Latin America according to OECD criteria for technological innovation. Of this amount, over 460 million was invested in purely R+D activities.

### **Operational excellence**

The Group has set a target date of 2008 to accomplish what has been coined *Telefónica Excelente*, a company with the highest customer satisfaction ratings in the sector, a more efficient and flexible company, and with more motivated and dynamic professionals. Achieving these objectives requires working on three key levers:

- services and customer service: creating products and services that are targeted at satisfying customers, optimising service parameters, providing fast and effective service, promptly repairing break downs and error-free invoicing.
- management of financial and human resources: continuously increasing productivity and wisely choosing investments.
- tools to achieve this: technology, systems, processes and organisation.

The combination of efficiency, quality and motivation will enable Telefónica to enter a new stage of excellence, which will be fully customer orientated.

### **Leadership and the commitment of people**

Telefónica’s leadership begins with the commitment of each and every one of the Group’s 173,000 professionals around the world.

To achieve this, Telefónica has strengthened its value proposal to its professionals, targeted at making Telefónica a company of which its

employees can be proud, a company “of and for” the people, where a relationship of trust predominates, where each person’s effort is justly rewarded and everyone has opportunities for professional and personal growth.

To foster this process, several initiatives have been implemented that are focused on four key areas: clarity, remuneration policy, professional development and exemplary conduct. With the objective of measuring the impact of these plans on employees, employee satisfaction studies have been conducted in all of the Group’s companies.

### **Corporate Identity and Communication**

Since it was founded 80 years ago, Telefónica’s identity has been shaped by its management as a private company (it has been listed on the Stock Exchange since 1925), its focus on operating efficiency, innovation and exploitation of opportunities, such as its entry into Latin American markets.

Telefónica must reinforce its positioning as an integrated group, as a single company with shared values and a common identity. This is the basis for accomplishing its objective of becoming the world’s best and biggest integrated telecommunications group.

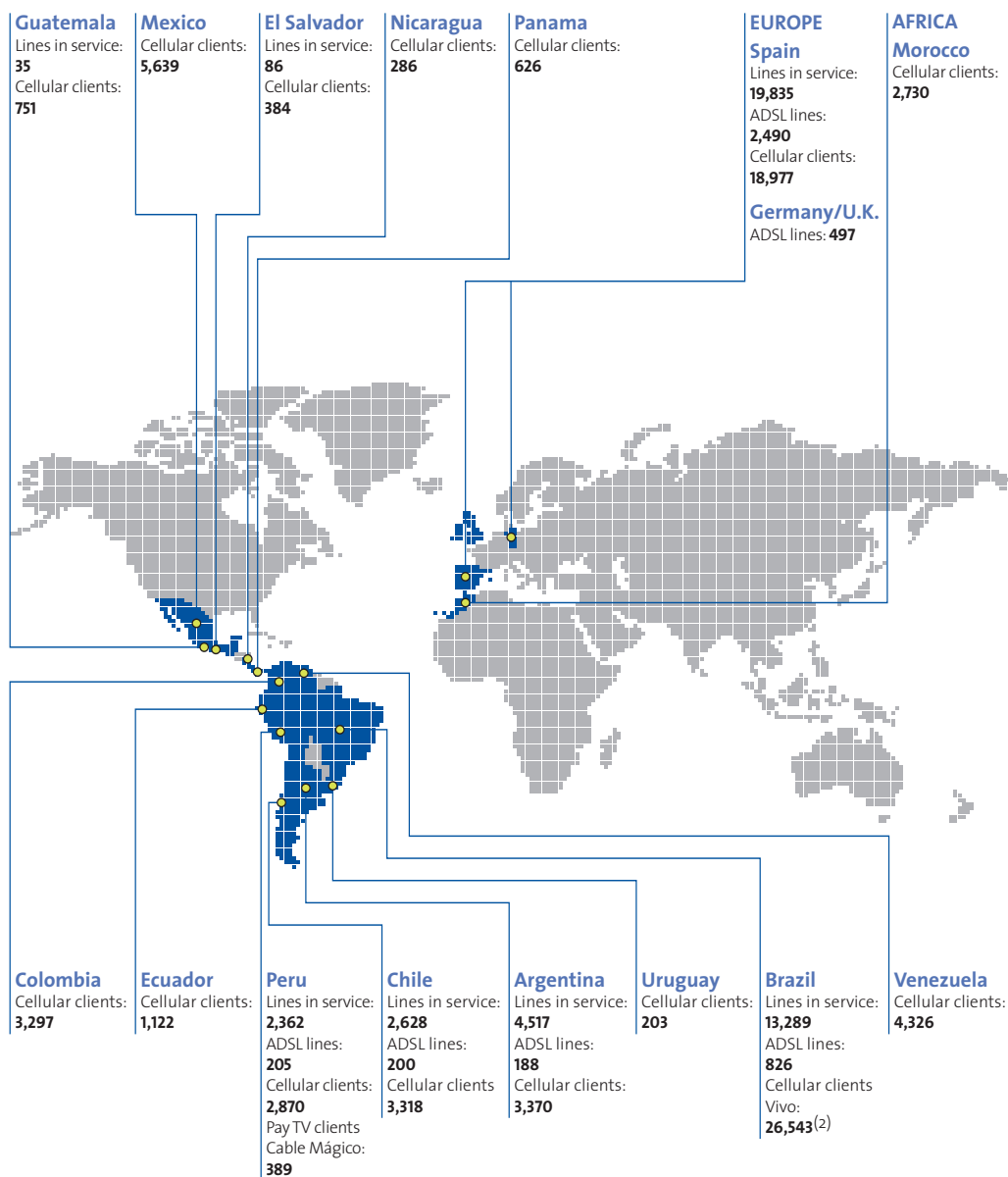
Telefónica has implemented a Corporate Communications Plan in order to transfer its strategic vision to the entire workforce. An important part of this plan is the role of management as the main communication channel between the company and its employees, a role that is reinforced by the Group’s internal communication channels.

### **A COMMITTED AND RESPONSIBLE GROUP**

In order to become the world’s best and biggest integrated telecommunications group, Telefónica has set itself the task of becoming

*the trusted operator for all those with whom it interacts: customers, employees, shareholders and society as a whole.* And Telefónica views trust as the result of fulfilling all of the commitments it undertakes and maintaining close ties to all involved.

- Firstly, the Group has taken on a commitment to corporate governance and transparency. For this purpose, both Telefónica SA and all of its subsidiaries publish annual Corporate Governance reports, highlighting the general principles of Corporate Governance. As proof of this commitment, Telefónica won the Spanish Company Award for the Best Financial Information on the Internet in 2004.
- Secondly, the Group also has a commitment to Corporate Responsibility. For Telefónica, being a responsible company involves doing what one has to do well. This commitment, in addition to effective business management, involves commitment to the employees, respect for the environment, equal opportunities, greater social integration and belonging, bridging the digital gap...in a word, in playing its role as a driver in the economic, technological and social development of the society in which it operates. As a result of these activities, Telefónica is now listed on the Dow Jones Sustainability Index.
- Thirdly, the Group is committed to being a supportive company. In this respect, Telefónica is firmly committed to the less-advantaged sectors of society. The Telefónica Foundation is responsible for channelling community and cultural action initiatives in Spain, Brazil, Argentina, Chile, Mexico, Peru and Morocco and annually publishes details of its activities in this field. In 2004, over 26 million people benefited directly from the social and cultural programmes undertaken by the Telefónica Foundation.

**TELEFÓNICA GROUP MARKET SIZE***(Data in thousands, December 2004<sup>1</sup>)*

1. Lines in service include ADSL lines

2. Joint Venture with 50% share with Portugal Telecom



# We wish to be the best and largest integrated

## in profits

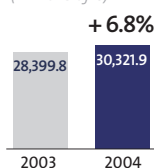
2004 saw the company post record profits...

**+30.6%** Net profit

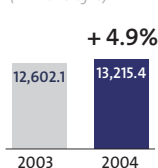
**+25.0%** Dividend

**3,771.9** billion in investment

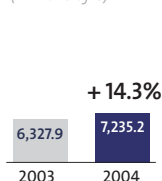
**Revenue**  
(Millions of €)



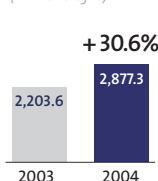
**EBIDTA**  
(Millions of €)



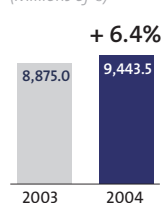
**EBIT**  
(Millions of €)



**Net Profit**  
(Millions of €)



**OpCF**  
(Millions of €)

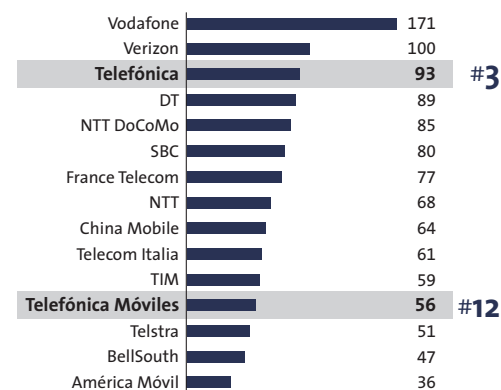


## in the markets

...moving up from **7<sup>th</sup>** to **3<sup>rd</sup>** in the market capitalisation ranking...

### WORLD RANKING BY MARKET CAPITALIZATION

Billions of US dollars (at 25th February 2005)



**93,000** m\$ in market capitalization

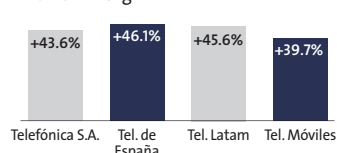
**3<sup>rd</sup>** Company in terms of market capitalization in our sector

**5<sup>th</sup>** European company in terms of market capitalization

## in efficiency

...with the best efficiency ratios in the sector...

**EBITDA Margin**

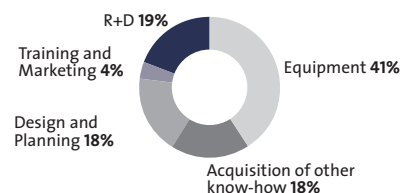


## in innovation

...with an investment of

**2,398** Million €

in R+D+i...

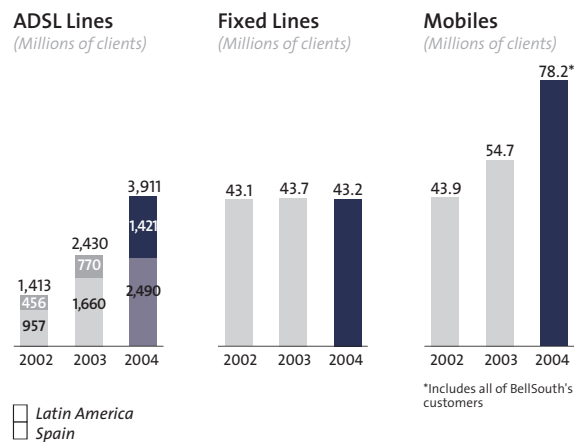


# telecommunications group in the world...

## in our customer base

...with over **122** million clients worldwide...

Increase of **+26.4%**



## in shareholders remuneration

...with one of the best investment options...

**22.7%** total return in 2004

**+25%** Dividend

+

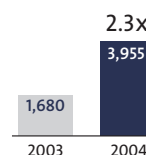
Distribution of treasury stock at a ratio

**1x25**

+

Buyback plan up and running

**Shareholder Remuneration**  
(Millions of €)



# Highlights 2004

## in development of societies

...with a generated income by the group of

**38,973** Million € which represents

**1.8%** GNP of the countries...

## in employees

...with over **173,000** and

**9,000,000** training hours.

# 01

## Corporate governance

01/01

## ownership

Telefónica belongs to over one and half million shareholders and is listed on twelve stock exchanges

## NUMBER OF SHARES

**4,955**

*million shares*

01/02

## corporate governance in the Telefónica Group

Telefónica fulfils all of the main international recommendations on corporate governance

## BOARD OF DIRECTORS

No. of Directors

**5** Executive Directors

**6** Proprietary Directors

**8** Independent Directors

*Telefonica*



## SHAREHOLDERS WITH SIGNIFICANT STAKES (01-1)

Name or corporate name of shareholder	Number of shares held directly	Number of shares held indirectly	% Total share capital
Caja de Ahorros y Pensiones de Barcelona <i>La Caixa</i>	92,380,486	174,095,736	5.377
Banco Bilbao Vizcaya Argentaria, S.A.	89,027,259	194,997,590	5.731

## 01 OWNERSHIP

Telefónica's fully subscribed and paid-up share capital is comprised of 4,955,891,361 ordinary shares of one euro nominal value each, of a single class and series, represented by book entries.

In accordance with the information existing at the Company, there is currently no individual nor legal entity that exercises, or may exercise control directly or indirectly, individually or jointly, over Telefónica. There are, however, certain shareholders with significant stakeholdings: Caja de Ahorros y Pensiones de Barcelona *La Caixa* and Banco Bilbao Vizcaya Argentaria *BBVA*.

## 02 CORPORATE GOVERNANCE IN THE TELEFÓNICA GROUP

## a) Principles of Corporate Governance

The basic corporate governance regulations of Telefónica are set out in the Company By-laws, in the Regulations of the General Shareholders' Meeting and in the Regulations of the Board of Directors. The Regulations of the General Shareholders' Meeting establishes the principles of organization and operation of this corporate body. Likewise, the Regulations of the Board of Directors, as the founding rules of corporate governance for the Company, determine the principles guiding the actions of the Board of Directors, regulate its organization and operation and establish the rules of conduct for its members.

In accordance with the foregoing, and as the basis of the governance structure of Telefónica, the Regulations of the Board of Directors of the Company determine the fundamental principles that guide its actions:

- **With respect to corporate interest.** The Board of Directors executes its functions in

accordance with the corporate interest, understood as the Company's interest, and, in this respect, acts to guarantee the long term viability of the Company and maximise its value, whilst taking into account the plurality of legitimate public or private interests that converge in the execution of all business activities.

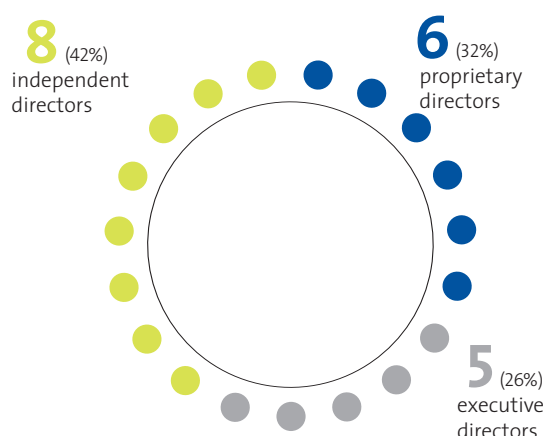
- **With respect to its shareholders.** The Board of Directors, as the liaison between the shareholders and management and must set up the necessary channels to be aware of the suggestions put forward by shareholders with respect to the corporate management. The Board of Directors also undertakes to guarantee equal treatment in its relations with shareholders.
- **With respect to the market.** The Board undertakes to execute the acts and take the necessary measures to ensure the Company's transparency in financial markets, and to promote correct formation of the Company's share prices, particularly avoiding manipulation and abuse of privileged information.

## b) The Board of Directors

The Regulations of the Board of Directors establish this as a basically supervisory body controlling the Company's activity, while entrusting the day-to-day management of the business to the executive bodies and the management team. Moreover, and in keeping with the provisions of these Regulations, those powers that are legally or statutorily reserved for the Board of Directors may not be delegated, nor may any others necessary for the responsible performance of its basic supervisory and control duties.

In accordance with the foregoing, and within the scope of its duties of supervision and control, the Board of Directors determines the strategies and directives for the Company

## COMPOSITION OF THE TELEFÓNICA BOARD OF DIRECTORS (01-2)



management, establishes the basis for corporate organization to ensure the maximum efficiency of the same, implements and oversees the suitable information procedures to report Company information to shareholders and the markets in general, makes decisions regarding business and financial transactions of particular importance to the Company and approves the bases of its own organization and operation to ensure the optimal fulfilment of these duties.

The Board of Directors of Telefónica is currently comprised of nineteen Directors, of which 5 are Executive, 6 are Proprietary and 8 are Independent.

#### c) Board of Directors Executive Committee

Subject to the legislation in effect, the Board of Directors has expressly delegated all of its powers and attributes, save those that may not be legally or statutorily delegated, to an Executive Committee with general decision-making powers.

The relationship between the Board of Directors and its Executive Committee are based on the principle of transparency, such that the Board is always fully aware of the decisions adopted by the Committee. Thus, the Board of Directors is informed at each of its sessions of all the resolutions adopted by the Executive Committee, distributing a summary of the minutes of the Committee sessions for this purpose to all the Board members, which then proceeds to ratify the aforementioned resolutions.

The Executive Committee is currently comprised of 8 Directors: 3 Executive Directors, 3 Proprietary Directors and 2 Independents.

#### d) The Board of Directors Consultative or Control Committees

The Regulations of the Board of Directors of Telefónica empower this body to constitute one

or more consultative or control Committees entrusted with the continual study and monitoring of an area of particular relevance for the Company's good governance, or for the monographic analysis of certain significant aspects or issues where such study is appropriate. The aforementioned Committees are not corporate bodies, but rather are structured as instruments to serve the Board of Directors, which receives the conclusions reached in the matters and issues the Committees are instructed to study.

The Board of Directors of Telefónica has created the consultative or control Committees recommended by the *Olivencia Code*: an Audit and Control Committee (established in 1997), and a Nominating, Compensation and Corporate Governance Committee, with the competencies attributed in the above mentioned Code. Also in keeping with this Code, these Committees are comprised solely of external Directors.

Furthermore, the Board has deemed it appropriate to establish four additional consultative committees: the Human Resources and Corporate Reputation Committee, the Regulation Committee, the Service Quality and Customer Service Committee and the International Affairs Committee.

#### e) Directors

##### Appointment

Proposals for appointment of Directors always respect the provisions of the Regulations of the Board of Directors and are preceded by the relevant favourable report from the Nominating, Compensation and Corporate Governance Committee.

##### Right and Obligations

Pursuant to the recommendations set out in the *Olivencia Code* and in the *Aldama Report*, and in compliance with the *Transparency Act*, the Regulations of the Board of Directors

## BOARD OF DIRECTORS COMMITTEES IN TELEFÓNICA (01-3)

Board of Directors Committees	Non-executive Directors	Executive Directors	Nº of sessions 2004
Executive Committee	5	3	21
Audit and Control	4	-	11
Nominating, Compensation and Corporate Governance	4	-	10
Human Resources and Corporate Reputation	4	-	6
Regulation	3	1	10
Service Quality and Customer Service	3	1	4
International Affairs	4	1	6

specifically devotes its title V, comprised of nine articles, to the detailed description of the rights and obligations of Directors. This title sets out the duties arising from the obligations of diligence, fidelity and loyalty of Directors and, in particular, envisages situations of conflict of interest, the duty of confidentiality, the exploitation of business opportunities and the use of corporate assets.

Furthermore, the Regulations of the Board of Directors also includes the right of Directors to obtain the information and counsel necessary to perform their duties, as well as the establishment of the suitable channels for the exercise of such rights. In this respect, the Company has adopted the measures required to ensure that Directors are furnished in a timely manner with sufficient information specially drawn up to this effect, addressed at preparing for the sessions of the Board and its Committees.

#### Remuneration Policy

In terms of the remuneration policy for Directors, such policy is proposed, evaluated and reviewed by the Nominating, Compensation and Corporate Governance Committee, always in keeping with criteria of moderation. The Company furnishes individualized information each year regarding the remuneration paid for offices and posts on the Board of Directors in the Company *Annual Report*. In addition, in line with the Aldama Report, external Directors do not participate in remuneration systems linked to the market price of the Company shares.

#### f) The General Shareholders' Meeting

The principles of organization and operation of the General Shareholders' Meeting of are established in a set of Regulations, approved by the Meeting itself at its session on 30 April 2004. The primary objective of the Regulations of the General Shareholders' Meeting of Telefónica is to offer shareholders a framework that guarantees and facilitates the exercise of

their rights in relation to the sovereign governing Company body, with special emphasis on the shareholders' right to information and their participation in deliberations and voting, endeavouring to ensure maximum diffusion of the call and the proposed resolutions submitted to the General Shareholders' Meeting.

Above and beyond the requirements established in the current legislation, amongst the specific measures included in the Regulations of the General Shareholders' Meeting established with a view to facilitating shareholders' attendance and participation in the Meeting, are the following:

- From the date of publication of the call, posting on the Company website of all the information the Company deems appropriate for the aforementioned purpose, in addition to the documentation envisaged by law.

Through the website, shareholders may access the aforementioned documentation and information directly, or may request that such information be sent to them free of charge using the mechanisms set up on the website itself when a Meeting is called.

- Submission of suggestions from shareholders. The shareholders may, at any time and with prior accreditation of their identity as such, make suggestions related to the organization, operation and competency of the General Shareholders' Meeting through the Shareholder Information Office.

Likewise, through this office shareholders may request any type of information, documentation or clarifications they may require in relation to the General Shareholders' Meeting, either through the Company website or by telephone, using the toll-free line set up for this purpose.

## COMPOSITION OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A AND ITS DELEGATE COMMITTEES (01-4)

BOARD OF DIRECTORS	Executive Committee	Audit and Control	Nominating, Compensation and Corporate Governance	Human Resources and Corporate Reputation	Regulation	Quality of Service and Customer Service	International Affairs	Executive	Proprietary	Independent
<i>Directors</i>										
Mr. César Alierta Izuel ( <i>Chairman</i> )	■							■		
Mr. Isidro Fainé Casas ( <i>Vice Chairman</i> )	■								■	
Mr. José Antonio Fernández Rivero ( <i>Vice Chairman</i> )		■			■				■	
Mr. Fernando de Almansa Moreno-Barreda							■			■
Mr. Jesús María Cadenato Matía	■								■	
Mr. Maximino Carpio García	■	■	■							■
Mr. Carlos Colomer Casellas	■					■				■
Mr. Alfonso Ferrari Herrero			■	■			■			■
Mr. José Fonollosa García									■	
Mr. Gonzalo Hinojosa Fernández de Angulo		■				■				■
Mr. Miguel Horta e Costa										■
Mr. Pablo Isla Álvarez de Tejera			■	■						■
Mr. Luis Lada Díaz						■	■	■		
Mr. Antonio Massanell Lavilla		■		■		■			■	
Mr. Enrique Used Aznar				■	■		■			■
Mr. Mario E. Vázquez								■		
Mr. Antonio Viana-Baptista	■							■		
Mr. Gregorio Villalabeitia Galarra	■		■		■		■		■	
<i>Secretary to the Board</i>										
Mr. Antonio Alonso Ureba	■				■			■		
<i>Vice Secretary to the Board</i>										
Mr. Ramiro Sánchez de Lerín García-Ovies		■			■					

■ *Chairman of the Commission*   ■ *Member of Commission*   ■ *Director Condition*

• **Audit and Control Committee**

Assists the Board of Directors in its supervisory duties, specifically in the preparation of financial information, relations with the Company Auditor and its work, and the internal Company control systems.

• **Nominating, Compensation and Corporate Governance Committee**

Ensuring the integrity of the selection processes of Directors and high-ranking officers, advising the Board to determine and supervise of remuneration of directors and high-ranking officers. Likewise it performs duties in the sphere of corporate governance.

• **Human Resources and Corporate Reputation Committee**

Its duties are to analyse, inform and propose the adoption of the appropriate measures regarding human resources policies and to promote the Corporate Reputation project and the implementation of the core values in this field.

• **Regulation Committee**

This committee is responsible for analysing the foremost regulatory issues affecting the Group at any given moment in time, and serves as a channel for communication and information between the management team and the Board of Directors in regulatory matters.

• **Service Quality and Customer Service Committee**

This body is entrusted with the analysis and monitoring of the level of quality in the main services rendered by the Group companies, as well as the quality of the customer service provided.

• **International Affairs Committee**

This committee studies the international affairs that affect the Group, placing special emphasis on institutional relations in the countries in which the Group companies operate, as well as on the programs for actions undertaken by the various Company Foundations in those countries.





# 02

## Intangible assets

02/01

corporate  
values

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

**27** instances of public recognition

02/02

## brand

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

**TELEFÓNICA'S BRAND ARCHITECTURE MODEL**

**10** essential principles

02/03

corporate  
responsibility

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

**7** subsidiary corporate responsibility reports  
**4** country corporate responsibility reports

02/04

institutional  
presence

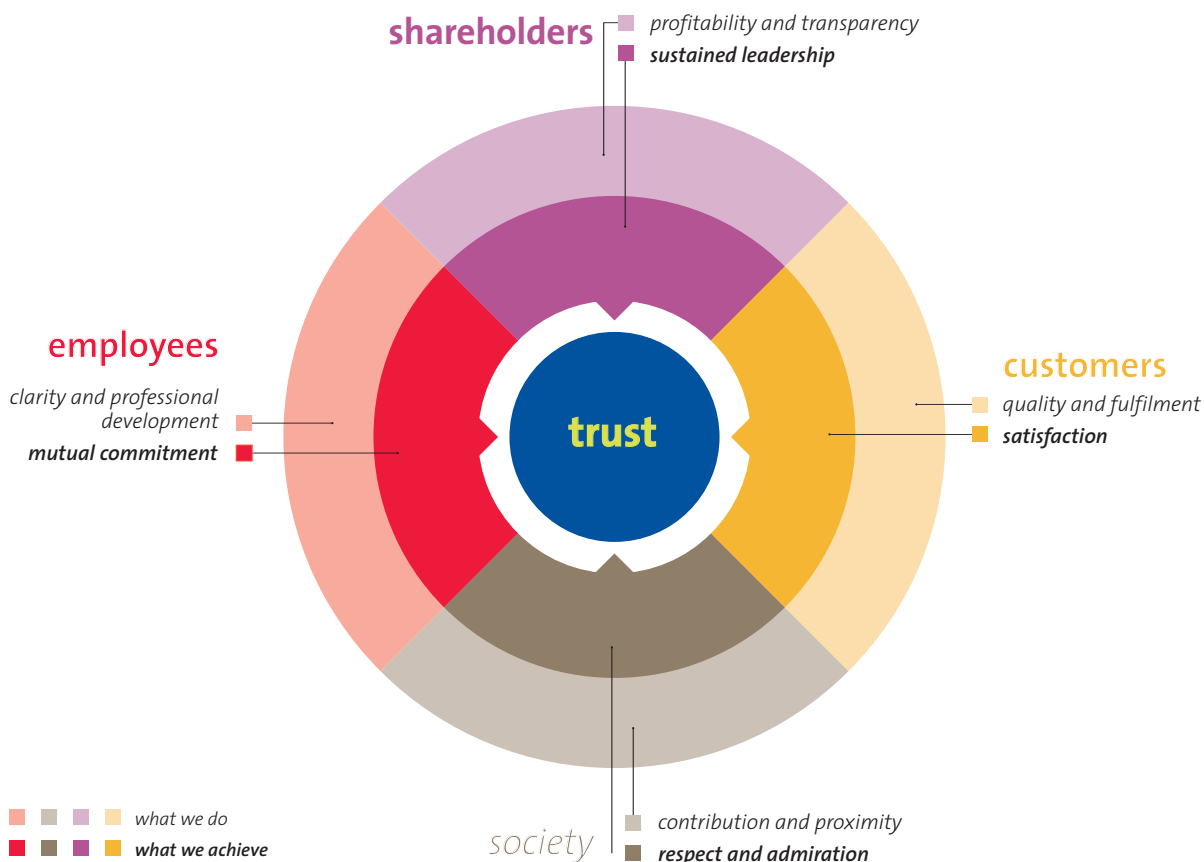
Channelled through sponsorships, forums, conferences and participation in international bodies

**515** sponsorships



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

## THE VALUES OF THE TELEFÓNICA GROUP (02-1)



#### With our shareholders and investors

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

#### With our customers

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

#### With our employees

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

#### With society

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

## 01 VALUES: CONFIDENCE IN MEETING COMMITMENTS

### a) The Values of the Telefónica Group

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

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

### b) Recognition of the commitments fulfilled.

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

#### Argentina

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

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

#### Brazil

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

#### Spain

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



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

#### Morocco

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

#### Peru

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

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

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

#### Mexico

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

## 02 THE BRAND: A KEY TO REACHING OUR GOAL

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

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

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

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

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

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

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

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

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

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

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

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

#### The new Brand Strategy and Architecture reinforce the business goal established

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

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

#### The Role of the Master Brand

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

#### The Role of the Commercial Brands

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

#### Brand Family System

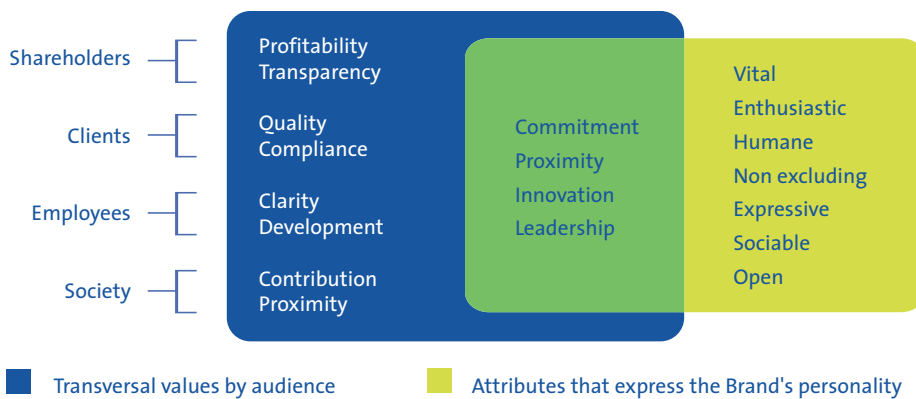
The brands coexist through the *family system* in a solid, inseparable relationship. This is not *co-branding*; it is a new system that favours the feedback of values amongst the Group brands.

### ESSENTIAL PRINCIPLES IN THE TELEFONICA GROUP BRAND STRATEGY AND ARCHITECTURE MODEL

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

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

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



### Brand Strategy and Architecture Principles

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

#### Identity

##### a. Corporate Values

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

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

##### b. Brand attributes

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

##### c. Telefónica's positioning

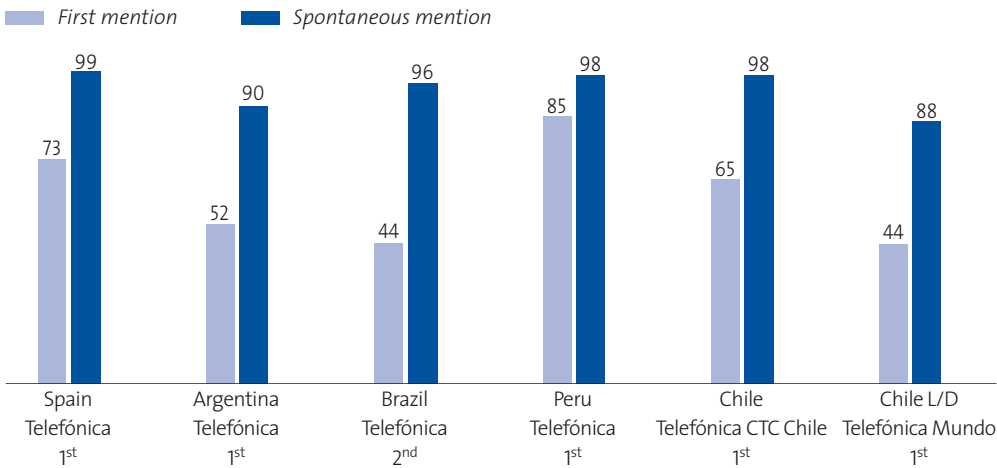
Telefónica's paramount goal is to understand and meet the needs of the people with whom it interrelates.

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

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

- 6 The commercial brands add freshness to the Telefónica brand
- 7 The commercial brands communicate simply and clearly
- 8 Products are not commercial brands
- 9 Telefónica and its commercial brands co-exist within a system
- 10 The system of co-existence ensures coherency in the values and messages underlying the commercial brands and Telefónica

**BRAND AWARENESS IN FIXED TELEPHONY\* (02-4)**  
(Data in percentage)



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

**d. Tone of voice**

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

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

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

**Graphics Coordination System**

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

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

**Brand Management**

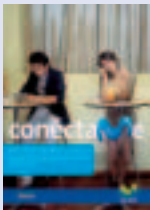
The objective of brand management is to enhance the value of one of the company's most valuable assets, its brands, and to ensure their soundness and coherency at each point of audience contact.

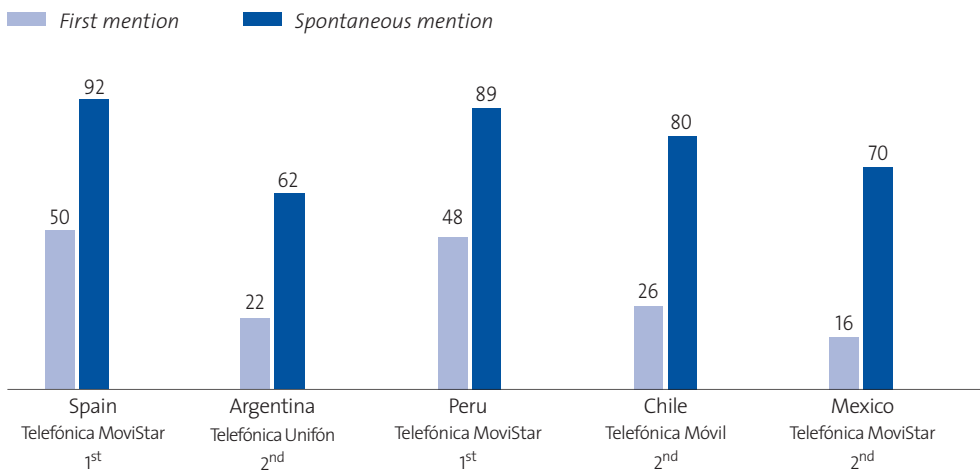
**CASE STUDY**

**TELEFÓNICA BRINGS YOU MOVISTAR (02-6)**

**Movistar, the first piece in the system**

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



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

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

**Brand Committee**

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

To this end, the Committee has full authority:

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

**Brand Portfolio Management System**

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

**Tools for Measuring Brand Strength**

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

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

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

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



### 03 CORPORATE RESPONSIBILITY: MANAGEMENT PRINCIPLES

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

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

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

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

#### a) Proactive risk management

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

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

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

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

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

#### b) Flexibility and adaptability

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

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

The principles are based on three broad lines:

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

**CORPORATE RESPONSIBILITY PORTAL (02-7)**

(www.telefonica.es/responsabilidadcorporativa)



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

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

**c) Relations with stakeholders**

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

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

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

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

**INTERNATIONAL INITIATIVES*****The United Nations (UN).***

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

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



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



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

- Also promoted by the UN's Global Compact, the *Global Responsibility Initiative* brings together companies and academic organisations with a view to analysing management models in relations with stakeholders. The initiative is being run by the *European Foundation for Management Development* (EFMD) and seeks to become a catalyst for research and analysis into the many corporate social responsibility programmes currently being implemented in the academic and business world.
- Telefónica also helped – following the request of the *Office of the High Commissioner for Human Rights* – draft of the report entitled *Responsibilities of Transnational Corporations and Other Business enterprises with Regard to Human Rights*, and took part in the consultation process preceding it.

#### ***The European Union***

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

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

#### ***The Global Reporting Initiative (GRI).***

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

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

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

#### ***The International Chamber of Commerce (ICC).***

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

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

#### ***The Global e-Sustainability Initiative (GeSI).***

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

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



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



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

#### ***European Telecommunication Network Operators (ETNO).***

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

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

#### ***The Latin American Association of Research Centres and Telecommunication Companies (AHCET).***

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

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

#### ***The Reputation Institute***

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

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

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

#### **SPANISH INITIATIVES**

#### ***The Spanish Confederation of Employers (CEOE).***

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

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

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



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

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

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



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

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

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



#### The Corporate Reputation Forum (FRC)

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

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

#### d) The creation of sustained value for all stakeholders

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

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

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

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

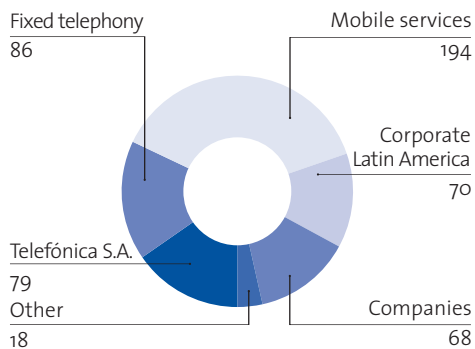
- Telecommunications and Disability (07).
- Management of Responsible Purchasing in the Telefónica Group (09).
- Analysis of the impact of telecommunications on sustainable development (08).
- Minimum environmental requirements in the Telefónica Group (08).
- Uniform workplace environment indicators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

#### e) Transparent information

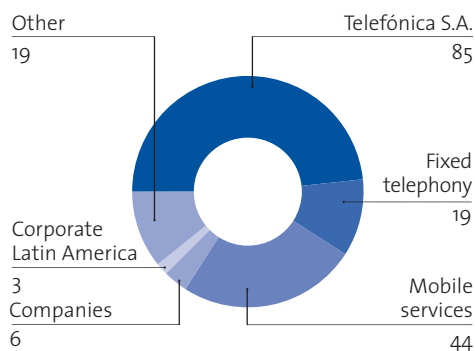
The Telefónica Group is firmly committed to providing transparent information on its impact on the various stakeholders, its goal being to bring to light the value of the Company to its customers, shareholders, employees, suppliers, the media, the environment and society as a whole. As a result, it provides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

**BREAKDOWN OF COMMERCIAL SPONSORSHIP BY BUSINESS LINES 2004 (02-9)****COMMERCIAL**

(Data in units)

**INSTITUTIONAL**

(Data in units)



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

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

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

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

**04 INSTITUTIONAL PRESENCE**

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

**a) Sponsorships**

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

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

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

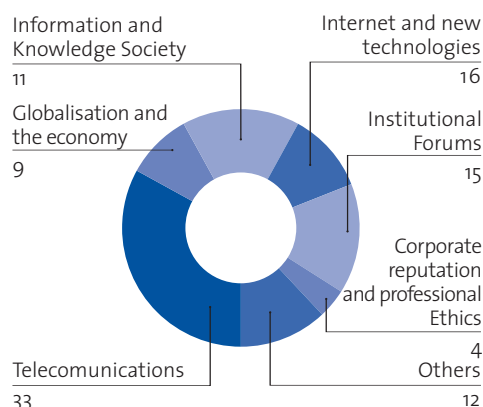
Telefónica's institutional sponsorships are related to those activities and events where its presence as an institution is the most relevant. In terms of institutional sponsorships, Telefónica gave its support to the following events in 2004:

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



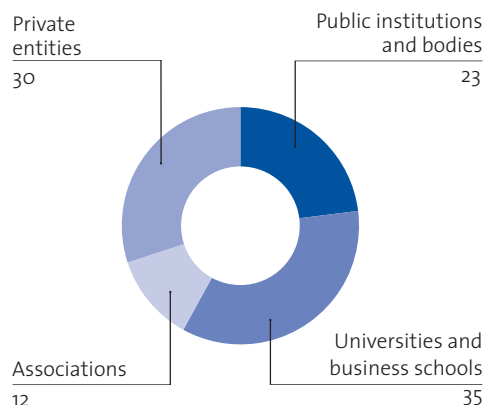
### MOST RELEVANT TOPICS OF THE FORUMS SPONSORED AND PARTICIPATED IN DURING 2004 (02-10)

(Data in percentage)



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

(Data in percentage)



### b) Forums and Conferences

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

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

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

### c) Collaboration with International Bodies

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

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

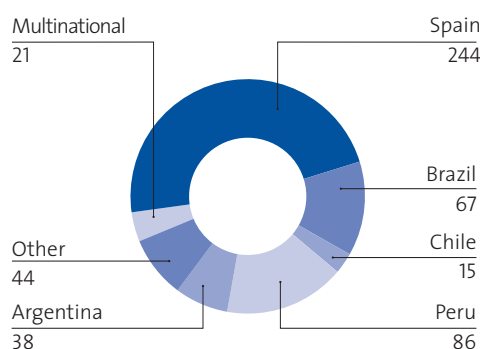
**International associations and bodies operating in or influencing the sector and in which Telefónica is present:**

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

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

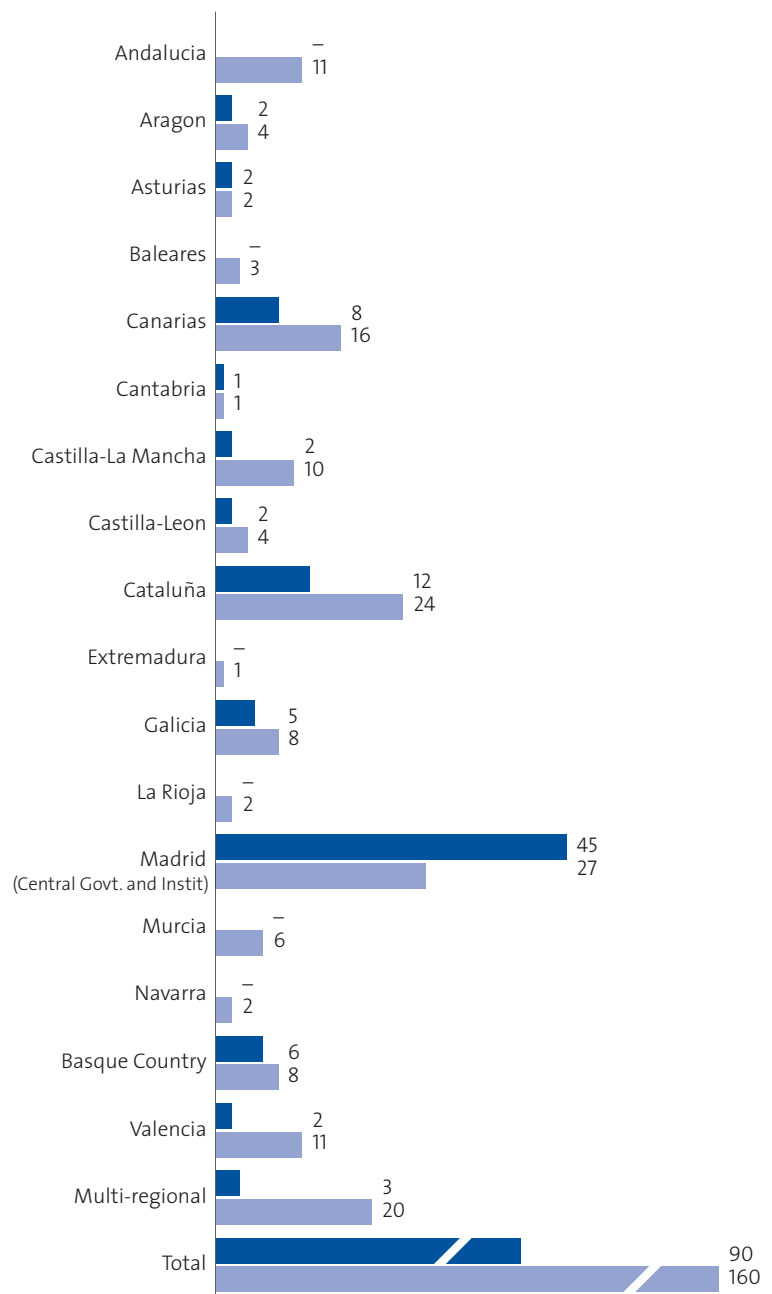
### BREAKDOWN OF SPONSORSHIPS BY COUNTRIES 2004 (02-12)

(Data in units)



**BREAKDOWN OF SPONSORSHIP BY SPANISH REGIONS (02-13)***(Data in units)*
■ Institutional Sponsorships
 ■ Commercial Sponsorships

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





03

Innovation

03/01

technological  
innovation  
model

Innovation is one of the key transforming elements in the Telefónica Group

## INNOVATOR CLUB

1,049

*ideas channeled through Idealab*

03/02

innovation in  
the Telefónica  
Group

Telefónica applies OECD criteria to determine its investment in R+D+I

TECHNOLOGICAL  
INNOVATION

2,398

*millions of euros in 2004*

03/03

Telefónica  
I+D

Telefónica I+D is the primary innovation agency in the Group, with presence in Spain, Brazil and Mexico.

**1,660** projects  
**1,271** professionals  
**240** new products

03/04

Innovation  
results

The goal of technological innovation is to make the best possible solutions available to meet our customers' needs

NEW PRODUCTS  
AND SERVICES IN SPAIN

255

03/05

information  
systems

These provide support and a competitive advantage to corporate business processes

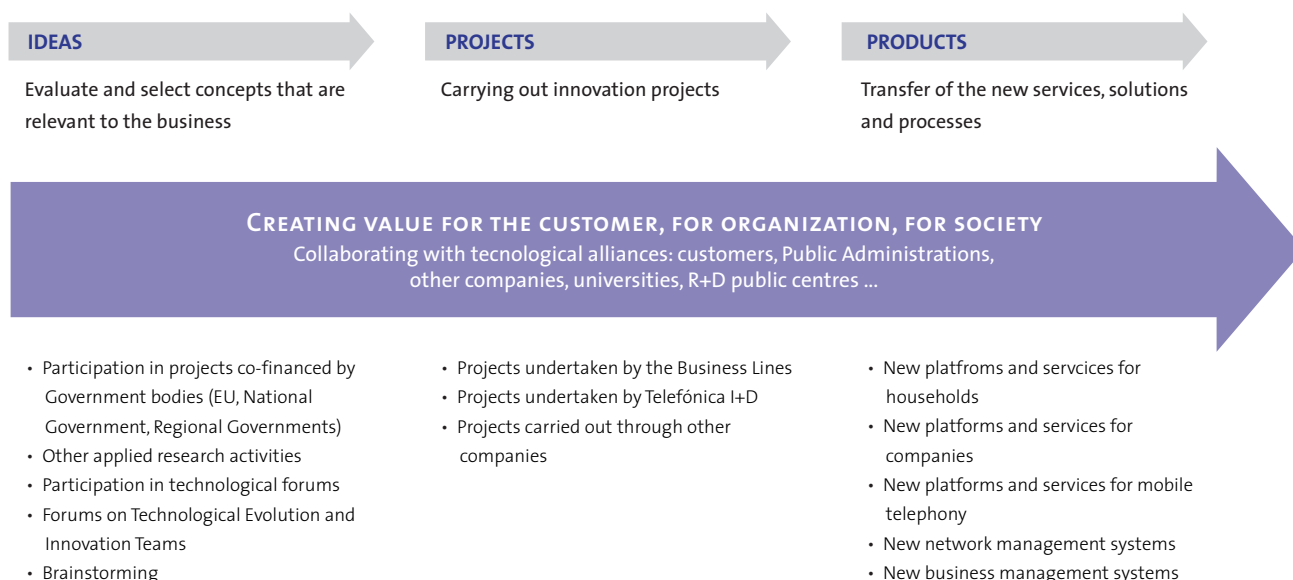
AVAILABILITY OF  
APPLICATIONS

99.8%



Trust is the result of applying all our technological capacity to the innovation of products and services that improve quality of life for our customers, and thus, for all of society

## SCHEME OF TELEFÓNICA'S INNOVATION PROCESS (03-1)



## GOALS OF TELEFÓNICA'S NEW INNOVATION MODEL (03-2)

- To align Technological Innovation with the Group's strategy, anticipating new solutions that differentiate it from its competitors.
- To promote collaboration with the Public Administrations and Universities to foster innovation.
- To encourage collaboration with other agents in the value chain and strengthen business alliances.
- To improve the Group's competitiveness through Technological Innovation focusing on the needs of its customers and the provision of solutions.
- To promote an innovation culture at all levels of the organization.

## 01 TECHNOLOGICAL INNOVATION MODEL

For Telefónica, innovation lies at the heart of what is transforming the Group and inspiring it to reach its goal of becoming not only the best, but also the biggest integrated telecommunications group in the world. It is precisely because Telefónica sees innovation as a medium and long-term strategic value that its investment and commitment to technological innovation, and to R+D in particular, continues firm, as the data presented in this section will show.

Telefónica will continue to increase the pace of the launch of new services that will promote access of different sectors in the countries where it is present to the Information Society. To do so, the regulatory frameworks must allow planning for investment in technological innovation and R+D activities at the medium-term, without adding "regulatory risks" to the many others inherent in R+D+I investment (market risk, technological success, competitive environment ...)

In 2004, Telefónica set up a new *Technological Innovation Model* that is in line with the

Group's strategy. The implementation of this Model is led by the *Corporate Innovation Committee*, comprised of the top executives of the main innovation organisations within the Group, which coordinates Telefónica's Innovation Programme and manages the Group's Portfolio of Technological Options.

This Model also promotes collaboration with other agents that will become *technological allies* (customers, Public Administration, suppliers, other companies, etc.), as well as the participation of the professionals within the *Group in the process of innovation*. In this respect, Telefónica de España's *idealab!* Contest received a total of 1,049 ideas (19% more than the previous year) during the whole of 2004 through its *Innovator Club*, while Telefónica Móviles de España's *Patent-Factory of Ideas Contest* (known as *Patenta-Fábrica de Ideas*), gathered 310 new proposals throughout the year.

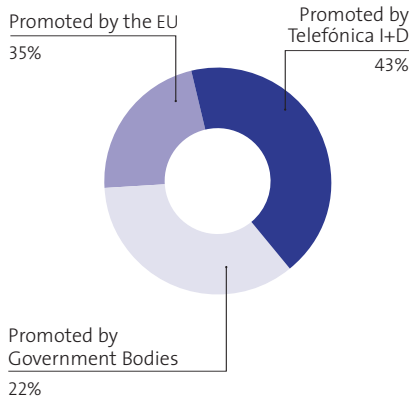
## 02 INNOVATION IN THE TELEFÓNICA GROUP

In 2004, Telefónica earmarked nearly 2.4 billion euros for Technological Innovation, following OECD criteria, of which half corresponded to

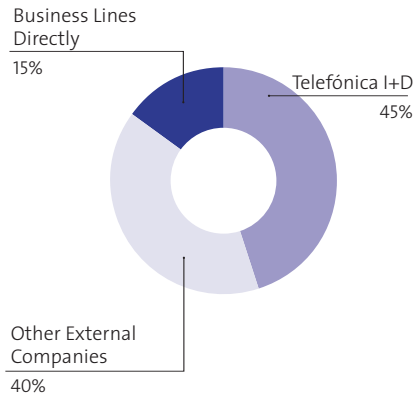
## TECHNOLOGICAL INNOVATION IN TELEFÓNICA 2004 (03-3)



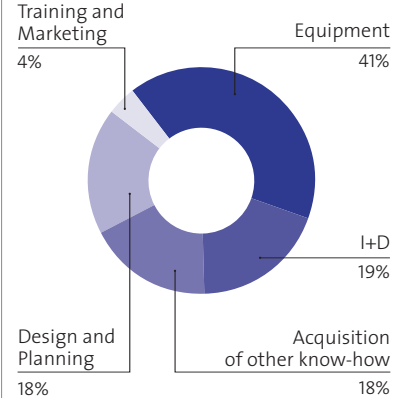
## Telefónica I+D Research



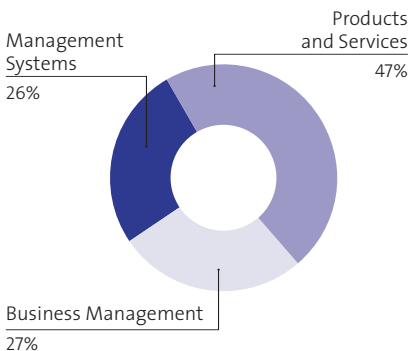
## Who does it?



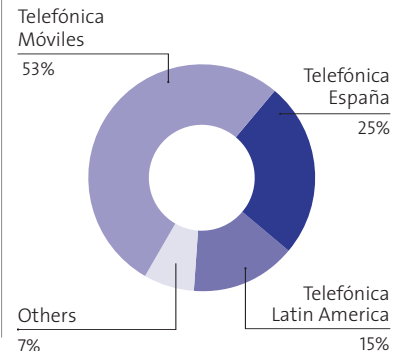
## Breakdown by Items



## Development of software for new products and management systems



## Breakdown by Business Lines



Spain, and the other half to Latin America. By item, the acquisition of equipment, and research and development activities were outstanding, representing 41% and 19% respectively of the investment.

Telefónica Móviles is the Group company that proportionally invests the most in innovation as a result of the deployment of its new generation networks. Its activities encompass 53% of the Telefónica Group's innovation budget, followed by Telefónica de España and Telefónica Latinoamérica with 25% and 15% respectively.

Telefónica is the Spanish firm that devotes the largest investment to research and development. Thus, last year over 305 million euros were allocated for R+D in Spain, and 461 million euros in the rest of the world. This latter figure represents 1.52% of the Group's revenue.

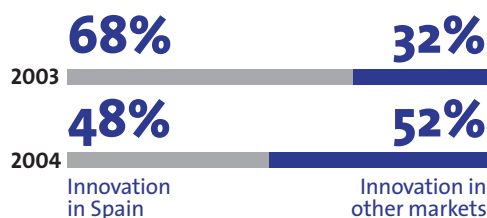
In 2004, the percentage of Telefónica's investment in R+D with respect to revenues in Spain (1.7%), was clearly higher than the percentage of R+D with respect to the total GDP of the country (1.1%), which clearly

evidences Telefónica's contribution to the promotion of Spanish R+D.

In 2004, Telefónica increased its investment in innovation in Latin America from 599 to 1,234 million euros, which represented over 50% of the innovation in the Group. By countries, Brazil was first with 29%, followed by Argentina with 6%, Mexico with 5%, Chile with 4% and Peru with 3%.

The R+D activity carried out in 2004 by Telefónica involved 5,901 people from all over the world, 3,996 of them in Spain, of which

## TELEFÓNICA INVESTMENT IN TECHNOLOGICAL INNOVATION (03-4)





## CASE STUDY

## MEASURING INNOVATION BY OECD CRITERIA (03-5)

The Organization for Economic Cooperation and Development (OECD) carried out a series of studies to draw up useful indicators for innovation. These studies produced what are known as the *Frascati Manuals for R+D* and the *Oslo Manual*, for innovation in general. In keeping with the aforementioned manuals, the concept of innovation refers both to the end product and to the process in itself.

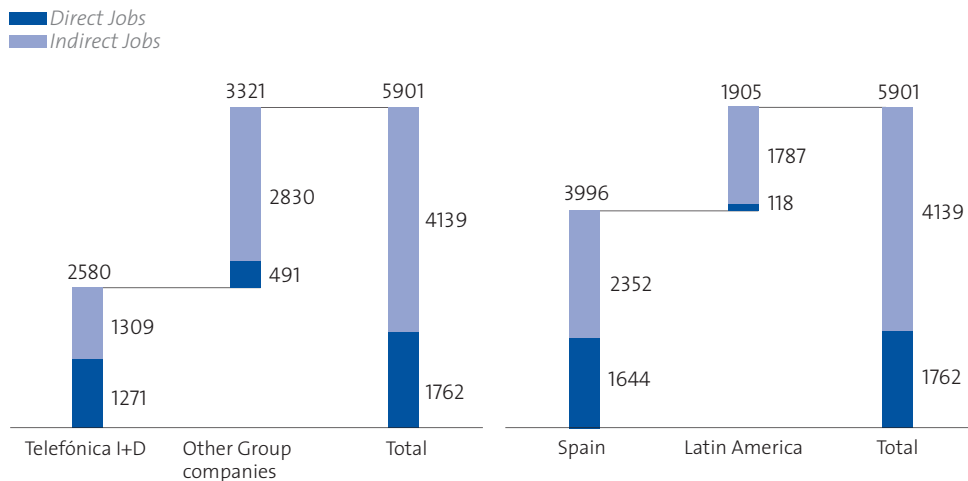
- In terms of the results, technological innovations encompass both products and the significant technological processes of the same. An innovation is envisaged as such when it is launched on the market (product innovations) or used in a process for the production of goods or the provision of services (process innovations).
- In terms of the process, innovative activities that lead to the development or introduction of technological innovations are the research and the technological development (R+D), the acquisition of tangible and intangible technologies for innovation, the industrial design and engineering and planning activities, the commercialisation of new products.

Thus, the innovation figures published by Telefónica include the following items: i) Internal R+D costs, ii) External R+D costs, iii) Expenditures for the acquisition of machinery and equipment related to the technologically new or improved products or processes, iv) Cost of technological know-how, v) Expenditures in industrial design and engineering, planning of services and their launch, vi) Training costs related to the new or improved technological products or processes, vii) Commercialisation of new or improved products.

According to the OECD, R+D activities are creative work carried out within the organization, undertaken systematically to increase the knowledge that allows us to develop new products or processes or to improve the existing ones. The results of the R+D may be protected by industrial or intellectual rights. When these activities are undertaken internally or outsourced, we speak of internal or external R+D. In either of the two cases, the promoting company bears the costs and holds the industrial or intellectual property rights to the result. The following are not envisaged as R+D activities: education, collection of data of a general nature, ordinary standardization work, routine tests, administrative and legal tasks related to patents and licenses, routine *software* development activities, etc.

## TELEFÓNICA PARTICIPATION IN EUROPEAN PROJECTS (03-6)

Project	Goals of the research
Biosec	Biometry research that enables recognition of persons and verification of their identity from physiological features: facial or iris images, voice, fingerprints, handprints, etc
Euro6IX	Contribution to the development of the new generation Internet in Europe (IPv6 Network).
TEAHA	Its goal is to define and develop an open platform for home domotics allowing the inter-operation of control and multi-media applications in a transparent and secure manner.
MEDSI	Seeks to create a computer system for aid in crisis situations such as terrorist attacks, floods, accidents, etc. This would enable the preparation of action plans and coordinate resources to mitigate the consequences of the crisis.
QUAR2	Its goal is to research and develop a system that allows end-to-end quality control in IP voice and video communications in heterogeneous networks. One of the practical results is that users who wish to establish broadband voice and video communications will always have the maximum quality offered by the network, as the system controller will be able to suitably manage all the network resources and end-to-end communications.

**JOBS CREATED BY TELEFÓNICA'S I+D ACTIVITY (03-7)**

1,762 were Group employees, and the rest from businesses and entities that collaborate in development projects.

**03 TELEFÓNICA I+D**

The majority of the R+D activity is undertaken by Telefónica Investigación y Desarrollo, owned 100% by Telefónica, which works mainly with Telefónica's business lines and participates in other research projects, both at national and international levels. Its mission is to contribute to the Group's competitiveness through technological innovation, while keeping in mind that the results of R+D should be a competitive value for the operators that is transferable to the customer.

In 2004, Telefónica I+D worked on 1,660 projects, which involved, in addition to 1,271 of its own staff (94% of them university graduates), approximately 42 collaborating companies, and 23 universities that encompassed a total of 1,300 people. As an illustration of how the Group shares its know-how with society, 259 publications were released, including articles, books, conferences, etc. In addition, Telefónica I+D patented some 240 new products during the last financial year.

In 2004, Telefónica I+D set up a new company in Mexico, which shares the mission of supporting technological innovation in the Group companies operating in Latin America with Telefónica Pesquisa e Desenvolvimento, headquartered in Sao Paulo. Additionally, Telefónica has begun a process to set up a new R+D centre in Andalusia that will complement the activities it already underway at its centres in Barcelona, Huesca, Madrid, and Valladolid.

These research activities include a broad participation in European R+D projects that are promoted and partially funded by the European Union (EU), which has been decisive in ranking Telefónica I+D as Spain's leading company in this respect. Specifically, in 2004, it participated

in 56 European projects, involving 225 people between 2004 and 2006, under a 16 million euro subsidy from the EU for the said period.

**04 PRACTICAL RESULTS OF TECHNOLOGICAL INNOVATION**

This substantial effort to promote innovation has made it possible to launch numerous new products on the market and to increase its Portfolio of industrial and intellectual property, thus helping to bridge the technological gap. More specifically, today Telefónica's Portfolio is comprised of 3,032 registered products, of which 1,787 are patents, and 1,245 are copyrights.

The technological innovation projects undertaken by the Telefónica Group in 2004 were carried out with a view to profitable innovation, process efficiency, the creation of new sources of revenue, customer satisfaction, the consolidation of new markets and technological leadership. These projects have fit particularly well in Telefónica's strategy addressed at the creation of value through communications and broadband services, mobile data and multi-media services.

**Broadband services in Spain**

- In 2004, Telefónica successfully completed the process of doubling ADSL Service speed, as well as offering a raft of added value services. Noteworthy amongst these are the ADSL Solutions, with 178,000 customers, and ADSL Security service, with nearly 350,000 subscribers.
- It is also important to note that the total number of ADSL value added services had surpassed the one million mark at the end of the 2004 year, reaching a total of 1,187,363.
- Other notable services include the interactive TV Service on ADSL, *Imagenio*,

launched in Alicante, Barcelona and Madrid. In the first quarter of 2005, coverage was extended to the Basque Country, Valencia and Zaragoza.

#### Introduction of broadband in Latin America

- Brazil was one of the first countries in the world to launch the ADSL service in 1999. Today, thanks to Telefónica, in São Paulo the broadband penetration rate is over 7% of all lines, coming close to the level reached in the most advanced European countries, which is approximately 10%.
- In Argentina, the number of ADSL lines rose 175% in 2004 over the previous year, reaching 188,000 lines, which has allowed Telefónica to increase its broadband market share 12 percentage points, to 81%.
- In Chile, the number of broadband customers rose 60% in 2004, now passing the 200,000 mark. Contributing to this increase was the launch of ADSL services adapted to the needs of different customer segments based on *minute plans*, that break down the entry barriers for new customers. And, like in Spain, last September the speed of the broadband lines was doubled at no additional cost to customers.
- Peru witnessed a 104% rise in the number of broadband customers in 2004, now reaching a total of 205,000 users.

#### Telephone services for all customers

- New *video call service* on conventional lines that enable the dispatch and reception of the users' images in real time and at no additional cost to the customer, through connection of the screen to any basic telephone line.
- Improvements in the *Network Answering Service* to include two new services:

information on calls received not leaving messages and the Immediate Response Service, which allows users to call back the number that left the message after listening to it.

- In Latin America, particularly in Brazil, the launch of new products targeted at low-income customers was an outstanding initiative (economic and super-economic lines).

#### Corporate solutions

- The *Flexible ADSL Corporate Service* provides commercial process management applications as well as ADSL access.
- The development of solutions and added value services for companies continues to gain relevance within the framework of the services offered by Telefónica Empresas.

#### New mobile telephony platforms

- In Spain, new multimedia services for GPRS and UMTS technologies were launched in 2004 and new drive given to the evolution of terminals and cards, particularly promoting the TSM brand.
- In Mexico, GSM coverage extends to 248 cities, covering an added population that represents 77% of the country's GDP.

#### Mobile telephony services

- The 2004 year was one of consolidation of multimedia message services, using the emerging UMTS capacity as well as the greater capacity of the new mobile handsets. The new advanced mobile telephony services are centred on entertainment, advanced voice services, localisation, data services and pre-paid services.

- The most popular services among customers are GPRS Internet surfing, multimedia message services, the commercialisation of services such as *Movistar Desktop* and *Blackberry Professional Email*, and the use of *i-mode* technology.

#### Commercial and process innovation

Telefónica's efforts in innovation do not only encompass technological innovation, but also seek innovation in processes and ways of doing things.

The following are two examples through which Telefónica has developed systems that allow more efficient business management.

- Commercial and operations system management, addressed at providing innovative solutions for business processes, such as increasing the profitability and efficiency of Supply, Customer Service and Infrastructure Management. Notable amongst these systems are the *FAST* and *ATIS* systems that substantially increase the efficiency of Telefónica's invoicing process.
- Network and services management systems, focused on strengthening infrastructures and their quality through innovative solutions. Highlights in this area are the *Network and Service Management Integrated System* (SIGRES) developed for fixed Group operators in Latin America; and *GEISER* (*Integral Management of Network*), centred on Telefónica de España's transmission network management, which is now in its final testing phase.

#### 05 INFORMATION SYSTEMS

The functions of the Telefónica Group Information Systems Department arise directly from the global business strategy of the Group itself. Its mission is to define, develop, implement and manage the systems that

provide optimum support and competitive advantages in the Group companies' business processes.

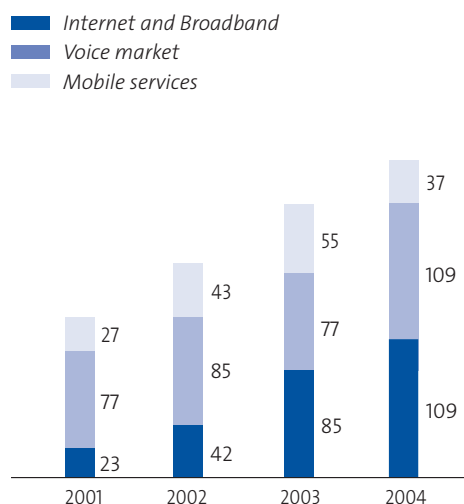
Expenditures in Information Systems throughout the 2004 financial year totalled slightly more than 1 billion euros.

Amongst the most significant events in this area were the upgrading of the commercial systems in the fixed telephone service business lines with the *ATIS* system in the Latin American operators and the *FAST* system in Spain. The total Group Information Systems workforce is comprised on nearly 3,300 employees.

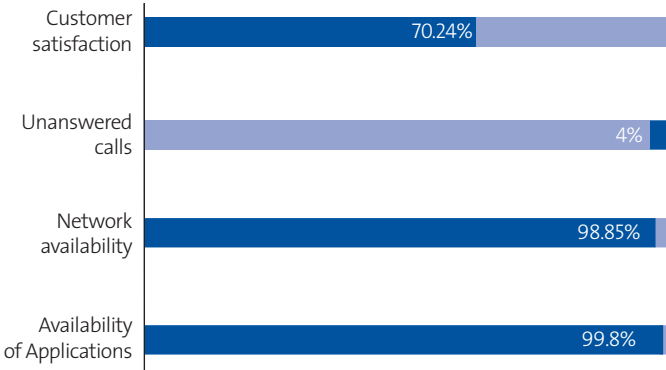
In terms of technological infrastructure, understood as hardware and the associated software licenses, Information Systems took great strides forward this year in the evolution and maintenance of the same, both in the open systems and in the large processors that ensure

#### NEW TELEFÓNICA DE ESPAÑA AND TELEFÓNICA MÓVILES ESPAÑA PRODUCTS (03-8)

(Data in number of products launched)



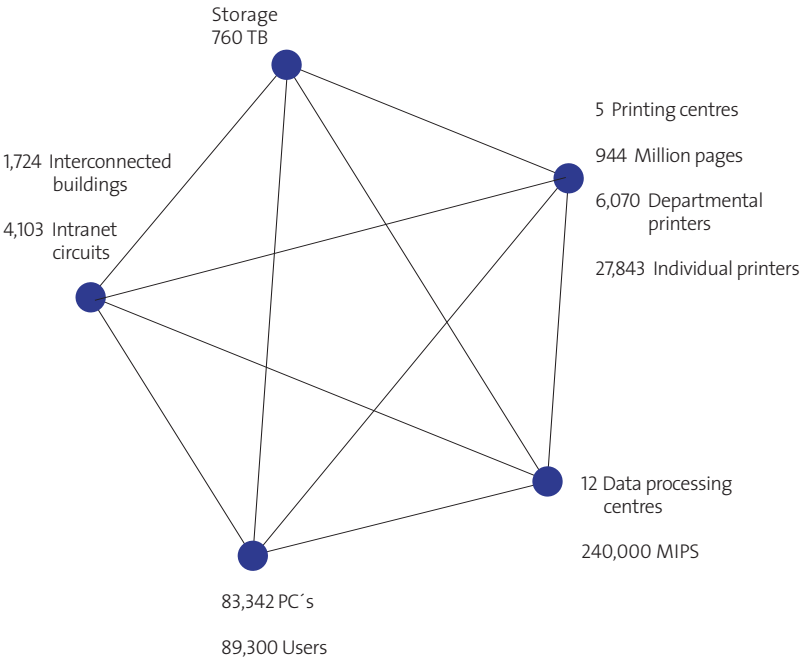
COMPUTER SYSTEMS INDICATORS IN THE TELEFÓNICA GROUP (03-9)  
(Data in percentages)



the security and continuity of the information on the Group's businesses.

- 1,724 interconnected buildings
- 4,103 Intranet circuits
- 89,300 users
- 83,342 PC's
- 27,843 individual printers
- 6,070 departmental printers
- 5 printing centres that publish 944 million pages per year
- Over 760 TB (tera bytes)
- 12 Data Processing Centres covering nearly 17,000 square metres
- Processing capacity of more than 240,000 MIPS

INFORMATION SYSTEMS INFRASTRUCTURES IN TELEFÓNICA 2004 (03-10)



All of the foregoing provides us with indicators of the Group's computer functions, aligning them to the best possible market practises, enabling Telefónica to reach an internal customer satisfaction level of 71%, measured by surveys in the user areas.

## CHRONOLOGY OF INNOVATION IN TELEFÓNICA 2004 (03-11)

Month	Technological Innovations	Sales Innovations	Process Innovations
January	Telefónica presents the first of the new Internet services based on IPv6 technology in Brussels.	Telefónica de España informs large corporations of their purchases on a daily basis.	Telefónica de España speeds up all the processes related to goods management.
February	Telefónica I+D creates a system for voice portals based on real language	Telefónica Móviles España markets the first GPRS/UMTS data card.	Latin American operators are equipped with ATIS, the new customer service, invoicing and collection system.
March	Telefónica Móviles España and Intel collaborate in the development of third generation devices and networks	Telefónica de Argentina presents the deployment of WI-FI technology throughout the entire country	Telefónica Empresas launches a multi-channel platform for citizens' queries targeted at town governments
April	Telefónica de España has 130 operative ADSL WI-FI areas	Telefónica Móviles launches a mobile telephone for the blind.	The corporate purchasing system known as FILÓN incorporates numerous significant improvements .
May	Telefónica Móviles España and the Junta de Andalucía promote a development of UMTS services	Telefónica de España launches a central switchboard equipped to access the future IP voice services.	Peru implements e-procurement, the internal corporate supply platform.
June	Telefónica I+D, technological partner in a European tele-education project for Latin America.	TPI presents calleacalle.com, the first website with information on all the business establishments in Spain	Telefónica Investigación y Desarrollo de México is created to contribute to the Group's technological development in that country
July	Telefónica Móviles México launches the EDGE technology, the most advanced and fastest in the country.	Telefónica Móviles launches an offer of services that facilitate communications for foreigners living in Spain	Latin American fixed telephone operators develop the GAUDI project that unifies installation and maintenance practises.
August	The Telefónica Professors at the Spanish universities meet in Barcelona for a seminar on the professional innovator.	Telefónica de España launches a new service to prevent spam on the Internet	Telefónica Móviles promotes improvements in customer service and invoicing in all its operators.
September	Telefónica I+D participates in the presentation of strategic projects to the European Commission in Brussels.	Telefónica Móviles launches a new service that visualises webcam images on mobile telephones	Terra launches a new ADSL service that automatically resolves all connection and e-mail problems.
October	Telefónica Móviles and the Politécnica de Cataluña develop a project on the use of the Internet through UMTS.	Telefónica Móviles launches the first rechargeable 3G data card in Spain	Telefónica Móviles España deploys the first fractal antennae with low visual impact
November	The Telefónica Group in Argentina launches a research program for the development of SMEs.	Telefónica de España completes the speed-up of ADSL lines for customers at no extra charge	<i>B2Bconecta</i> , Telefónica Empresas' solution for the development of electronic invoicing
December	A system for caring for HIV patients at home, Prize for "new applications for the Internet" awarded by the Telefónica Professorship at the UPM	Telefónica CTC Chile and IBM launch a new service for PC + Broadband	Telefónica CTC Chile has already issued one million electronic invoices





# 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](http://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:

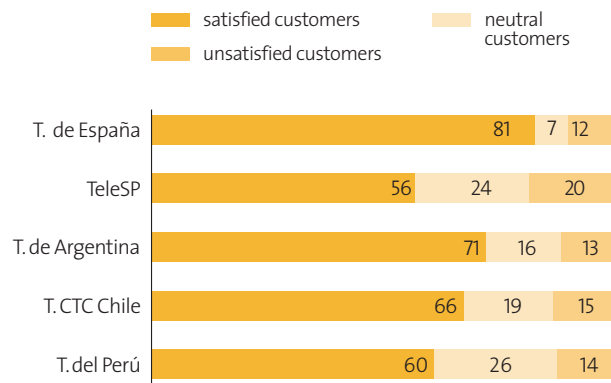
- Optimisation of the Call Centre service model in the Residential segment.
- *Excellent Speedy*, which seeks operational excellence in Broadband.
- *100% of the company oriented toward the Customer*: integration in network processes.
- *Global Customer Model*: technical and sales service for Corporations.

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)



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.

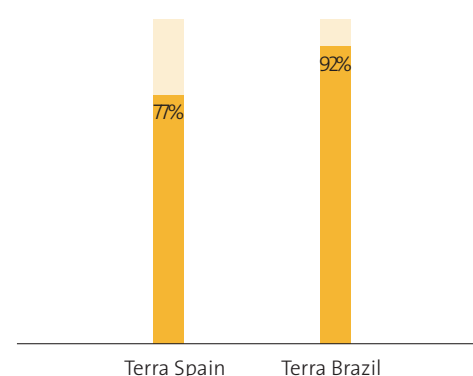
In 2004, Terra conducted more than 63,000 online interviews in Argentina, Brazil, Chile,

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
<b>Overall impression</b>	<b>3.96</b>

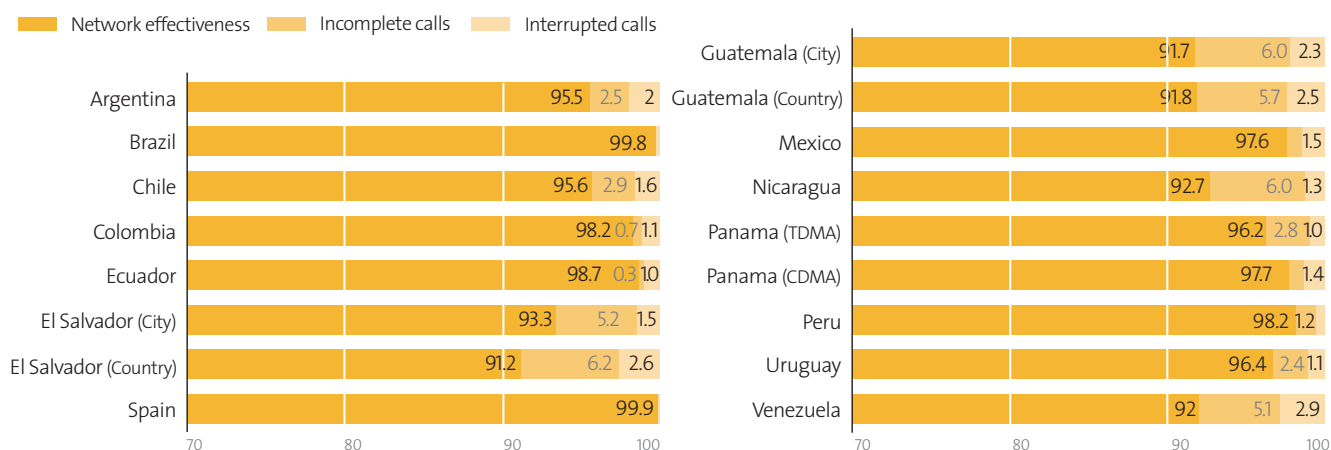
## CASE STUDY

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

Company	Award
Telefónica de España	<ul style="list-style-type: none"> <li>Awarded first prize for <i>System Integration and Consolidation</i> by <i>Computing</i> magazine.</li> <li>Named Best Broadband Provider by <i>PC Actual</i>.</li> <li>Palm ONE awarded Telefónica de España the prize for <i>Best Wi-Fi Solution</i> for its <i>ADSL Wi-Fi Zone</i> initiative.</li> </ul>
Telefónica Móviles España	<ul style="list-style-type: none"> <li>First Prize for <i>Excellence in Customer Service Centres (CSC)</i> 2004 in the Telecommunications Sector. Awarded by <i>Izo System</i>.</li> <li><i>Second National Award</i> (Gold CRC) for Customer Service Excellence 2004</li> <li><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.</li> <li>Gold EFL <i>Efficiency Awards</i>. Presented by the Spanish Association of Advertisers to Telefónica Móviles España for its <i>Orgulloso</i> advertising campaign.</li> </ul>
TeleSP	<ul style="list-style-type: none"> <li><i>Gold Award</i> in the B2C category at the 10th Annual ABEMD (Associação Brasileira de Marketing Directo) Awards 2004 for the Speedy and Bronze customer acquisition and retention programmes.</li> <li><i>Detecta and Cuenta Garantizada</i> win the <i>Top de Marketing</i> 2004 Award.</li> </ul>
Medi Telecom	<ul style="list-style-type: none"> <li>National Award for Excellence granted by the Moroccan <i>Ministry of Trade and Industry</i> in January 2004.</li> </ul>
Telefónica Empresas Brazil	<ul style="list-style-type: none"> <li>Gold Award at the 10th Annual <i>ABEMD Awards</i> 2004 for the Telefónica Empresas customer loyalty programme.</li> <li><i>2004 Modern Consumer Award for Customer Service Excellence</i> in the corporate access provider category, repeating the success of 2003.</li> <li>The financial journal <i>Ejecutivos Financieros</i> awarded the operator prizes in the <i>Voice-over-IP</i> solution and Telecommunications Networks categories.</li> <li><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</i> (ADVB).</li> <li>ABRAREC (<i>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).</li> </ul>
Atento Brazil	<ul style="list-style-type: none"> <li>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</i> (ALMADI).</li> <li>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.</li> <li>Silver award in the special Telemarketing category at the 10th Annual <i>ABEMD Awards</i>.</li> <li>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>.</li> <li>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).</li> </ul>
Terra Brazil	<ul style="list-style-type: none"> <li>Preferred national Internet provider in Brazil in a survey conducted by the <i>Synovate Institute</i>.</li> <li>For the second consecutive year, <i>Rumbo</i> was voted best tourism website in Brazil and won the <i>iBesi</i> 2004 Award.</li> <li>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>.</li> </ul>

**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

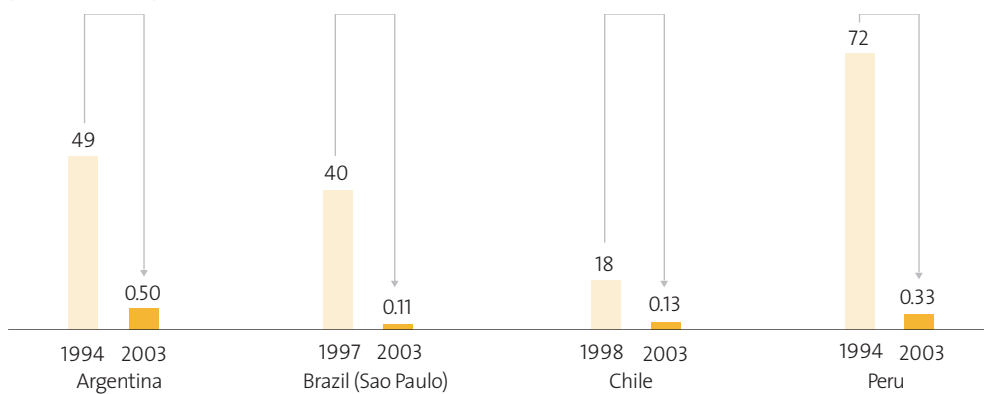
(\*): The average line installation time for Argentina includes the average prepay period – commercial policy is for customers to pay for services in advance..

**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
<b>Total</b>	<b>257</b>	<b>1,802</b>

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
		· Technical telephone support service (UNPre)	In progress
	Chile	· Storage, distribution, transport, payment authorisation and quality control of telephony products. (T-Gestiona)	Certified
		· Planning, design and development of communication products and services for businesses. (Telefónica Empresas)	Certified
		· Maintenance	In progress
	Brazil	· <i>Ombudsman</i> management support and service	Certified
		· 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
	Peru	· 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
		· Allocation and installation of fixed telephony lines	In progress
		· Corrective and preventive maintenance for fixed telephony services and data transmission	In progress
		· Management of payments, financing and reconnections	In progress
		· Product development	In progress
		· Fixed telephony sales	In progress
Telefónica Móviles	Argentina	· National customer management processes including: telephone, personalised, online and technical support services	Certified
	Brazil	· Quality management system	Certified
	Chile	· All identified processes	Certified
	Colombia	· 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
	Ecuador	· 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
	Spain	· All identified processes	Certified
	Guatemala	· All identified processes	Certified
	Mexico	· Network management, and prepay, contract and business management processes	Certified
	Peru	· 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](http://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)

	Argentina	Brazil	Chile	Colombia	Ecuador	El Salvador	Spain	Guatemala	Mexico	Nicaragua	Panama	Peru	Uruguay	Venezuela
<b>Web-based:</b>														
General information on products and services	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Enquiries and claims section	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Online billing and account access	●	●	●	●	●		●	●	●				●	●
Charging phone cards		●	●	●		●	●	●						
Price plan switching			●		●		●							
Activation of value-added services	●	●	●	●	●		●							
24-hour customer service chat	●						●							
<b>SMS based account-enquiry/management facilities</b>					●		●							
<b>WAP account-enquiry/management facilities</b>					●		●							

## CALLS HANDLED BY CUSTOMER SERVICE CENTRES (04-20)

(Data in thousands of calls)

	Country	2003	2004
Telefónica de España	Spain	65,530	<b>69,809</b>
Telefónica Latinoamérica	Argentina	69,450 <sup>3</sup>	<b>33,630</b>
	Brazil	128,000 <sup>1</sup>	<b>152,655</b>
	Chile	22,927	<b>16,495</b>
	Peru	25,005 <sup>1</sup>	<b>12,165</b>
Telefónica Móviles	Argentina	12,600	<b>13,728</b>
	Brazil	not available	<b>383,000<sup>4</sup></b>
	Chile	13,700	<b>18,537</b>
	Colombia	not applicable	<b>14,900</b>
	Ecuador	not applicable	<b>10,596</b>
	El Salvador	1,270	<b>1,511</b>
	España	72,671 <sup>2</sup>	<b>42,000</b>
	Guatemala	990	<b>1,063</b>
	Mexico	13,710	<b>21,243</b>
	Nicaragua	not applicable	<b>931</b>
	Panama	not applicable	<b>2,032</b>
	Peru	7,200	<b>7,613</b>
	Uruguay	not applicable	<b>583</b>
	Venezuela	not applicable	<b>16,062</b>
Terra	Spain	not available	<b>2,139</b>
	Brazil	not available	<b>16,447</b>

(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.

## TELEFÓNICA 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 in 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.

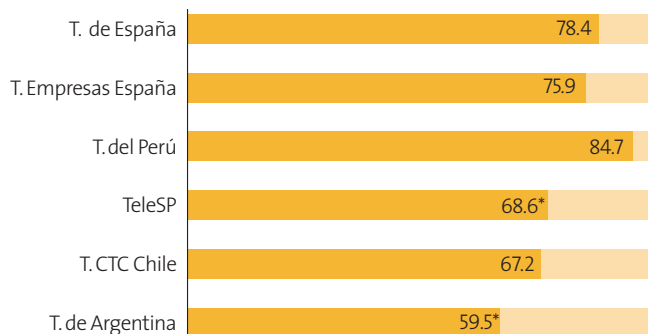
## c) Face-to-face communication

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.

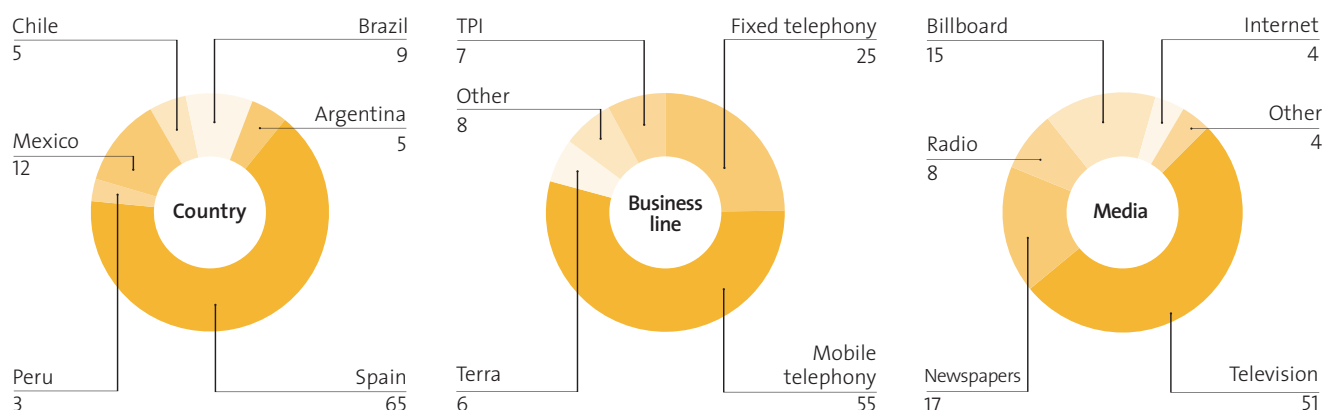
## SATISFACTION WITH TELEPHONE CUSTOMER SERVICE\* (04-22)

(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 Sencillito* 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

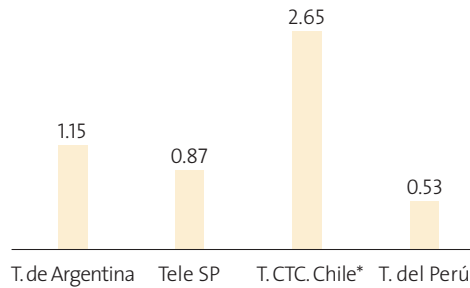
and respectful advertising policy. All Telefónica's advertising material is double checked prior to final publication or broadcast. Campaigns are approved by chief legal officers at each company to ensure respect for both the regulations and our competitors. Campaigns are also *pre-tested* with focus 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](http://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.



05

Shareholders and investors:  
returns and transparency

05/01	<p>communications with shareholders</p> <p>Telefónica has made multiple channels available for shareholders' requests for information</p> <p><b>CALLS ANSWERED</b></p> <p><b>103,255</b></p> <p><i>Shareholder information line</i></p>	05/02	<p>complete, transparent information</p> <p>Shareholders have access to all types of information about the Company on the Telefónica Website</p> <p><b>DOWNLOADS</b></p> <p><b>1,224,502</b></p>	05/03	<p>responsible investment</p> <p>Telefónica is listed on the DJS and FTSE4good Index</p> <p><b>0.75%</b></p> <p><i>of the Employees Pension Fund invested with sustainability criteria</i></p>
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Our shareholders' trust is based on our capacity to return their investment profitably, and on our commitment to transparency and honesty



## STOCK EXCHANGES WHERE TELEFÓNICA S.A.'S SHARES ARE LISTED (05-1)

- Four stock exchanges in Spain (Madrid, Barcelona, Bilbao, Valencia)
- London Stock Exchange
- Paris Stock Exchange
- Frankfurt Stock Exchange
- Tokyo Stock Exchange
- New York Stock Exchange
- Buenos Aires Stock Exchange
- Lima Stock Exchange
- Sao Paulo Stock Exchange
- Also listed in the Stock Exchange Automated Quotation System (SEAQ International)

1,517,090

Telefónica, S.A. Shareholders

The Regulations of Telefónica's Board of Directors devote several articles regulating the channels through which relations between the Company and its shareholders are established. These articles cover both individual shareholders and institutional investors, and ensure that relations are conducted with maximum transparency and equity.

According to information obtained on 1 April 2005 from the *Spanish Securities Registration, Clearing and Settlement System S.A.U.* (IBERCLEAR), Telefónica has 1,517,090 shareholders.

Among the other listed companies in the Telefónica Group, Telefónica Móviles has 1,178,000 shareholders, Terra has 282,000 and TPI has over 128,000.

In the major Latin American countries where Telefónica is present, local operators have floated part of their share capital on their respective stock exchanges.

TeleSP is one such operator, and the 12.5% stake not owned by Telefónica is in the hands of 2.5 million shareholders, the result of a previous policy whereby one share in the company was awarded with each new telephone line.

In each of these countries, shareholder communication channels similar to those detailed in this chapter have been set up.

## 01 COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

## a) Departments communicating with shareholders and investors

In 1997, Telefónica set up its *Shareholder Information Service* with a view to creating transparent and fluid communication channels for individual shareholders. A total of 194,375 shareholders have now signed up for the service and receive information on the Telefónica Group's results and other Company news relating to their investment.

Telefónica has also set up an *Investor Relations Area* to provide institutional investors with a personalised service that keeps them in constant contact with national and international financial markets. Its main function is to explain the Company's key organisational, operational and business strategies, allowing forecasts to be made on its future performance, thus ensuring the price of the shares issued by the Company is set correctly.

## b) General Shareholders' Meeting

Shareholders may direct any queries they have about the General Shareholders' Meeting to the Shareholders' Information Office. This Office handled 68,816 requests for proxy voting information regarding the 2004 General Shareholders' Meeting of Telefónica S.A.

## LOCAL OPERATORS IN LATIN AMERICA (05-2)

Company	% Shares held by Telefónica	No. of shareholders
TeleSP (Brazil)	87.49	2,500,000
Telefónica del Perú	98.19	88,000
Telefónica CTC Chile	44.89	13,000
Telefónica de Argentina	98.03	3,000

## TOTAL NUMBER OF INDIVIDUAL REGISTERED SHAREHOLDERS (05-3)

Company	2003	2004
Telefónica SA	194.139	<b>194.375</b>
Telefónica Móviles	8.030	<b>8.669</b>

### PROXY VOTING REQUESTS CHANNELLED THROUGH THE SHAREHOLDERS' OFFICE FOR THE GENERAL SHAREHOLDERS' MEETING (05-4)

(Data in units)

Company	2003	2004
Telefónica SA	69,467	<b>68,816</b>
Telefónica Móviles	444	<b>485</b>
Terra	13,682	<b>4,109</b>

The Annual General Shareholders' Meeting provides an opportunity for shareholders to put their questions to the Company's Directors. This is confirmed by the 23 questions raised by shareholders at the 2004 meeting.

Furthermore, Telefónica opens all its communication channels to its shareholders in order to field any queries they have about the General Shareholders' Meeting. In 2004, the Company's toll free information line (900 111 004) handled 31,425 enquiries related to the General Shareholders' Meeting.

Both enquiries made by individual shareholders and the opinions of analysts and institutional investors are analysed on a qualitative and quantitative basis so that the Company's Directors can keep abreast of their investors' concerns and opinions.

#### c) Communication channels with shareholders and investors

##### The website

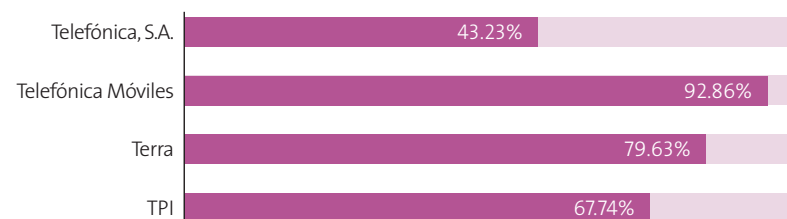
In 2004, major changes were made to the way information is relayed to shareholders and investors on the Telefónica website. In compliance with the *Transparency Act* and the new regulations of the CNMV (*the Spanish National Securities Market Commission*) new sections devoted to shareholder services, relations with investors, and corporate governance have been added on a single page available in Spanish, English and Portuguese.

As well as the new look and simpler browsing, the website for *Shareholders and Investors* also features specific areas on:

- Dividends, results and communications to the markets, relevant facts and General Shareholders' Meetings, etc.
- Equity data, ratings, debt profile and corporate presentations to the investment community.

### QUORUM AT THE GENERAL SHAREHOLDERS' MEETING (05-5)

(Data in percentage)



- Consultation and downloading of documents including Annual Reports, the Regulations of the General Shareholders' Meeting and the Board of Directors, Company By-laws and the Official Company Information Registers.
- The *Stock Market* section features the Group companies' share prices online and allows users to generate interactive graphics, compare share prices with those of other sector companies and the leading indexes, calculate Telefónica's profitability in any given period and compare it with the main indices.
- *The Shareholders' Corner* is a personalised interactive space where small investors can ask questions and request specific information. It also features a ticker and an alerts service providing important, up-to-the-minute information on the Company.
- Online audio and video webcasts of conference calls and key appearances by the Company's senior managers.
- Access to the shareholder and investors' websites of Telefónica Móviles, TPI and Terra.

Since the website was updated in June, it has received 473,641 sessions, an estimated increase of 20% over the previous year.

#### Shareholders' Information line

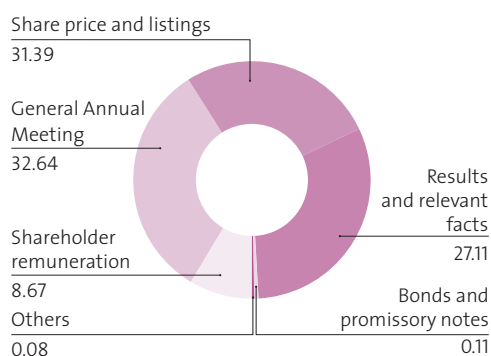
Telefónica's toll free Shareholder Information Line handled 103,255 enquiries in 2004, approximately the same figure as in 2003. Telefónica Móviles, Terra and TPI also provide the same service for their shareholders. In addition to calls made to the toll free line, a total of 4,519 enquiries were received via email and post.

#### Acción Telefónica

Telefónica issues a quarterly magazine to its shareholders called *Acción Telefónica*. In 2004, the Company sent out 165,000 copies of the publication every quarter.

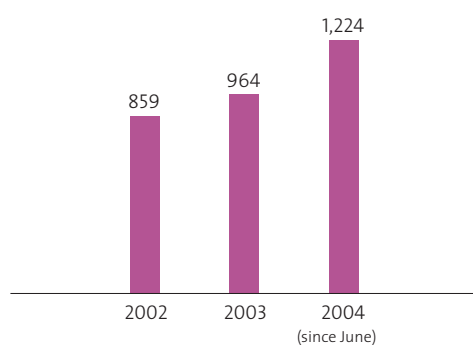
# 900 111 004

Toll-free shareholder information line number

**BREAKDOWN OF ENQUIRIES MADE VIA SHAREHOLDER INFORMATION LINE (05-6)***(Data in percentage)***Other communication channels with analysts and investors**

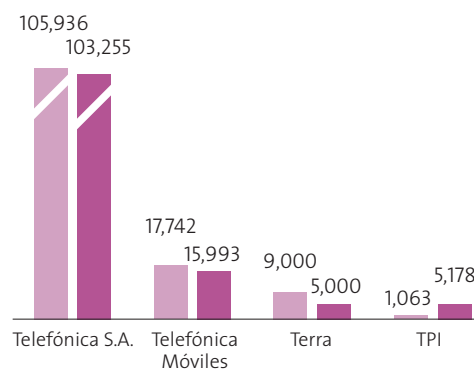
In 2004, the Company liaised with institutional investors and financial analysts in numerous ways: presentations at forums and meetings, and conference calls; the holding of roadshows at major financial exchanges; and the convening of the *Fourth Investors' Conference*, held in April 2005.

- Meetings were held with a total of 591 investors. Contacts with 195 of these were established at nine roadshows in Europe and the US, most of which were attended by Company senior managers.
- Presentation of results through quarterly conference calls. Audiences range between 200 and 300 for each conference, including telephone and Internet channels.
- Info bulletins sent to registered analysts and investors.
- Participation in major conferences on fixed and variable yield securities organised by financial institutions at the main exchanges in Europe and the US.

**INFORMATION DOWNLOADED BY TELEFÓNICA INVESTORS (05-8)***(In thousands of downloads)***ENQUIRIES HANDLED BY SHAREHOLDER INFORMATION LINES (05-7)**

2003

2004



- The Company also met up with minor shareholders at the *Bolsalia* 2004 Forum in Madrid (part of the stock market exhibition "Salón de la Bolsa y Otros Mercados Financieros")

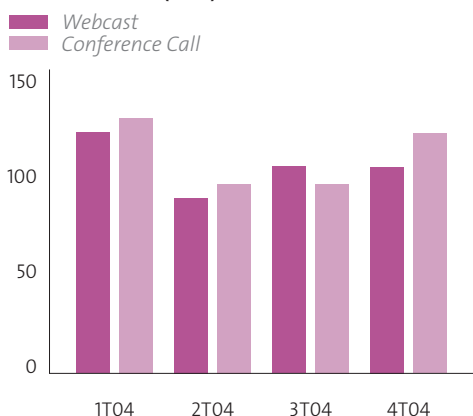
**02 COMPLETE, TRANSPARENT INFORMATION****a) Information on business growth**

The Investor Relations department is responsible for designing and executing the communications strategy for domestic and international financial markets. Its work includes the quarterly release of Telefónica's financial statements, which meet all transparency and equity requirements and are published through the following distribution channels: the Company website, the CNMV Register, *Acción* magazine and conference calls.

The focal point of the Group's communications with analysts and investors is the *Annual Report*. In 2003, the Annual Report was the subject of 17,566 online consultations and 198,546 downloads, with 24,000 hard copies also issued. All the Annual Reports published by Telefónica since its foundation in 1924 are also available on the Company website.

In compliance with legal requirements, Telefónica provides all regulatory bodies governing the markets on which its shares are traded with information pertaining to all significant events involving its businesses. In 2004, a total of 42 relevant facts were reported to the CNMV for this purpose.

The Company also provides information through a series of official registers issued both annually (providing complete, in-depth information on the Company), and abbreviated documents registered before stock market regulatory bodies on the occasion of specific operations.

**ATTENDEES AT QUARTERLY RESULTS PRESENTATIONS (05-9)**

The companies in the Telefónica Group published within large number of files for shareholders in 2004. Following the website redesign in May 2004, a total of 1,224,502 files were downloaded from the website.

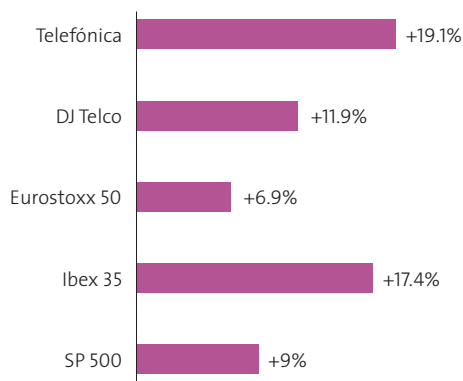
**b) Shareholder remuneration policy**

In July 2003, Telefónica's Board of Directors published a statement confirming its commitment to the shareholder remuneration policy, extending it to 2004, 2005 and 2006. The main policy-related decisions were as follows:

- a) In its session held on 26 January 2005, Telefónica's Board of Directors resolved to raise the dividend paid in the current financial year by 25% up to 0.5 euros per share (charged to 2004). The Board stated its intention to maintain the minimum dividend of 0.5 euros per share through to 2006 (charged to 2005).
- b) It also resolved to maintain the shareholder remuneration policy by undertaking the necessary transactions to reduce share capital by amortization of own shares. In line with these changes, on 10 October 2003 Telefónica announced it would be investing 4 billion euros in the period 2003-2006 in the buyback of own shares.
- c) At its session on 24 November 2004, the Board of Directors resolved to propose at the 2005 General Shareholders' Meeting a resolution for the allocation of treasury stock among its shareholders at a ratio of one share for every 25, charged to the Issue Premium Reserve.

**SHAREPRICE PERFORMANCE IN 2004 (05-10)**

(Data in percentage)

**03 SOCIALLY RESPONSIBLE INFORMATION****a) Listing on socially responsible investment indexes**

In 2004, Telefónica was listed on the European and World indices of the *Dow Jones Sustainability Index (DJSI)*, comprised of sustainability leaders in all sectors. Telefónica's presence on the *DJSI* indices is due reward for its commitment to corporate responsibility as a central driver in its telecommunications business strategy.

The Telefónica Group – which obtained a rating of 75, above the minimum European index entry rating of 72 and the world rating of 70 – has now positioned itself among the sustainability leaders in the telecommunications sector and in Spanish business as a whole. Telefónica Móviles has also been rewarded for its commitment to social responsibility and heads the list next companies to join the index.

In economic terms, the Company received maximum ratings for investor relations and brand management. Its excellent social performance was also recognised and other key aspects included the information provided in its *Corporate Responsibility Report*, and the Company's relationship with its stakeholders.

Telefónica maintained its presence on the *FTSE4Good* Index in 2004, which evaluates companies according to environmental, ethical and social criteria.

As well as being listed on these indices, Telefónica continued to enjoy a proactive relationship with analysts and investors who adhere to socially responsible investment criteria, as evidenced by the following:

- Publication of the second *Telefónica Corporate Responsibility Report* and the extension of corporate responsibility reports



## OFFICIAL REGISTERS BY TELEFÓNICA IN 2004 (05-11)

Prospectus	Body	Date
Continued Prospectus for financial year 2003	Comisión Nacional del Mercado de Valores (Spain)	30/07/2004
Annual Prospectus in 20F format	Securities Exchange Commission (USA)	9/07/2004
Annual IAN Prospectus	Comissao de Valores Mobiliarios (Brazil)	31/05/2004
Annual Propsectus SRS	Japan Securities and Clearing Corporation Tokyo Stock Exchange	30/06/2004
Short Prospectus on Telefónica's Programme of Promissory Notes	Comisión Nacional del Mercado de Valores (Spain)	29/12/2004

to the Group's other listed companies (Telefónica Móviles, TPI and Terra).

- Response to non-financial questionnaires requested by investors and analysts adopting socially responsible investment criteria, including participation in the 2004 *Carbon Disclosure Project*.
- Meetings and/or conference calls with investors and analysts adopting corporate responsibility criteria.

#### b) Responsible investment by Pension Funds

The Telefónica Group's employee pension funds are managed in Spain by Fonditel and their profitability in 2004 ranged from between 6.4% and 7%. By year-end 2004, the total volume of assets handled through the *Telefónica de España Employees Pension Fund* was 3.885 billion euros, with a further 157.8 million euros managed by *Fonditel B*, which encompasses employee plans in the Telefónica Group's other companies.

In 2004, Fonditel continued to receive national and international awards in recognition of its management prowess. The magazine *Mi Cartera de Inversión* named Fonditel as the *Best Pension Fund Provider* in Spain. For the fourth year running, the communications group, *Intereconomía*, and *Morningstar* also recognised Fonditel as the best pension fund provider. Fonditel also won the prestigious *European IPE Award* (Investments & Pensions Europe) Award for Best Pension Fund in Spain. And even more notably, it won the *European Award for best strategy* in core/satellite investment strategy, presented to the European fund that best combines an asset portfolio and risk structure.

In terms of national profitability *rankings*, last year saw Fonditel's individual funds continue to demonstrate their high quality, occupying the leading positions in both the three- and five-year categories.

In addition, following the approval of the Steering Committees, 1% of the managed assets of the Telefónica Group's employee pension funds (managed by Fonditel) will be invested in ethical, sustainable or responsible funds.

At the end of 2004, a total of 30 million euros had been invested in these types of funds, what means some 0.75% of the total equity held in the Telefónica Group's employee Pension Funds. Approximately 80% of this amount has been invested in environmental, good corporate governance and sustainable development funds. The remainder was invested in a social rental housing developer and a forestry development company.

## CASE STUDY

## TELEFÓNICA'S AWARD-WINNING TRANSPARENCY (05-12)

Recognised as the *Spanish company providing the most transparent and reliable corporate and financial information on the Internet* by the *Spanish Association of Accounting and Business Administration* (AECA) at its third annual awards. The judging panel assessed all the companies listed on the IBEX-35 and took into account the transparency and accuracy of Telefónica's corporate information and the financial information it provides via the Internet.

At the *Investor Relations Websites Global Rankings and Awards* (known as the MZ Awards) Telefónica S.A. and Telefónica Móviles S.A. won first and second prize respectively for their web pages for shareholders and investors, with the *Best Online Annual Report* award going to Telefónica for its latest online report.

The awards, sponsored by *JPMorgan, KPMG Independent Auditors and Linklaters*, are organised by *MZ Consult* and are made following a technical appraisal that takes factors such as content, design, technology, interactivity, responsiveness and flexibility into account. Telefónica's web pages are not just seen as the best in Spain; they also earned a higher than average rating in most criteria in the world telecommunications sector.

The Company also won the award for *Best Investor Relations* in the *Telecommunications/Fixed Telephony* Sector awarded by the Institutional Investor Research Group in its report *2004 European Equities Report* following a vote by its financial analysts.

In Brazil, Telefónica won the *Destaque Compañías Abiertas* award after it was listed tenth in the *2003 AE/Económica Ranking*. The Company was recognised for the dividends paid out to shareholders and for the low volatility of its shares as compared to the market as a whole.

## PROFITABILITY FOR THE SHAREHOLDER IN 2004 (05-13)

The significant increase in the dividend in 2004 (making Telefónica one of the most attractive options on the telecommunications market) combined with a general rise in share prices during the year, meant that shareholders investing in Telefónica on 1 January 2004 would have seen the value of their stake rise by 22.51%. An investment in 100 shares at the beginning of the year involved a capital outlay of 1,164 euros. As of 31 December 2004, these shares would be worth 1,386 euros due to the rise in the share price, and an additional dividend payment of 40 euros would also have been made.

	Per share
Acquisition of 100 shares on 1 January 2004	11.64
Cash dividend (14 May)	0.2 €
Cash dividend (12 November)	0.2 €
Share price as of 1 January 2005	13.86
Total portfolio value	14.26
<b>Profitability</b>	<b>22.51%</b>





## 06

## Employees: clarity and professional development



## 06/01 clarity

The leadership and commitment of the Group's employees is one of the cornerstones of Telefónica's transformation

**WORKPLACE  
ENVIRONMENT SURVEYS**
**77%**

*Responded yes to: I am happy to be working in this Company.*

## 06/02 compensation

The compensation system strives to motivate employees competitively, fairly and consistently

**PERSONNEL COSTS 2004**
**4,411**

*million euros*

## 06/03 professional development

Telefónica has set itself the challenge of becoming the best future option for its entire team of professionals

**HOURS OF TRAINING**
**8,910,182**

## 06/04 exemplary conduct

Telefónica is committed to human rights and working conditions as set out in the Global Compact

**LABOUR  
RELATIONS AUDIT**

## 06/05 employee solidarity

Telefónica is proud of its employees' commitment to social action

**ATAM**
**61,634**

*participating employees*



The trust of our employees is founded on the personal and professional development of each of them and on responsible conduct with regards to human rights and cultural diversity

The commitment of the people in the Telefónica Group has become one of the cornerstones of the transformation envisaged for the 2005 – 2008 period

To speed up the transformation process and reach the objective of being the largest and the best integrated telecommunications group in the world, Telefónica has set itself the goal of becoming the best future option for its entire team of professionals and a role model in the industry. With this in mind, throughout 2004 the Company sought to consolidate the Group-based and individual Leadership and Commitment of the more than 173,000 professionals it now employs.

Therefore, Telefónica has strengthened its value proposal to its professionals, seeking in the process to become a company that its employees can feel proud of, a company *of and for* its employees, where relationships are founded on trust, where the hard work of each individual is justly rewarded, and where everyone has the opportunity to grow both professionally and personally.

To bolster this process a number of initiatives were introduced throughout 2004 based on four main principles: Clarity, Remuneration Policy, Professional Development and Exemplary Conduct. As a result of this work, more than 20 concrete initiatives have been identified, some of which were launched in 2004, with others beginning their development at the beginning of 2005.

## 01 CLARITY

### a) Over 173,000 employees

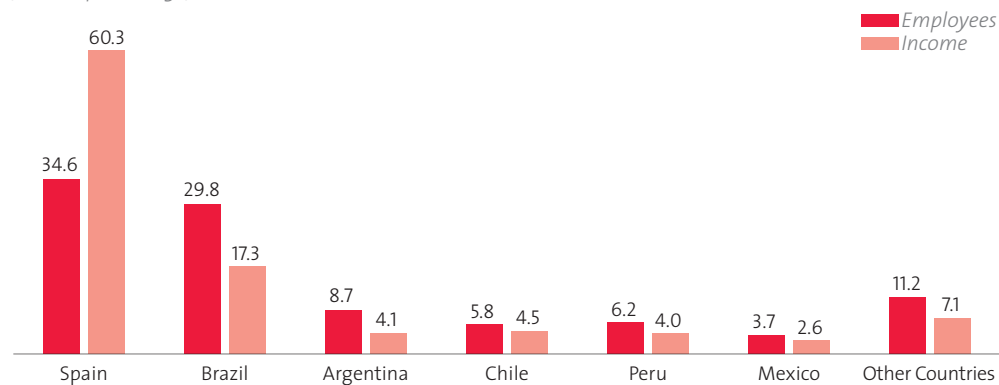
As of December 2004, the Telefónica Group had a total of 173,554 employees, basically distributed between America (62% of the staff) and Europe (37%). By country, the contributions of Spain and Brazil stand out, as between the two they comprise 64% of the total employees. A comparative analysis of income distribution against employee distribution generated by Telefónica Group by country shows the Company's commitment to development of its activities in all the countries where it is present.

The most significant changes affecting Telefónica's staff during the 2004 year are:

- Reorganization of the Data business line (Telefónica Empresas) which is integrated into Telefónica de España and Telefónica Latinoamérica.
- November 2004 saw the integration of the BellSouth companies into Telefónica Móviles with more than 6,000 employees in Peru, Guatemala, Colombia, Uruguay, Venezuela, Ecuador, Panama and Nicaragua. Integration into Argentina and Chile took place in January 2005.

## WORKFORCE AT DECEMBER 31 2004 (06-1)

By line of activity	2002	2003	2004	By country	2002	2003	2004
Telefónica de España	44,091	38,464	<b>36,425</b>	Spain	64,444	58,189	<b>59,978</b>
Telefónica Móviles	13,694	13,093	<b>19,797</b>	Brazil	41,381	42,496	<b>51,741</b>
Terra	2,455	2,229	<b>1,584</b>	Argentina	13,843	14,100	<b>15,177</b>
Admira/Content	5,574	4,638	<b>5,860</b>	Chile	8,006	8,795	<b>10,060</b>
Telefónica Latinoamérica	27,880	25,762	<b>25,905</b>	Peru	8,826	9,422	<b>10,733</b>
TPI	2,752	2,787	<b>2,876</b>	Mexico	4,630	5,228	<b>6,493</b>
Other Companies	6,967	6,921	<b>6,278</b>	Other	11,715	10,058	<b>19,372</b>
Atento	49,432	54,394	<b>74,829</b>	<b>Total Group</b>	<b>152,845</b>	<b>148,288</b>	<b>173,554</b>
<b>Telefónica Group</b>	<b>152,845</b>	<b>148,288</b>	<b>173,554</b>				

**WORKFORCE DISTRIBUTION COMPARED TO 2004 INCOME DISTRIBUTION (06-2)***(Data in percentage)*

- An increase in the activity at Atento, which allowed completion of the financial year with 38% growth in the number of employees that has created more than 20,000 new job positions.
- Continuation of the Employee Redundancy Plan at Telefónica de España as approved by the *General Directorate of Labor at the Ministry of Labor and Social Affairs* for the 2003 – 2007 period. The Plan, which is governed by the principles of free will, universality and non-discrimination, will affect 15,000 workers. During the 2004 year, a total of 2,417 employees requested inclusion in the Plan, which, when added to the 2003 figure, totals 7,801 requests for departure.

The principle characteristics of Telefónica Group's workforce around the world are described below:

- 86% of the equivalent staff has a fixed or indefinite contract; the rest are distributed among temporary contract workers (13%) and internships (1%).
- The employee hierarchy rate drops by 0.5 percentage points with respect to 2003, ending up at 4.24%. This index is calculated as the percentage represented by senior management, the administration and middle managers over the total staff.
- Distribution of the Telefónica Group employees by function, without taking into consideration the Atento Group workforce, indicates that 33.2% are engaged in sales functions, 51.2% in production and 15.6% in support activities. With respect to 2003, the increase in sales staff stands out by more than 1.5 percentage points, thanks to efforts of companies whose sales employees have evolved in two ways: first, sales staff increased, and second, the commercial culture was reinforced in the balance of activities.

- Average employee seniority ranges from 2 years seniority at the Atento companies to 19 years seniority at Telefónica de España, followed by Telefónica de Argentina (18 years), with estimated average seniority of 8 years. The average age of the staff is approximately 34.

**b) Workplace Environment****Workplace Environment Studies**

Until 2004, workplace environment studies were done by some Telefónica Group companies that measured differing aspects and dimensions, which made comparison between them difficult. During 2004, a common model was designed for all companies, which consolidated Group information and offered a clear picture of the current situation with a view to implementing initiatives to contribute to workplace environment improvement.

This model is composed of a group of seven corporate indicators based on 29 questions common to all Group environment surveys. These indicators are: i) clarity of communication, ii) leadership of the immediate supervisor, iii) confidence in management, iv) professional development, v) customer orientation, vi) internal collaboration, and vii) perception of the Group. Furthermore, each company can include additional questions to delve deeper into its employees' perceptions in detail.

The new survey is addressed at all employees and began to be applied in November, 2004. Forty-seven of the Group companies participated in the first application of this Model (November 04 to February 05), with an overall participation rate of 61%.

Telefónica employees have indicated their satisfaction primarily with:

- Their integration in a solid and financially sound business group.

- Their work in their respective companies.
- Their immediate workplace surroundings, viewing collaboration with colleagues and relations with their immediate supervisors favorably.
- The trust inspired by the products and services the Company provides to the markets and its customers.

There is no uniform environment throughout the Telefónica Group, as the social and labor variables of the countries in which the

employees work appear to have a stronger influence than the characteristics of the business itself and the direct practises of each company.

On the other hand, regardless of the business line studied in the surveys, the results of the companies in Spain appear to be less favorable than those from companies located in Latin America.

**Workplace Environment Monitoring Group**  
During 2004 the Workplace Environment Monitoring Group was created, a work group composed of those responsible for Workplace

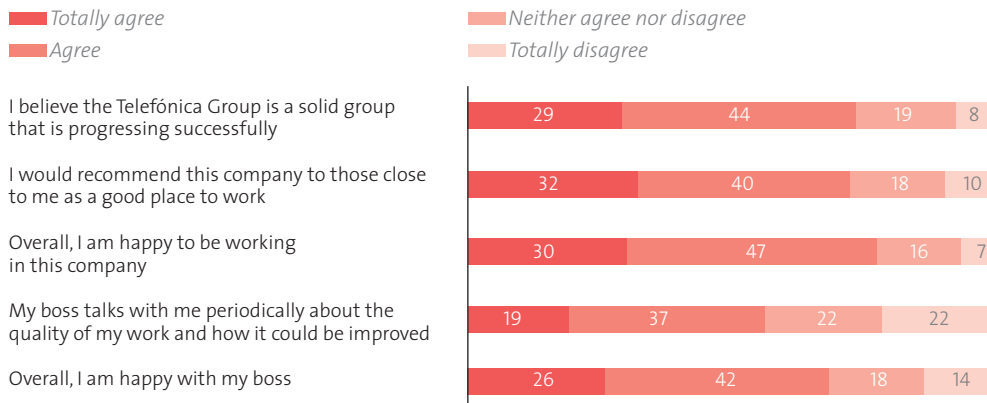
CASE STUDY

CONTRIBUTION BY ATENTO TO THE CREATION OF JOBS FOR YOUNG PEOPLE (06-3)

Young people and students are currently the groups that meet with greatest difficulty in accessing employment. Atento stands out for offering young people a first job that allows professionals to work with computers, generate customer contacts and understand how a big company works -- skills much appreciated by the labor market.

- In Brazil, Atento has received numerous recognitions for its role as a job generator for young students between 18 and 24 years of age, notably for its generation of 8,812 first jobs during the 2004 year. This contribution is especially important in a country with unemployment figures of approximately 11%.
- In Mexico, 67% of the telephone operation staff have university studies, which reflects the opportunity it offers students to find a first career. These percentages are also significant in Peru (49%), Spain (26%), Chile (22%) and Argentina (13%).
- In Colombia and Puerto Rico, Atento is involved in the government programs Youth in Action and Federal Government National Assistance Program, helping to train young people who have no jobs.
- In Spain, Peru and Morocco, its collaboration with several universities, study centers and institutes to boost employment of young students is also noteworthy.

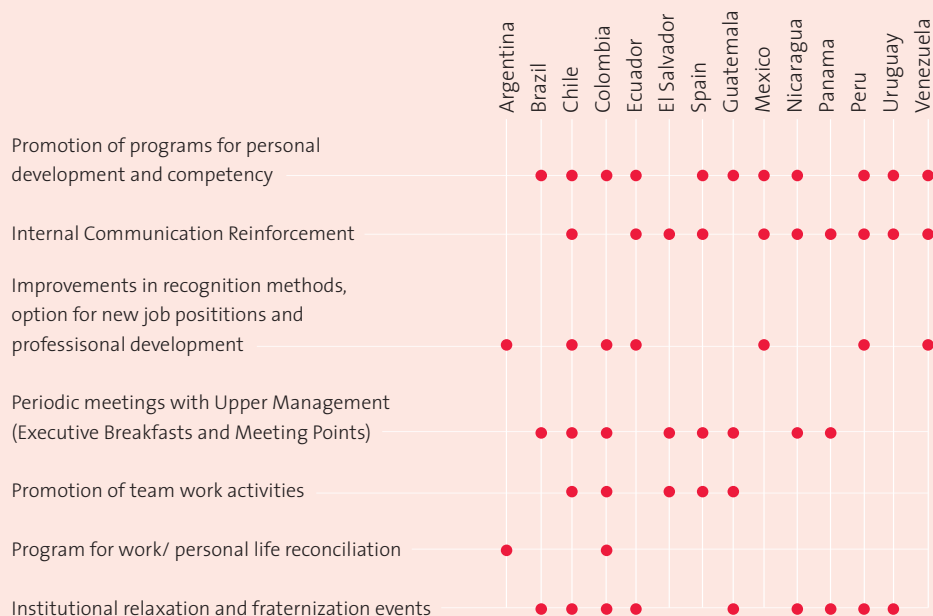
In addition, Atento offers flexible work schedules that allow students to work and study, which is especially appropriate for university or technical students.

**RESULTS OF WORKPLACE ENVIRONMENT SURVEYS (06-4)***(Data in percentage)*

Environment at the principal Telefónica companies. Its mission is to analyze and share initiatives being introduced in the Telefónica Group and in other companies to improve the workplace environment and, specifically, to create a space for debate and innovation that helps us foster employee satisfaction within the Group as a whole. The Workplace Environment Monitoring Group took its first steps in Spain, but also has plans to work in coordination with groups from Argentina, Brazil, Chile, Peru and Mexico.

**c) Internal Communication**

Internal communication is a key element contributing to the process of Company transformation. In 2004, Telefónica approved the commencement of a Corporate Global Communications Administration Plan, aligned with the Strategic Plan, with a view to transferring Telefónica's vision and strategy to the entire workforce.

**CASE STUDY****PROGRAMS OF ACTIONS BASED ON WORKPLACE ENVIRONMENT SURVEY RESULTS AT TELEFÓNICA MÓVILES. (06-5)**

## MAIN CHANNELS OF INTERNAL COMMUNICATION (06-6)

Channel	Description
Televip	Printed internal communication magazine with a circulation of 50,000 copies monthly. There are 8 national editions of Televip (Argentina, Brazil El Salvador, Spain, Guatemala, Mexico, Peru and Puerto Rico) and specific pages for specific agreements (Telefónica de España, Móviles, Telefónica I+D...)
Infobuzón	Daily electronic internal communication service from Telefónica. Every day it is distributed by means of different Infobuzón editions (Infobuzón in Argentina and Spain, Diario Electrónico in Chile or Televip M@il in Brazil)
e-Domus	Telefónica de España employee portal. In 2004 it received an award as the best Employee Portal in the business category of over 5,000 employees, a prize sponsored by Inforpress Group, the Instituto de la Empresa and the magazine, Capital Humano.
Somos	Monthly internal communications magazine at Telefónica Móviles, with an on-line version in three languages (Spanish, Portuguese and French). It enables information sharing about the business as well as fostering feelings of belonging to the Group, favouring employment of new Latin American operators.
Sintonía	Bimonthly magazine with content primarily addressed at telephone operation personnel at Atento.

This Plan, which commenced development in 2005, has two basic work focuses: firstly, to establish unique communications dynamics for all Group employees in all countries and secondly, to focus communications on the five cornerstones of transformation defined at the 2004 Management Summit. All of this will mean replacement of the internal communications channels the Company now has in place, as well as the possible creation of new ones to refocus internal cohesion.

Also in 2004, a new integrated Intranet model has been proposed for the entire Group, approved in 2005. By taking advantage of the different and very diverse contents offered by all of its companies, this new model will integrate all those contents into one single visibility and single-company internal perception. Other internal channels of communication equally utilized are email, the programming of cascade communications for the employees and bulletin boards.

#### d) Motivation

For the Telefónica Group, a good work environment that motivates all its employees is essential. The goal is to ensure the so-called circle of trust: happy employees plus excellent service means satisfied customers.

The Management Summit, held in 2004, was broadcast to all employees of the Telefónica Group across a specific Intranet channel. This meeting launched the shared challenge to become the best and largest integrated telecommunications group in the world.

Following the summit conference, the degree of identification with this goal reached a level of 4.44 out of 5, and 90% of employees declared themselves ready to work on the cornerstones of the transformation process.

The different businesses of the Telefónica Group held meetings between the managers and the rest of the staff, the most notable of which were those held for Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles and Terra. Likewise, both Telefónica Latinoamérica and Telefónica de España have launched corporate programs orienting the entire staff towards achieving results, fostering the creation of Group feeling and the establishment of shared objectives for the entire staff.

Motivate is one of the four cornerstones upon which Telefónica de España's strategic program *meta: Cliente* rests. Its objective is improvement of employee satisfaction. Within this program, five main activities have been established that endeavor to improve leadership, participation and involvement of the entire staff, professional careers, communication and training.

A highlight of the motivational initiatives is the Atento Talent Show. In 2000, Atento Brazil collaborated with TeleSP to create a motivational plan for telephone operators. In this initiative, the employees of Atento made used different forms of artistic expression (song, dance, theater...) with messages about business, customers and the workplace environment. The motto is to always act as a group and to seek commitment and integration through creativity and good humor. These days,

## CASE STUDY

## CASCADED COMMUNICATIONS AT THE MANAGEMENT SUMMIT (06-7)

For Telefónica it is essential that the foundations driving the transformation process towards the best and largest integrated telecommunications group in the world reach all its employees. With this in mind, different communications activities were developed during the Management Summit.

- Intranet Broadcast of Telefónica's in text and video form of all the Management Summit meetings held in Madrid with attendance of 1,000 Telefónica Group Directors from every country in which it operates.
- The Managers used one section of the Intranet for all documentation regarding the Summit. Once this ended, they were surveyed about course of the Summit, resulting in a 24% response rate and a average score of 4.3 out of 5.
- For the purpose of spreading the Management's message, integrated cascade communications packets were prepared for each presentation, a guide for message communication and a video summary of the Summit content.
- A survey was made of all employees with regard to the messages launched at the Management Summit. 71.4% of the employees who responded to the survey stated they had followed the Summit and 48% that they had received specific communications from their Manager.
- After the Summit and cascade communications, the degree of employee identification with the Company's goals reached 4.44 out of 5. Furthermore, 90% of the employees declared they were willing to work on the lines necessary to achieve the transformation.

## RECOGNITION FOR TELEFÓNICA'S EMPLOYEE MANAGEMENT (06-8)

- The Telefónica Group has been chosen for another year as the ideal employer by students from the best universities and business school in all Spain, according to the study done by *Universum Communications*. This ranking comprised of 130 global Spanish companies places Telefónica in the number one spot among technology students and in the top 25 among business students.
- The employee portal at Telefónica de España (e-domus) was honored in 2004 as the best Employee Portal in the company category of over 5,000 employees. The prize was sponsored by *Grupo Inforpress*, *Instituto de La Empresa* and the magazine, *Capital Humano*.
- Telefónica de Argentina received the *Gold Quill Award Excellence 2004*, within the Internal Communications Plans category in the international competition organized annually by the *International Association of Business Communicators (IABC)*. Telefónica is the second company to win this honor in Argentina and the first to receive it in the Internal Communications category. This honor is complemented by an Honorable Mention in the *Eikon Awards* in the Internal Communications category for the *Pentatlon Project*.
- Honorable Mention for the *Best Places to Work Clarín Prize* in Argentina, with Telefónica taking fifth place.
- In Brazil, t-Gestiona took the Top HR 2003 prize for its social responsibility project "Faça sua Parte". In addition, the director of Corporate Human Resources in Brazil received the Outstanding HR Award 2004, promoted by the publisher *Gestão & RH* for the case *Transforming Competency Values – Aligning Corporate Behavior to Establish a Single Group Culture*.
- Telefónica's Corporate Volunteer Program was distinguished in Argentina with the Caring Entrepreneur 2004 Prize, which is a stimulus for the work of the nearly 700 volunteers who participate in the program.



with more than 11,000 employee participants at the 2004 Talent Show, it is the major motivational campaign at Atento Brazil, and has been exported to other countries such as Chile, Colombia, Peru and Venezuela.

Telefónica employees foster relationships amongst one another through numerous events and sporting or cultural competitions. The most popular sports—indoor soccer, soccer, basketball, volley ball-- are team sports in which the team comes before the individual. Telefónica's Cultural gathers interested employees in sharing social, cultural, training activities or travel.

Additionally, in nearly every country special days are celebrated such as Secretary's Day, Telephone Operator's Day, Supervisor's Day... Similarly, there are special celebrations for operations anniversaries in each country. Finally, different companies organize special workdays and activities to bring the employees' families into the company, specially oriented for children.

2004 Personnel costs in  
the Telefónica Group

**4,411**  
million Euros

## 02 COMPENSATION

### a) Compensation Policy

Telefónica Group's compensation system is aligned with the Group's global strategy and best practices of the marketplace to motivate the employee while being competitive, fair and consistent through the establishment of a compensation package based on the following points:

- Adaptation the reality of each market and each Business Line.
- Consistency with the Telefónica Group's values.
- Focus on key persons according to their performance and contribution.

- Relevance of non-monetary compensation: social and in-kind benefits.

The salary conditions of more than 120,000 employees of the Telefónica Group are governed by collective bargaining agreements. Personnel costs in the Telefónica Group in 2004 totaled 4,411 million euros, which represents approximately 15% of the Group's 2004 revenues. The Compensation Package (fixed compensation + variable compensation + benefits + pension plans + commissions) account for 75% of the total, 71% of which corresponds to the total of the fixed and variable compensation and 4% to benefits.

During 2004, a common global compensation framework was established for all Group management, covering both fixed and variable compensation. This framework is oriented towards achieving results and defines strategies, offering the necessary flexibility and transparency to maintain the maximum internal fairness and outward competitiveness possible and to favor mobility, attraction, motivation and retention of management talent.

### Fixed Compensation

The 2004 year saw the implementation of the Global Compensation Plan, comprised of the implementation of a methodology and analysis, and the review of the compensation package that is both unique and common to all Telefónica Group companies. The objectives of this plan are:

- To have a global Group compensation policy with criteria for review, management processes and administration with clearly defined roles and responsibilities.
- To facilitate management of Group management's compensation, applying uniform criteria.
- To facilitate mobility between the different activity lines.

- To align compensation with the new Group business focus.
- To optimize costs through total compensation with economies of scale and supplier selection and effective systems control.
- To manage sources of common, solid and accurate information for each market.
- Identification of gaps in the market and opportunities for improvement and/or savings.

#### Variable Compensation

For years, the Telefónica Group has been working on designing and implementing variable compensation policies that reward effort and the fulfillment of its employees' objectives. These policies seek, on the one hand, a greater commitment and involvement by employees with company objectives, and on the other, greater fairness in the compensation system.

Variable compensation is designed to mobilize attainment of the Group's global objectives and to compensate in function of contribution to

results. It is based on a model which, linked to global Group results, combines the perspective of objective achievement (what has been done) with perception about achievement methods (how it has been done). More than 105,000 employees are subject to variable compensation based on achieving individual, company and Group objectives.

#### b) Pension Plans

Employees of the Telefónica Group in Spain and Brazil participate in pension plans promoted by the Group. In the rest of the countries, employees participate in public pension plans.

The Telefónica Group employee pension plans in Spain are managed by Fonditel (a subsidiary of the Telefónica Group) and achieved profitability of between 6.4% and 7% in 2004. The volume of assets managed at the close of 2004 reached a figure of 3,885 million euros in the case of the Telefónica de España's Employees Plan and 157,8 million euros in Fonditel B, which combines the employees' pension plans with the rest of the Telefónica Group companies.

**105,411**  
employees subject to  
variable compensation

## CASE STUDY

### COMPENSATION SYSTEM AT ATENTO (06-9)

At Atento, the compensation system is based on collective bargaining agreements for the operations and administrative employees, along with a variable compensation system with objectives for 90% of the workforce.

In terms of the pay scale, the salaries paid by Atento are based on the existing legal minimum wage in the national economy of each country where operations take place. In Argentina and Mexico, the minimum wage paid by Atento is equivalent to 2.25 times the existing minimum wage of the country. In Chile, this drops to 1.66, in Spain to 1.44, in Brazil to 1.38 and in Morocco to 1.51. Other countries (Peru, Venezuela, Puerto Rico, Colombia) have ratios of less than 1.2.

## HEALTH PLANS FOR TELEFÓNICA EMPLOYEES (06-10)

	% Staff with Private Health Plans
Telefónica de España	95
T Latinoamérica	42
Telefónica Móviles	91
Atento	36
Terra	52
TPI	34
Other companies	79
<b>Telefónica Group</b>	<b>55</b>

In 2004, Fonditel received important management awards and recognitions at the national as well as international levels. As such, the publication Mi Cartera de Inversion named Fonditel as the best pension fund manager in Spain. This same distinction was awarded to Fonditel by the communication group Intereconomía, along with Morningstar for the fourth year running.

Fonditel also received the prestigious European IPE award (Investments & Pensions Europe) as Spain's best pension plan and, even more noteworthy, the Fonditel management received the award at the European level for best core-satellite management, which distinguishes the European fund that best combines the asset portfolio with risk structure.

In addition, Fonditel includes its associates in a Collective Risk Insurance Policy that offers coverage against contingencies such as death or complete disability due to injury, illness and partial disability for those workers who voluntarily request such coverage.

During 2004, the Fonditel Pension Fund Management system was certified under ISO 9001:2000 standards in the field of Pension Fund Management, which clearly evidences the excellence of its activities.

Over 96% of the employees of Telefónica del Perú participate in the pension programs offered in the country. Most do it through the private pension system operated by the Pension Funds Administrators (AFP). The remaining employees, especially those in the lower income brackets, are supported by a public pension system.

In Brazil, over 7,000 employees of TeleSP, the Corporate Center and Telefónica Empresas have private pension plans, in which employees' personal contributions are matched by company contributions.

## c) Health Plans

In Spain, Telefónica de España and Telefónica S.A. underwrite insurance policies for their employees with the Antares Group, consolidating the complementary health coverage from the Social Security General Regime for active employees, their wives and children, early retirees and those who have left the company.

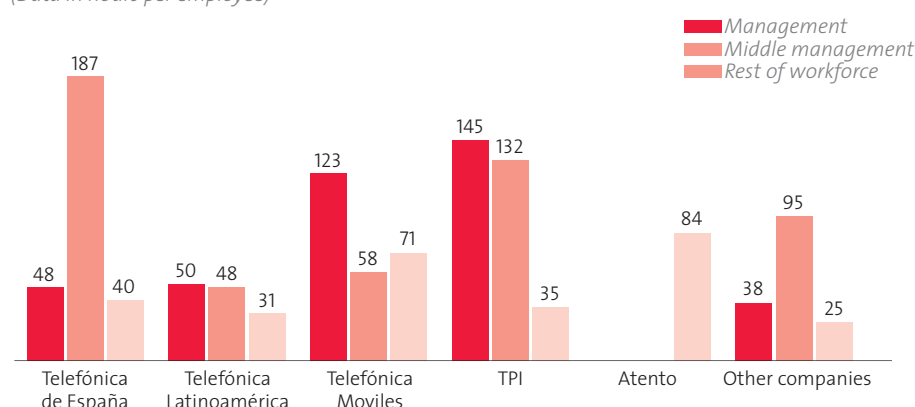
In Chile, the former health insurance system based on an internal institution has been changed and has now moved towards a private institution (ISAPRE) that competes in the market and provides more comprehensive health coverage.

In Peru, most of the companies in the Telefónica Group have health plans that supplement those that other workers in the country generally have. The Group companies have agreements with Private Health Provider Companies (EPS), which act as private insurers to look after the needs of the employees and their family members. Similarly, at Telefónica del Perú a group of employees and their families are covered by a self-insurance system (PAMF) that offer services similar to private insurance.

In Argentina, over 3,600 employees from the Telefónica Group have private health plan benefits. TELESP in Brazil offers all its employees and their dependents the chance to be included in the health and assistance plan from Plamtel, which offers more comprehensive services than those generally found on the market and has been recognized by Accoesp (State of Sao Paulo Association of Medical Clinics and Doctors' Offices). Over 28,000 employees throughout the country have access to health services of this type.

## d) Stock Option Plans

Telefónica had an established compensation system for its employees linked to the listed

**AVERAGE HOURS OF TRAINING PER EMPLOYEE (06-11)***(Data in hours per employee)*

value of Company shares, with a stock options program called the *TIES Program*.

On February 15, 2005, this program concluded after expiration of the period established for beneficiary participants to exercise the options they held on Telefónica, S.A. shares. The average weighted exchange of Telefónica shares on the Continuous Market was less than the Initial Reference Value fixed at 20.5 euros, and thus option holders did not exercise their options, which were cancelled and rendered ineffective, thereby ending the *TIES Program*.

Regarding other listed subsidiaries, it is important to note that Telefónica Móviles, S.A. and Terra Networks, S.A. continue to have their own compensation systems linked to the listed value of their respective shares.

**03 PROFESSIONAL DEVELOPMENT**

In its desire to be the best and largest integrated telecommunications group in the world, Telefónica has set itself the challenge of becoming the best future option for all its professionals. In order to achieve this, the Company is developing a number of initiatives in training matters, and in professional and competitive development, as described below.

**a) Training**

The employees of Telefónica Group invested nearly 9 million hours of training in 2004; most notable was the Atento effort with more than 5.5 million hours of training for its employees. The number of individually trained employees surpasses 600,000, which represents an average of more than three training activities per employee. The percentage of employees who received training in 2004 was over 84%.

The number of training hours per employee exceeds 60 hours, which breaks down into 48 hours of senior management training, 76 hours

of middle management training, and 60 hours for the rest of the workforce.

Throughout 2004, training has been marked by programs devoted to change the entire staff's orientation towards the customer, highlighted by the following:

- *Management Program: Transforming the Organization Towards the Customer.* This program is designed for 1,400 Group executives over a two-year period (2004 and 2005). It commenced last June in Spain, where it is slated to be held 9 times annually, and continued with versions in Argentina, Brazil and Peru. It is also expected to begin within the next few months in Chile and Mexico.
- *Training itinerary Commitment to Our Customers,* addressed at 7,200 Group middle managers, who, over the course of the next 2 years, will be in charge of deploying their staff's commitment to making a real impact on the customer. This has already begun in Spain, where 1,500 employees from all the businesses have participated in the courses.
- Activities designed for all Group employees, who have the opportunity to develop their business orientation through specific courses from the Training Portal.

**TRAINING HOURS PER BUSINESS LINE (06-12)**

	2003	2004
Telefónica España	1,907,743	1,566,794
Telefónica Latinoamérica	719,307	812,665
Móviles	671,504	684,094
TPI	223,317	111,105
Atento	2,457,017	5,567,453
Other companies	390,344	168,072
<b>Total</b>	<b>6,369,232</b>	<b>8,910,182</b>

## TELEFÓNICA GROUP SKILLS (06-13)

Skill	Description
<b>Customer commitment</b>	Works together with customers (national and international), understanding and anticipating their needs and offering them quality solutions with high added value
<b>Integration</b>	Understands and participates in the environment (corporate, customer, business, employee and stockholder), adequately adapting to the situations and driving changes
<b>Clear Communications and Relations</b>	Knows and uses communication to generate a good climate
<b>Collaboration</b>	Cooperates actively in achieving common objectives
<b>Personnel Development</b>	Is committed to professional and personal growth of others and self
<b>Contribution to Results</b>	Effectively manages resources and is always promoting business results with initiative

133,000

employees at the Telefónica Group assessed on the basis of the development of skills.

- *Start with Sales* is a transformation initiative involving all employees who joins the Telefónica de España staff, who are required to spend at least 6 weeks in the sales area. This activity aims to increase the customer orientation and commercial vision of everyone in the organization, thereby contributing to the company's transformation.

**Teletraining**

Over the past few years, the Telefónica Group has relied on teletraining as the method which, independently or combined with current activities, has promoted the Group's training objectives in general and of the lines in particular.

During 2004, the a+ service has evolved towards launching Telefónica's Corporate Training Portal, responding to the Group's vision of e-learning: to unify its employees' skills and competencies, make training access flexible, and act as a catalyst in the practice of sharing knowledge. The portal is available in two languages (Spanish and Portuguese) and is accessible from Spain, Argentina, Brazil, Chile, Peru, and the rest of the Latin American countries.

Furthermore, this year investment has been made in new transversal content and in corporate competencies, and development has begun on business simulators that place the student face-to-face with situations he/she must solve.

In the same vein, there have been improvements in online training access channels, such as:

- *Virtual Classroom* (Centra): It simulates a real class via computer, allowing real time interactivity between the trainer and students. This tool permits combining voice and image, sharing applications, working in groups, doing live surveys or evaluations, etc.
- *Mobile learning*: Allows student to take the class (totally or partially) via mobile devices integrated with the training platform.
- Move to train employees in new technologies via an exclusive offer of computer and broadband for its employees.

This Group-wide initiative is aimed at extending the use of information technologies and the a+ corporate portal, which offers employees the most suitable courses in basic computer skills, the Internet and broadband.

The results of activities in 2004 show a clear consolidation of e-learning in Group companies:

- 89.73% of the Group staff is registered with a+ (120 companies in 18 countries)
- The per-employee training time has increased by one hour with respect to 2003 (10h 26m), reaching 962,906 hours.
- The number of students who have completed training plans doubled with respect to 2003.
- Approximately 70% of enrolled students have actively participated in training activities with a 72% completion level.

### b) Skills Development

All the Telefónica Group lines share a new system of generic skills for all employees that reinforce Group values. Skills are the activity guidelines that allow each of its employees to know what the company expects from them while also serving as a personalized guide for professional development for each.

To this end, all employees participated in an assessment process that consisted of at least self-evaluation and evaluation by their supervisors. The results of this assessment allowed identification of areas of improvement for each employee and appropriate activities to develop each year. During 2004, more than 133,000 employees from the Telefónica Group were evaluated based on their skills, which was an increase of 60% over the prior year.

### c) International Mobility

After working for 2 years with most of the Group companies, t-Gestiona España continues to consolidate the service it provides through the International Mobility Unit.

This growth is plain in its constant increase, in the volume of those moved that it has managed in 2004 (nearly 100 between new transferees and returnees); in the companies that participate (over 30 in 2004); and in the number of destination countries, motivated by the recent purchase of *Bellsouth*.

On the other hand, the International Mobility Unit continues to take enormous strides in its methods. It is pursuing its objective to create one single centralized policy to tend to the needs of the expatriate, the company of origin, and the destination company through a *Transferees Manual*, and its annexed Guides to Madrid, Buenos Aires and Sao Paulo (the Guides to Lima and Santiago, Chile are currently in development).

### d) Idea Contests

*idealab!* is Telefónica de España's program that encourages participation by its employees' in improving different areas of the company, while recognizing the effort it takes to innovate various processes. It uses an Intranet channel, *Innova*, created to enable and promote a continual process of idea gathering. In 2004 1,049 new ideas were proposed, 10% more than in 2003.

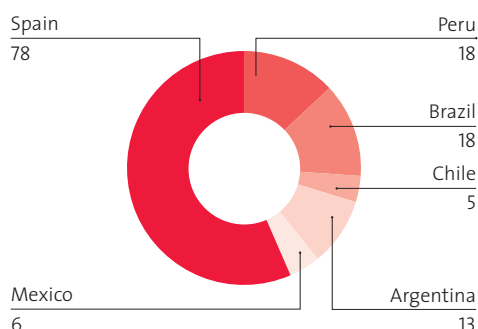
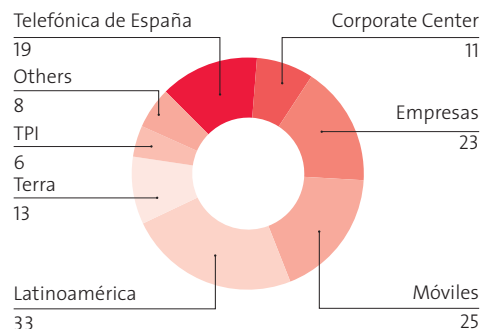
In addition, in 2004 Telefónica Móviles España's competition, the *Patent-Idea Factory* received 310 proposals. In 2004, this competition was comprised of 3 contests focused on three key objectives: improved quality, increased earnings, and greater efficiency.

In Argentina, there is a participation initiative called *Pentathlon*, through which the Company receives new ideas to improve its operations.

In Brazil, there was also an award for the third edition of the *Race of Champions*, designed to compensate initiatives related to all activities that contribute to improving business orientation towards the customer.

#### IDEA COMPETITIONS AT TELEFÓNICA GROUP (6-14)

	Nº of employee suggestions	Nº of employee ideas introduced
Telefónica de España	1,049	18
T-Latinoamérica	201	142
T-Móviles	807	74
Atento	607	92
TERRA	35	0
TPI	15	10
Other companies	76	36
<b>Telefónica Group</b>	<b>2,755</b>	<b>372</b>

**DISTRIBUTION OF JAPS - 2004 BY COUNTRY***(Data in number of professionals)***DISTRIBUTION OF JAPS - 2004 BY ACTIVITY LINES (06-16)***(Data in number of professionals)***CASE STUDY****PROGRAM FOR HIGH POTENTIAL YOUTH (JAP) (06-17)**

The program's mission is to identify and develop young talent in the Group at the outset of their professional careers. This program, begun in the 90's and revised in 2003, has the following objectives:

- To retain and promote loyalty in persons with talent from the outset of their professional careers.
- To speed up their process of development in the organization.
- To train agents who will promote change towards the new desired culture.
- To form a pool for future Managers for the Telefónica Group.

At the close of 2003, the selection process for new Telefónica Group Youths with High Potential began. It started with 3,150 candidates (from Argentina, Brazil, Chile, Colombia, El Salvador, Spain, Guatemala, Morocco, Mexico, Peru and USA/Miami) and followed the same selection guidelines for all. During the first quarter of 2004, the identification and selection process was finalized, resulting in 138 YHPs selected.

When the results were announced to the candidates and their superiors, the first YHP program cycle began, during which:

- The JAPs worked on their individual development plans with the plan of action they would carry out during the first cycle.
- A mentor was assigned to each JAP.
- All JAPs attended a business training program at a business school. Given the geographic dispersion, the JAPs met in three groups: Spain, Argentina and Brazil.
- The JAPs, with HR support from those companies responsible for managing the program, carried out individual or group development activities in function of areas of development.

In December, 2004, a meeting was held with JAP representatives to follow up the Program and learn what aspects they found most valuable and what others needed correction for the second cycle. Among the most notable aspects found by the Business School Program was the opportunity to better know the realities of other Group companies through contact with other YHPs, and the chance to have a mentor.

During 2005, the JAPs will carry out developmental activities in their individual development programs, such as other corporate activities (rotations, project collaborations, etc.)



## CASE STUDY

### OPPORTUNITIES FOR PROFESSIONAL CAREERS AT ATENTO (06-18)

Atento is a company that, as per the professional profile of its workforce, offers access to the labor market and training for young people. This is evidenced by the number of employees who leave for other jobs more closely related to their studies and vocation.

This perspective is compatible with opportunities for professional careers offered by Atento, where most supervisory jobs come from operations. At Atento Brazil, the Atento company with the greatest number of professionals, the *Escalada* (Move Up) Project allows employees to work their way up the three levels of tele-operation (from simple systems and services to others requiring in-depth knowledge about the product) and later to move into supervisory responsibilities, manager and director. During 2004 Atento Brazil gave out 1,506 internal promotions of this type.

Similar programs are offered in Argentina (103 promotions in 2004) Chile (120 participants at the supervisors school, Colombia (SWAT Program), Spain (Continuous Training Plan), Peru (100% of the supervisors are from tele-operations) and Puerto Rico (80% of the supervisors are former operators).

### STAFF TURNOVER AT ATENTO (06-19)

The professionals working at Atento often use their company work experience and the high training level offered by Atento as a ladder to more vocational work positions or ones related to their studies. As a result, seniority of Atento employees is 1.85 years.

Atento employees also frequently decide to work for a few months to pay for their studies, finance personal expenses or certain investments. Once these objectives have been met, in these cases the employees abandon work activities, a common practise for students during vacation periods.

At times, turnover is also associated with the temporary nature of Atento's customers' contracts. In some instances, the customers' business plan involves temporary campaigns (promotion of a publicity campaign, tele-sales, promotions, satisfaction surveys...), and once the service is completed, the jobs created for the service can no longer be maintained. For those occasions where other complementary services are requested, Atento relocates the employee to another campaign, thereby offering greater job stability to those associated with the tele-operation business.

As a significant figure for its number of employees, turnover at Atento Brazil during 2004 was 40%, which means a completely new staff every two and a half years. In Spain's case, turnover reached 32% and in Peru, 30%.

### e) Knowledge Management systems

Telefónica has various knowledge management systems, the aims of which are to encourage the practicing communities to share their experiences and information, so that the organization may know who does what and provide complementary mechanisms to traditional learning and recognition systems. Systems with the highest implementation rate in the Group are:

- *e-Marco*: Knowledge Management Portal and methodology from Practicing Communities applied to Marketing, Regulatory issues and Strategy. It extends to all business lines and countries and specializes in managing more than 22,000 internal documents, offering space for inter-company community projects and debate groups.
- *e-Libris*: This is a system encompassing knowledge in the areas of Fixed Telephony, Broadband and Internet with specialization in competitive intelligence. Among its contents are studies and forecasts by consultants, internal studies and legislation.
- *KISS Móviles* covers technological, service, commercial and regulatory aspects of the mobile telephony business. It includes weekly bulletins that summarize sector news, courses and conference information, international information and results from the principal operators and suppliers.
- *Prometeo and Sócrates*, knowledge management systems implemented in Telefónica Móviles España.

## 04 EXEMPLARY CONDUCT

### a) Human Rights

Telefónica upholds the defense of Human Rights in all its activities through a variety of

mechanisms. For Telefónica, the point of reference in matters of Human Rights is the United Nations Organization, with which it undertook numerous specific collaborations and projects during 2004.

From the formal viewpoint, ratification of this commitment is evidenced precisely by Telefónica's adhesion to the United Nations *Global Compact* in 2002. The company takes a proactive attitude toward the platform that coordinates monitoring and introduction of the *Global Compact* in Spain as well as directly with the *Global Compact* Office in New York.

Companies adhering to the Global Compact promise to fulfill ten principles that promote human rights, labor conditions, respect for the environment and the fight against corruption. Despite the voluntary nature of the *Global Compact*, in 2004 the New York office announced the launch of certain minimal information measures for compliance by companies, addressed at preserving the integrity of the initiative and the signatory companies themselves. Telefónica observes fulfillment of these measures along with recommendations for improvement published by Global Compact.

Of particular relevance was Telefónica's participation, on request from the High Commissioner for Human Rights, in the preparation of the report entitled *Responsibilities of Transnational Corporations and Other Business enterprises with Regard to Human Rights*. Telefónica documented this request with information regarding its actions in relation to employees, suppliers and society in general, and was part of the consultative process both through the Office of the High Commissioner and through the International Employers Organization and the International Labor Organization.

Telefónica participated in assessment of the tool *Human Rights Compliance Assessment*



(HRCA). Developed by the Danish Human Rights Institute with the collaboration of 40 experts in Human Rights matters, the HRCA is a diagnostic interactive tool that companies can use to detect potential violations of human rights caused by the effect of their operations in relation to employees, local communities, and other stakeholders. It is comprised of 20 rights from the Universal Declaration of Human Rights and contains a list of 350 questions and 1,000 indicators.

All employees of security companies that work for Telefónica have received special training in matters of human rights.

Below are principal activities to guarantee respect for the Principles contained in the Global Compact regarding Human Rights and the working environment. (*See Environment and Suppliers chapters for complete information*).

#### **Principle 3 of the Global Compact.**

##### **Companies must defend freedom of association and effective recognition of collective bargaining**

Search for efficiency is the cornerstone on which Telefónica's labor strategy is founded. It is a strategy that takes into account factors that closely influence the transformation of the business to ensure that social dialogue and negotiation definitively constitute key elements in our development as a Group.

In this respect, the Agreement signed in July 2003 between the company and major labor unions proved efficient during the 2004 financial year. Social dialogue and collective bargaining are irreplaceable instruments for labor relations management and governance, and enable collective bargaining to adapt to the changes occurring at the companies. Its sound functioning is clearly evidenced by the meetings held periodically between employees and management.

Likewise, labor relations on the whole have functioned very satisfactorily. Certain achievements made in this area deserve special consideration:

- Currently different collective bargaining agreements apply to over 121,000 employees of Telefónica Group. During this financial year the Telefónica Data España (July 13, 2004) and Telefónica Móviles España (September 30, 2004) agreements were signed.
- Agreement on the Social Plan for Telefónica de España's Employee Redundancy Plan (ERE) for the 2003 – 2007 period. The program is based on voluntary layoffs affecting a maximum of 15,000 workers and the commitment to replace up to 10% of the positions. This plan allows Telefónica de España to reduce the number of employees, while maintaining its competitive level. The plan is non – discriminatory, voluntary, and applies to all company employees. At December 31, 2004, there was a total of 2,417 requests to be included in the redundancy plan. The number of hours of conflict in 2004 was reduced to 15,794, a significant drop from the 54,500 hours in 2003.
- On June 22, 2004, the Ministry of Labor approved the Employee Redundancy Plan (ERE) for Terra Networks. Terra's plan permits a reduction of 130 employees between layoffs and relocations. At the same time the Ministry of Labor approved Terra Latam's ERE that allows reduction of a total of 29 employees through similar methods.
- In Brazil, the 2004-2005 collective agreement signed with Sintetel and Seesp included aspects such as salary rises, increase in the weight of variable compensation in the whole of compensation, renewal of the bank of hours agreement and establishment of a food basket assistance program for employees.

**CASE STUDY****INTERNATIONAL SOCIAL DIALOGUE (06-20)**

In terms of social dialogue in the international sphere, Telefónica and UNI (Union Network International) have committed to meet on an annual basis so that Telefónica's administration can provide the labor unions with general information about the most important Group issues that affect its progress, market position, future, priorities, etc.

The 2004 meeting was held in Lima on February 11, 2005. Among the subjects discussed was a presentation of the Telefónica Group at the current time, its positioning in Latin America, dynamics of the telecommunications sector and the company's future development strategy. Likewise, a very positive assessment was made with regards to different achievements resulting from the company's relationship with the labor unions throughout 2004:

- The most important union matters have been resolved through dialogue and agreements.
- The climate of transparency and cooperation has been more widespread.
- The overall result has been a recognition of significant compensations favoring the employees.

**LABOR AUDIT AT THE TELEFÓNICA GROUP (06-21)**

A labor audit was undertaken at the Telefónica Group in 2004, with the principal aims of ensuring compliance with applicable labor legislation, such as basic HR policies and procedures, as well as to discover, evaluate and correct potential labor contingencies.

This activity was carried out within the framework of a corporate decision taken by the Audit and Control Committee and has affected, in its first phase, 23 of the most important Group companies located in 6 countries (Spain, Argentina, Mexico Brazil, Chile and Peru). The audited companies represent 85.40% of the Telefónica Group, according to the relevant index drawn up according to the Income per Operation, Expenses per Operation, and Weighted Assets.

A prestigious international consulting firm with collaborating offices in those countries was called on to participate in this process. After the relevant report issued by this Auditor, all audited companies had to draw up an action plan that included measures and activities regarding the aspects noted and which, after having been evaluated/approved, is now definitive, and can be completely fulfilled.

The Internal Corporate Units for Intervention, Inspection and Audit, and Corporate Human Resources have encouraged this process, and together with the General Secretariat, coordinate in setting the necessary measures into motion, as well as the supervisory procedure that ensures the solutions are completely implemented in the proper form and time.

Also important in Brazil was participation in the collective bargaining agreement of outside contractors.

- In Peru the collective bargaining agreement was signed with the United Workers Labor Union, the majority institution affiliating 40% of the personnel. Benefits of this agreement have been extended to non-affiliated staff so that the agreement now covers 70% of the employees.
- During the months of November and December 2004 in Argentina, and through different actions involving more than 170,000 hours of labor conflict, a collective bargaining agreement was signed with the principal labor unions including salary rises designed to compensate for the accumulated inflation employees' salaries had suffered during the past two years.
- During the 2004 financial year, for the purpose of negotiations and its employees under the 3rd *Call Center-Collective Bargaining Agreement*, employees decided to resort to their right to strike as a negotiation method. As the strikes were motivated by negotiations carried out at the sector level, our activities were addressed at minimizing their effects, negotiating minimum services with the strike committee and requesting concession of minimum services from official bodies for those services essential to the Community. The number of labor conflict hours at Atento España reached 75,918 in 2004, representing an average of 5.5 hours for each employee in the Company.

Freedom of association is an employee right at Telefónica, as shown in the more than 47,000 employees with labor union affiliation. By company, those with the largest number of affiliated personnel are Telefónica de España with 16,819, Telefónica Latinoamérica with 13,180 and Atento with 16,031. Employee participation

at the Telefónica Group in the labor union elections rose to over 95,000 employees. The more than 2,500 labor union representatives selected used over one million labor union hours during the 2004 year. With regard to labor suits filed by employees, there are currently 2,191 claims in process, particularly with regards to Atento (883), Telefónica Latinoamérica (573) and Telefónica de España (428).

**Principle 4 of the Global Compact.**  
**Elimination of any type of obligatory or forced labor**

The number of hours worked by employees is regulated by the collective bargaining agreements that cover more than 120,000 employees. They are different for each country and business line, according to the needs of the business and the laws of each country.

The Telefónica Group's Collective Bargaining Policy expressly includes limitation of overtime hours. According to queries made, the average hours worked per employee in the Telefónica Group is 1,962 hours per employee and year.

**Principle 5 of the Global Compact.**  
**Abolition of child labor**

Telefónica upholds a *Zero Tolerance* policy for child labor in every country where it is present, a policy that extends to its supply chain through contractual requirements in strict compliance with the laws of each country.

In 2004, the Telefónica Group conducted a labor audit in 23 Group companies located in six different countries. In addition, four Group companies in Brazil obtained certification as *Child-Friendly Companies*.

*Proniño* is a social initiative organized by the Latin American operators acquired by Telefónica Móviles from BellSouth. This program is designed to give Latin American workers' children the chance to attend school, thus contributing to the eradication of child labor in the region and providing these children the

CASE STUDY

BRAZIL.- CHILD-FRIENDLY COMPANY (06-22)

In Brazil, four companies from the Telefónica Group received the Child-Friendly Company Certificate, a certificate from the Abrinq Foundation for Children's and Adolescent's Rights. TeleSP, Telefónica Empresas, Telefónica Assist y T-Gestiona have fulfilled the ten established commitments, which are outlined below:

1. Rejection of child labor.
2. Respect for young employees.
3. Inclusion of contract clauses for suppliers that require rejection of child labor and allow the contractual relationship to terminate in the event of non-compliance.
4. Offer of day-care help for employees' children.
5. Assurance that employees enroll their children under 18 and promote school attendance.
6. Make prenatal training possible for pregnant employees.
7. Favor breast feeding, establishing conditions where the employees can breast feed their babies younger than six month of age.
8. Make employees aware that they should register their newborns.
9. Social investment oriented toward benefitting children and adolescents.
10. Contribution of the equivalent of a 1% tax on the company's income to the Children and Adolescent Rights Fund.

chance to develop, offering them a brighter future.

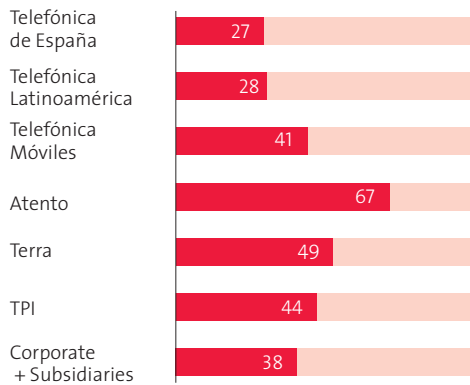
This initiative is undertaken jointly by the subsidiaries of Telefónica Móviles and NGO's that currently offer scholarships to more than 9,000 children. Initiative budget is used to pay for enrollment, school materials, uniforms, transportation and food. The Proniño program also organizes workshops with families and educators, medical check-ups and cultural and sporting activities.

Principle 6 of the Global Compact.  
Elimination of all job-related discrimination

**Gender Equality**  
On average, 48% of the Telefónica Group workforce is comprised of women, in percentages ranging from 35% in Argentina to 61% in Brazil. By lines of activity, Atento stands out with 67% of women at the company. The companies engaged in fixed telephony services show the lowest percentage of women.

**EMPLOYEE DISTRIBUTION BY GENDER AND LINE OF ACTIVITY (06-23)**

(% of Women on Staff)



In terms of management level, there are more than 1,150 woman executives in the Company, representing 22.3% of the senior and middle managers. Companies with the highest percentage of women at these levels are the Corporate Center (30%), TPI (26.5%) and Telefónica Móviles (26%). The lower proportion of women at the fixed telephony companies is reflected in the proportion of management level positions at Telefónica de España (10.6%).

**Equality for the Disabled**

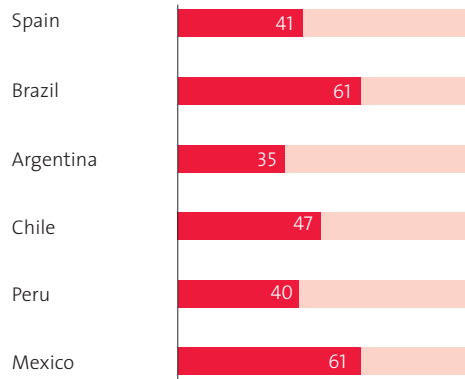
Telefónica's commitment to socio-labor integration of the disabled dates back to the creation of ATAM in 1973, at the initiative of workers and their labor union representatives. ATAM is an initiative described in the section on caring employees. Currently more than 1,000 professionals with disabilities work at Telefónica Group, some 0.5% of its staff worldwide. TeleSP and Atento España are currently the companies that have made the greatest progress in employment of disabled persons.

ATAM offers support to Telefónica in analyzing the various alternatives available and assessing companies in matters of compliance with the prevailing law in this respect. A collaborative system is thus generated for employment, with synergistic effect and benefits for the companies, their employees and the very people with disabilities, all born of respect for rights of the disabled.

ATAM offers the different companies the possibility of using any of the formulas considered in the LISMI (*Disabled Persons Labor Integration Act*) and other legislative developments. In addition to ATAM's *Labor Integration Service (SILA)*, ATAM also has several special employment centers staffed entirely by the disabled, operating in three sectors of activity: industrial laundry, electronic component assembly and telemarketing.

**DISTRIBUTION OF EMPLOYEES BY GENDER AND COUNTRY (06-24)**

(% of women on staff)

**Other Aspects**

Regarding equal opportunity and non-discrimination, the Collective Bargaining Agreement includes recognition of common law couples for the purpose of granting paid leave. Moreover, the agreement on representation of the workers includes concern in the Telefónica de España Collective Agreement for defense of personal dignity, embodied in the commitment to avoid sexual and moral harassment (mobbing) and to implement joint actions to discover possible situations in which this may arise.

Telefónica de España is currently facing a charge of mobbing that is being resolved. In addition, Telefónica Móviles has had a suit filed for the same reason; in this case it is pending only closure of the Social Security agreement, as the labor portion has already been resolved.

For several years now in Chile, Atento has been developing the *Older Adult program* through which this company hires senior citizens. The satisfaction level of those who work in this program is encouraging for developing new initiatives of this kind.

**b) Work / Family Life Balance**

The collective bargaining policy for the Telefónica Group companies identifies the need to manage work time, duration and distribution of the working day, including its annual calculation and flexible distribution. The use of flexi-time systems must have the main aim of balancing the companies' needs with those of their employees, making their working life compatible with their personal and family life.

Different Telefónica Group companies offer help and social benefits to their employees. For example, in Chile Telefónica CTC and Terra pay the Sala Cuna (daycare center) directly so that can use its services for their children under two.

**DISABLED EMPLOYEES (06-25)**

Company	Nº employees
TeleSP Brazil	363
Atento Spain	248
Terra Spain	3
T-Gestiona Spain	4
TPI Brazil	4
Telefónica Companies Peru	4
Telefónica Móviles Spain	28
Telefónica de España	150
Atento Brazil	137
Other Companies	43
<b>Telefónica Group</b>	<b>984</b>

*\*Data does not include employees of ATAM and its companies.*



## CASE STUDY

**ATENTO'S CONTRIBUTION TO THE CREATION OF JOBS FOR GROUPS WITH DIFFICULTIES IN FINDING EMPLOYMENT (06-26)****Opportunities for Housewives**

In Spain, Atento stands out as a company that offers jobs to women who have had no previous work experience. It is important to note that the levels of customer service and attention offered by this group is judged very positively, as evidenced in customer satisfaction surveys.

Among the initiatives of note at Atento Argentina is the move to employ women over 35 in the city of Mar del Plata (Buenos Aires). This group—many times excluded from the working world due to the economic crisis—maintains its labor contract with the company.

In Pachuca (Mexico), Atento participates in a project in which women with children offered a work place in which they may find their own personal achievement. There are currently 55 women with an average of three children each employed in the program.

In Morocco, Atento offers equal professional opportunities to men as well as women, an employment example in a traditional society where women normally have no access to the labor market.

**Integration of the Disabled**

In 2004, three SIAA (*Integral Help and Assistance Services*) Special Job Centers were put into operation. This company was founded at the end of 2003 by Atento Spain, to employ people with physical disabilities.

The three Centers, located in Greater Madrid (Madrid and Getafe) and in Seville, provide special customer services for top-level institutions and entities. At the end of the year, it had a group of 200 employees, most (98%) of whom were disabled persons of very different backgrounds: over 25 taking their first job, housewives, professionals retained to adapt to their disability, etc. To assist in their development, the company gave them specific training and adapted the service positions to their disability, as much from the point of view of architectural accessibility as for specific programs for people with visual impairment, physical impairment, etc.

As part of the SIAA project in 2004, Atento Spain signed an agreement with the Adecco *Foundation for Integration into the Labor Market* with a view to choosing people with disabilities for our Special Employment Centers and establishing the bases to achieve future training classes for telephone operators. With an outlook towards 2005, Atento Spain's objective is to promote expansion of SIAA and open a Special Employment Center in Cáceres in the next few months.

[illegible]

**DOES TELE-WORK CONTRIBUTE TO SUSTAINABLE DEVELOPMENT? (06-28)**

Study by Telefónica I+D published on the Telefónica Corporate Responsibility site

	Employee	Company
Advantages	Improved quality of life Balance of family and work life New social relations Integration into the labor market Redistribution of the population and rural development	Cost reduction Increased productivity Employee motivation Flexibility of work organization Better customer service
Disadvantages	Stress Isolation Longer work day	Information security Employee control Working group cohesion Technological investment

travel time and being able to make optimal use of broadband to efficiently replace on-the-spot participation at meetings and physical work surroundings through video conferencing, professional chats, audio debates, tele-training, virtual work teams, etc. The participating professionals point out the flexibility and chance to improve the balance between professional and family life and the advantages of saving commuting time.

Implementation in Telefónica de España is being done in various phases. Up to now, tele-work has been applied to senior management, middle management and expert positions, although its extension to operational personnel is envisaged. In this deployment, a clause previously agreed-upon with Labor Representatives will be developed to encompass the principles set out in the *European Framework Agreement on Tele-work (July 2002)* between business organizations and labor representatives in the European Union member states.

Other companies have undertaken various experiences in the tele-work and virtual office initiatives, particularly taking advantage of the mobility that *Blackberry* devices have brought, which allow remote access to email.

**DISTRIBUTION OF EMPLOYEES WITH REDUCED WORKING DAY (06-29)**

Company	No. Employees
Telefónica de España	944
Telefónica Latinoamérica	2,057
Telefónica Mviles	1,079
Atento	5,535
Terra	25
TPI	218
Corporate + subsidiaries	405
<b>Telefónica Group</b>	<b>10,263</b>

With the goal of reflecting on the advantages and problems of tele-work, in 2004 Telefónica I+D organized the Spain's first conference on the topic, *Work and Live on the Web*.

**Reduced Working-day**

At December 2004, 10,263 employees had taken advantage of flexi-time in the Telefónica Group companies to work less hours, accounting for 6% of the staff. Among the reasons expressed by employees when requesting this model are illness (25% of cases), maternity (9.8%) or studies (11%).

The duration of maternity leave is according to each country's prevailing law, ranging from 12 weeks in some countries to 18 in others. In the case of Spain, maternity leave lasts 16 weeks.

**c) Health and Safety**

The three main lines of action in Labor Risk Prevention at the Telefónica Group in Spain are detailed in the *Annual Report on Activities of the Common Labor Risk Prevention Service* published in 2004.

Likewise, in the Annual Corporate Responsibility Reports Argentina, Brazil, Chile and Peru detail the various initiatives developed in this area, also structured along the same lines.

**Surveillance promotion and maintenance of occupational health**

This basically consists of three types of health assistance offered in Provincial Basic Health Units:

- Health check-ups (including diagnostic tests),
- Preventative health and vaccination campaigns,
- Health Clinics, conducted by the labor Doctor and/or the RN/SEN at the Company.

**BENEFITS FOR EMPLOYEES AT TELEFÓNICA DE ARGENTINA (06-30)**

Employee Plans	Addressed at all employees, the promotional plans for services offered by the Telefónica Group continued in operation in 2004.
Shopping Website	The <i>Social Action Shopping Portal</i> is an internet site for employees that provides special offers, reductions, and discounts on many products, benefiting all organizational employees and their families.
Scholarships for Employees' Children	Beginning in 2004, Telefónica Fija awarded around 800 cash study grants to benefit employees' children who were in secondary school.
Delivery of School Supply Kits	In March, 2004, the company delivered more than 7,600 school supply kits to employees' children who were studying in elementary and secondary schools.
Camps	In 2004 around 1,100 children participated in Summer Camps for employees' children from 5 to 14: 500 in the capital and greater Buenos Aires and 600 in the interior of the country.
Camps for Employees' Children with Special Needs	Addressed at children with special needs, this activity was carried out during 20 days in the summer season and every Saturday from April to November, 2004.
Delivery of Christmas Boxes	For the end-of-the-year holiday season, the company gave each of its employees a box filled with food products to enliven their family celebrations. In 2004, over 9,500 Christmas boxes were delivered.

**Labor risk prevention (LRP)**

Prevention is fundamentally based on:

- Preventive planning,
- Risk assessment (initial, specialized according to risk, psycho-social risks),
- Fire prevention (emergency drills, action plans),
- Reports and technical studies,
- Technical assessment (health and safety committees, official bodies, different departments of the company).

Throughout 2004, various training courses related to Labor Risk Prevention were offered, detailed as follows:

- Fire prevention courses
- Office labor risk prevention courses
- First Aid courses
- Classes for Prevention Delegates
- Specific training courses for Prevention Service professionals

Employees have exercised their right to establish Health and Safety Committees. These committees have bipartisan representation, composed of an equal number of employees' representatives (chosen from among the majority labor unions) and the Company. Technical consultants from the Common Labor Risk Prevention Service attended the meetings held periodically in 2004.

At Telefónica CTC Chile, the Department of Risk Prevention plays a pivotal role in employee safety through industrial health assessments at all administrative facilities as well as industrial safety inspections at the central telecommunications offices.

In addition, there are 39 joint Health and Safety Committees that observe and make suggestions to the employees on all facility and production processes.

Noteworthy among the training and information initiatives carried out by Telefónica CTC Chile in 2004 were the *Safest Route campaign*, a program of risk control at contractor companies, consulting on 70 telecommunications projects at large copper mining companies; training of 75 professionals on telecommunications projects at large copper mining companies; 40 ergonomic assessments of work stations and the application of a training plan in risk prevention for 200 job interns.

With a view to bringing greater personal safety to Atento, in Peru there is a short transport service that carries personnel to main areas or avenues at times of heavy traffic congestion. In particular, employees who are scheduled for night shift (who leave after 11:00, 12 and 1:00 a.m.) are provided with a way home, as are those who to leave as of 6:00 a.m., who are picked up from their homes.

In Argentina and Brazil there are also Health and Safety Committees that identify the main

**EMPLOYEES SUBJECT TO PREVENTIVE MEDICAL CHECK-UPS. SPAIN (06-31)**

Company	Nº Employees
Telefónica de España	30,239
Telefónica Latinoamérica	9,567
T. Móviles	5,237
Atento	49,167
Terra	387
TPI	1,804
Corporate + subsidiaries	2,958
<b>Telefónica Group</b>	<b>99,359</b>

**LABOR RISK PREVENTION INITIATIVES. SPAIN (06-32)**

Prevention activity	Nº activities
Technical Assessment	4,038
Technical Reports and Studies	2,092
Fire Prevention	508
Risk Evaluations	312

**HEALTH AND SAFETY COMMITTEES AT THE TELEFÓNICA GROUP. SPAIN (06-33)**

Company	Committee
Telefónica de España	1 CHSC and 50 PHSC
ATAM	1 CHSC
Atento	5 HSC
Telefónica Móviles Spain	1 CHSC and 8 PHSC
TELYCO	1 HSC
T.P.I.	1 CHSC and 1 PHSC
T.T.P.	1 CHSC
Telefónica I+D	1 HSC
Telefónica Ingeniería de Seguridad	1 HSC
Telefónica Data Spain	1 HSC

CHSC: Central Health and Safety Committee

HSC: Health and Safety Committee

PHSC: Provincial Health and Safety Committee

**NUMBER OF EMPLOYEE ACCIDENTS (06-34)**

Empresa	2003	2004
Telefónica de España	803	<b>757</b>
Telefónica Latinoamérica	793	<b>691</b>
T. Móviles	185	<b>122</b>
Atento	-	<b>1,930</b>
Terra	-	<b>5</b>
TPI	100	<b>6</b>
Corporate + subsidiaries	42	<b>51</b>

**PREVENTION AND MAINTAINMENT OF LABOR HEALTH INITIATIVES. SPAIN (06-35)**

Activity	No. Visits
Diagnostic Tests	140,927
Health Campaigns	49,433
Health Consultations	77,998
Vaccination	9,102
Health Examinations	42,858

risks for employees and promote training activities to reduce their probable occurrence.

**Accident control**

This is developed along two main lines:

- Positive evaluation of those companies with zero accidents,
- Establishment of a comparison of the frequency and seriousness rates not only between the different Telefónica Group companies but also across the entire services sector.

Since January 1 2004, whenever an employee from Telefónica de España or Telefónica S.A. suffers a work-related accident with leave, a document called the *Immediate Supervisor Report* is filed exclusively by Intranet in compliance with requirements established by the labor authorities.

Given the legal time frames for accident reporting, the *Immediate Supervisor Report* must be completed within 72 hours after the accident takes place.

## CASE STUDY

## HEALTH AND SAFETY MANAGEMENT (06-36)

**Job Stress**

In 2004, the *Foundation for the Prevention of Labor Risks* together with the Common Service for Labor Risk Prevention at the Telefónica Group undertook a study on working conditions at the *Call Centers* in the sales areas of Telefónica de España.

The following risk assessments were made of employees at the Customer Service Centers for customers of: i) the Department of Small and Medium-Sized Enterprises (SME's), Businesses and Professionals of Telefónica de España, ii) the Department of Households in Telefónica de España, iii) Atento Teleservicios España. In those cases where stress pathology was detected, employees have received counseling and orientation by health care professionals, thereby improving occurrences of this situation in telephone operators.

Throughout all of 2004, Telefónica Móviles España implemented a Job Stress Prevention Campaign through which it conducted 2 activities: i) Completion of a questionnaire later personally evaluated by Labor Doctors, ii) Participation in a talk about job and technical stress to address the problem.

**Action Policies in Electromagnetic Fields and Base Stations**

With respect to job exposure to radioelectric emissions at mobile telephone facilities, compliance by all facilities with the required limits set out in prevailing regulations and adoption of the requirements established by the same was verified.

To do so, all controls and necessary means of certification were achieved, according to the Guidelines for Limiting Exposure to Time-Varying Electrical, Magnetic and Eletromagnetic Fields (up to 300 GHz), by the *International Commission on Non-Ionizing Radiation Protection*, (ICNIRP).

**Risk Prevention for Jobs at Heights**

Within the Occupational Health policy, preventative activities are centered around three key points:

- Annual medical check-ups to determine the employees' aptitudes for working at heights.
- In training activities, specialized courses are taught on occupational safety at heights.
- Provision, periodic maintenance and control of the safety features of the *Individual Protective Gear* needed to do work at heights.

**Initiatives on Smokeless Policy**

With a view to improving employees health at the Telefónica Group as well as to adapt work regulations to legislation on tobacco matters, different activities have been undertaken designed to promote smoke-free work places and to support employees who voluntarily have chosen to quit smoking.

In 2004, on-line courses were taught with voluntary access to *Help to Stop Smoking* in which Telefónica Móviles España, Telefónica I+D, TPI España, *Telefónica Gestión de Servicios Compartidos España*, *Teleinformática y Comunicaciones*, and *Telefónica Telecomunicaciones Públicas* participated.

**Work Gym**

Part of the Medical Check-ups given for Health surveillance is a continuous evaluation of the musculo-skeletal system to detect the possible need for prevention and referral of resulting cases to specialized health professionals.

At Telefónica I+D, a value-added activity has been put in place, enabling physiotherapy treatment at the work centers. This activity is co-financed by the company and employees.

## MAIN HIGHLIGHTS OF CORPORATE VOLUNTEER WORK IN 2004 (06-37)

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Argentina	<ul style="list-style-type: none"> <li>• Donation of Christmas baskets to the <i>Ntra. Sra. del Socorro</i> parish</li> <li>• 7 Volunteer Groups on: <i>Learning and Doing, For Minors Only, Proximity, Starting Classes, Strengthening Libraries, Helping to Help</i>. 117 Projects Implemented.</li> <li>• 30 projects presented at the National Social Project Competition for Corporate Volunteers 30.</li> <li>• <i>Caring Entrepreneur Award</i>, recognition by the <i>Social Ecumenical Forum</i></li> </ul>
Brazil	<ul style="list-style-type: none"> <li>• <i>VIVO Volunteer</i>. 500 collaborators from Vivo participated in the collection of clothing, donation of book and audio libraries and donation of 4,000 vaccinations</li> </ul>
Chile	<ul style="list-style-type: none"> <li>• Environmental campaign that enabled help for three charitable institutions.</li> <li>• <i>Roof for Chile</i>, that seeks to overcome the adverse reality of poverty and indigence facing families living in emergency camps. Construction of 125 Mediaguas (basic home made of wood)</li> <li>• Technical and professional support for non-profit organizations</li> <li>• Work in the <i>Community to Help Young People at Social Risk of Le Legua</i></li> <li>• Collaboration on medical help for young drug addicts.</li> <li>• Support for <i>ZooAyuda</i>, an entity dedicated to giving health assistance to domestic animals.</li> <li>• Visits to different children's foster homes</li> </ul>
Colombia	<ul style="list-style-type: none"> <li>• The volunteers from <i>Corazón Azul</i> actively participate in the <i>Proniño</i> program.</li> <li>• Support for children's activities of the <i>Darma Foundation</i>, New Life Foundation, Hope and Love Foundation, and others.</li> <li>• Program <i>Para Crecer en Equipo</i> (To Grow in Team), the <i>Corazón Azul</i> volunteers participate in the development of managers in four public institutions in coordination with the Education Secretariat.</li> <li>• Campaigns to collect funds for medical treatment for employees' children</li> </ul>
Ecuador	<ul style="list-style-type: none"> <li>• Volunteers from <i>Corazón Azul</i> in the <i>Proniño</i> program</li> </ul>
Spain	<ul style="list-style-type: none"> <li>• Operation <i>Prestige</i>, 102 workers, 13 of whom were on early retirement.</li> <li>• Donation of furnishing and vehicles to non-profit organizations</li> <li>• Courses for immigrants through an agreement with the <i>Adra Foundation</i></li> <li>• <i>Project Learn to Be an Entrepreneur</i> with the <i>Junior Achievement Foundation</i>. 35 courses for children and youths in which Telefónica volunteers have participated as teachers</li> <li>• <i>Telefood Gala by the FAO</i> (2004). 100 employee volunteer from the Telefónica Group to man the telephones.</li> <li>• <i>Inocente-Inocente Gala</i> (December 28, 2004), 130 volunteers to man the telephones.</li> <li>• Over 2,500 employees collaborated with the <i>Solidarity Cents</i> program</li> <li>• 3,000 computers recycled, arising from an agreement signed with Telefónica de España, and have been donated to NGO's.</li> </ul>
El Salvador	<ul style="list-style-type: none"> <li>• Collaboration on celebrating Children's Day with the <i>Funter Foundation</i>.</li> <li>• <i>Old Age Home</i>, in works of companionship</li> </ul>
Guatemala	<ul style="list-style-type: none"> <li>• Collaboration with the <i>Home for Orphaned Children</i></li> <li>• Volunteers from <i>Corazón Azul</i> in the <i>Proniño</i> program</li> </ul>
Nicaragua	<ul style="list-style-type: none"> <li>• <i>Proniño</i> program volunteers</li> </ul>
Panama	<ul style="list-style-type: none"> <li>• <i>Proniño</i> program volunteers</li> <li>• <i>Self-sustaining farms</i>: donation of toys, school supplies, medical rounds and volunteer work</li> <li>• <i>Telethon</i>: activities for collecting funds</li> </ul>
Peru	<ul style="list-style-type: none"> <li>• Project volunteers: <i>Abriguemos al Sur</i></li> <li>• Volunteers for <i>Ponte el Corazón Azul</i> of the <i>Proniño Program</i></li> </ul>
Uruguay	<ul style="list-style-type: none"> <li>• <i>Proniño</i> program volunteers</li> <li>• Support for flooded towns of Bella Unión</li> </ul>
Venezuela	<ul style="list-style-type: none"> <li>• Volunteer guides for collaboration with the <i>TELCEL Foundation</i></li> <li>• Recycling and collection of money through sale of materials, allocating it to social projects.</li> <li>• Internal campaigns to collect food products, school materials or toys.</li> </ul>

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## 05 EMPLOYEE SOLIDARITY

### a) Corporate Volunteers

The Corporate Volunteer Program was created in Spain through the initiative of the Telefónica Foundation and Group employees with the desire to participate in volunteer activities linked to the Company. It began in January 2003, and its priority objectives are:

- to facilitate general information on NGO's to all workers through the platform or the Corporate Volunteer Channel on the Risolidaria portal,
- to channel requests from employees who wish to participate in voluntary activities,
- to support the establishment of voluntary groups, independent of the usual organizations, to achieve specific actions and to coordinate specific volunteer activities.

After two years in existence, the Telefónica Group's Corporate Volunteer Program in Spain has become a reality, evidence by the more than 15,000 hours of volunteer work that Telefónica employees have devoted to social causes and the recognition it has received. Beneficiary organizations of the Telefónica Group's Corporate Volunteer Program in Spain encompass different areas of social venture and promotion including: Cooperation in Development, Immigration, Disability, the Elderly, Children and Gender Inequality.

Telefónica contributes to the program by granting to the employee the time devoted to voluntary activities during the workday, initially up to a maximum of fifteen hours per year. It also contributes logistical infrastructure so workers can make donations through payroll deductions to joint employee-company programs. At the end of 2004, the number of employees enrolled in the program

grew to more than 3,000, from all business lines and subsidiary companies of the Telefónica Group.

In Chile, employees work together to carry out monthly activities that foster integration beyond that of the job routine, economic assistance campaigns for workers facing serious health problems, local plans for social assistance in the areas where the company is located and the participation of employees' groups in social programs.

Since its inception In Argentina, a total of 690 volunteers, 3 coordinators and 7 work committees have taken part in this program, which through their work in areas such as education, disability, childhood or institutional strengthening, among others, and with the Telefónica Foundation's coordination, have already implemented 117 projects in 19 Argentinean provinces that have directly benefited nearly 14,000 people.

Together with the collaboration initiatives involving time, there are others, such as *Solidarity Cents*. Through this program, undertaken in conjunction with *Doctors Without Borders*, employees from different Telefónica Group companies have the chance throughout the year to voluntarily donate the cents from their salaries to the *Flower of Strength: Overcome Barriers by Taking Charge of Your Sexual and Reproductive Health* project. This is a program of sexual education and joins the struggle against AIDS undertaken by this organization in Guayaquil, Ecuador's second largest city.

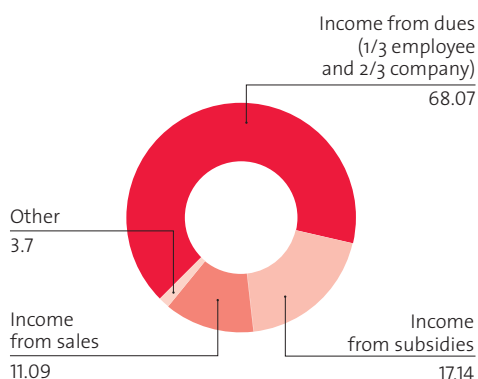
This project, one in which more than 2,500 employees participate, is also supported by the Telefónica Foundation, which makes matching monthly donations to those collected by its employees.

## CASE STUDY

## DISTRITO C, A NEW WAY TO WORK (08-38)

*Distrito C*, the new headquarters of the Telefónica Group in Spain, located in the northern part of Madrid, will be the most visible representation of Telefónica's new corporate culture and new ways of working. The project has won recognition from *Actualidad Económica* magazine, which awarded it the *Most Representative Real Estate Project* in the Community of Madrid.

- The Campus design will be located on 17 hectares of land, of which approximately 65% of the available space will be building-free. The complex is comprised of four towers, with ten buildings encompassed under a canopy-type structure, and a myriad of services including catering, a gymnasium, a nursery, a health center, an auditorium and a training center, amongst others.
- The buildings are set around a large central square with gardens, where water and trees will create an area that encourages interpersonal relations, outdoor work and relaxation.
- Its enormous environmental value lies in the three elements differentiating the project's cohesion – the canopy, landscaping and façades – which improve the temperature, humidity and noise levels. Other significant environmental data are: 32% saving in electrical power for climate control; 100% saving in energy for hot water; 42% saving in power consumption through lighting control.
- *Distrito C* is the largest solar powered office complex in the world. The total project represents a 48% decrease in emissions into the atmosphere, of which 30% will be the direct consequence of energy savings and the remaining 15% the result of its energy-producing capacities.
- Also worthy of note is the *Resource Plan* defined in line with the recycling parameters set out in the ISO 14001 certification. In terms of the use of paper, the policy will focus on a lower number of printers and decrease in paper consumption. In addition to its environmental impact, this policy contributes to the integration of the new technologies in the Company's working methods.
- The project was designed within the framework of an urban planning philosophy that envisages open spaces, without closed areas or barriers, with low buildings largely interconnected through exterior accesses, designed to facilitate the functions and duties of employees, not vice versa.
- In addition to being an urban and architectural project, *Distrito C* is a project that transforms spaces, placing people first, a project addressed at changing the way we work. It envisages a change in the need for physical presence on-site, moving toward alternative options, such as tele-working; an increasingly greater presence at customer's premises and of the customer in the company; more collaborative work and project teams. The spaces created will encourage mobility, cooperation, flexibility and productivity. Moreover, modern technologies implemented will allow the exchange of know-how, innovation and creativity, personal interrelationships, motivation, personal commitment and a balance between work and family life. *Distrito C* makes it possible for work to be done not only in the office or the traditional workplace; it provides the means and spaces that best adapt to the various types of interaction. In a word, a new work culture.
- The project design places particular emphasis on accesses, with a view to facilitating employee use of public transport. Telefónica has reached an agreement with the *Consorcio de Transportes de la Comunidad de Madrid* (the Transport Consortium of the Community of Madrid) to co-finance an underground line with a station at *Distrito C* that will allow transport from our headquarters to the center of Madrid in minutes. The line will be completed in early 2007.
- Furthermore, a new section has been set up on the Company Intranet to inform employees of the progress of the work and provide drawings of the new working environments as well as news about the upcoming move.
- Employees have been encouraged to participate in the project through interviews with Directors and surveys made to learn about the way they work and supplementary resources they use (for example, meeting rooms), all with a view to suitably allocating the workstations in the new environment. Likewise, employees were asked to offer their opinions on services and future needs through open surveys on the portal and individualized surveys made for random groups.

**DISTRIBUTION OF ANNUAL ATAM RESOURCES (06-39)***(Data in percentage)***b) Telefónica Association for Assistance to the Disabled**

ATAM was born in 1973 through the decided effort of a group of Telefónica employees, together with the help of Medical Services and Social Assistance, the Telefónica Prevention Institution and employees labor representatives. In 1974 the institution was included in Telefónica's collective bargaining agreement. The Bylaws of the Association establish its own governing bodies and operational mechanisms.

ATAM's governing bodies are comprised of company and labor union representatives (in proportion to union representation). The institution also has regional advisory groups that act by delegation of their governing bodies throughout the country and are coordinated by managers from the Human Resources area of the Company in each zone.

ATAM is financed largely by the solidarity and voluntary contributions of some 62,000 employees from 23 Telefónica Group companies. The workers contribute 2 per thousand of their fixed wages and the companies double this contribution. In 2003, these employees received the prize Business and Society for the *best social action in collaboration with employees*.

ATAM is currently one of the most solid and palpable initiatives of the Telefónica Group in corporate responsibility matters and the principal reference for Group companies in matters related to disabilities, as an expert and integrated association in that sector. Details of its activity can be found at the website [www.atam.es](http://www.atam.es) and in its Annual Report, available at [www.telefonica/publicaciones](http://www.telefonica/publicaciones).

In 2004 a new strategic project was approved that deepened the Company's modernization and focused on management principles of excellence and ethical quality.

The new strategic project is based on constant use of innovation, information and communications technologies applied to the social services sector as the basis for efficient management of interventional plans. The ultimate goal is to improve the quality of life for disabled persons.

More than

**3,600**

beneficiaries

Annual service to

**400**

persons at its own centers

Over

**3,000**

visits seen by its medical team

**15,245**

payments for individual economic assistance

Approximately

**250**

disabled persons work in its special employment centers



07

Society: contribution and proximity

## 07/01 driving economic development

Telefónica's activities are economic drivers in the countries where it operates.

## REDISTRIBUTION OF REVENUE

**38,973**

billion euros

## 07/02 driving technological development

The use of the new technologies by both companies and individuals significantly boosts productivity

**10** information Society Reports  
**14** Telefónica Lectureships (Cátedras Telefónica)

## 07/03 driving digital inclusion

Telefónica works to reduce the causes of the digital divide: geography, economy and skills (Capacitación)

## COST OF BASIC SERVICE

**198**

million euros (Telefónica de España, 2003)

## 07/04 driving social development

The Telefónica Group is highly involved in social and cultural initiatives in all the countries where it operates.

## PEOPLE BENEFITED FROM FUNDACIÓN TELEFÓNICA PROJECTS

**26,228,807**

## 07/05 driving equality

Telefónica is committed to equal opportunity through the Global Compact.

## INTEGRAL ACCESSIBLE TELEFÓNICA PLAN

*Telefonica*

The trust of the countries where we operate is founded on our degree of commitment and our contribution to the economic, social and technological progress of all the members of society.

Telefónica plays a decisive role in the development of the societies in which it operates on five different fronts:

- Driving economic development: as a multi-domestic operator, Telefónica contributes towards developing the local economy in every country where it operates through the redistribution of wealth among suppliers, employees, public administrations and shareholders.
- Driving technological development: through investing in technological innovation and encouraging companies and institutions to adopt new technologies.
- Driving digital inclusion: with the objective of popularising telecommunications in each country where it operates, Telefónica implements a variety of measures to reduce the geographical, economic and skills divides.
- Driving social development: telecommunications can be an important tool in facilitating education, cooperation, disseminating art and culture, as well as telemedicine and tele-assistance. Led by Fundación Telefónica, different companies in the group are involved in activities in this area.
- Driving equal opportunities: telecommunications is an important tool for promoting equal opportunities and integrating people with disabilities in the society.

#### 01 DRIVING ECONOMIC DEVELOPMENT

Telefónica is the leading operator in the Spanish and Portuguese-speaking societies as a result of its firm commitment to development in every country where it operates and its desire to adapt itself to the

reality and needs of each society. This multidomestic nature is reflected in the distribution of income, where revenues from countries outside of Spain accounted for 40% of the Telefónica Group's income in 2004.

As one of the main national companies in each country, Telefónica is a driving force behind the national economy. The contribution of Telefónica revenues to the Gross Domestic Product in the countries where it operates, ranges from 1% in Argentina to 2.3% in Spain.

In 2004, Telefónica demonstrated its commitment to invest in each country where it operates:

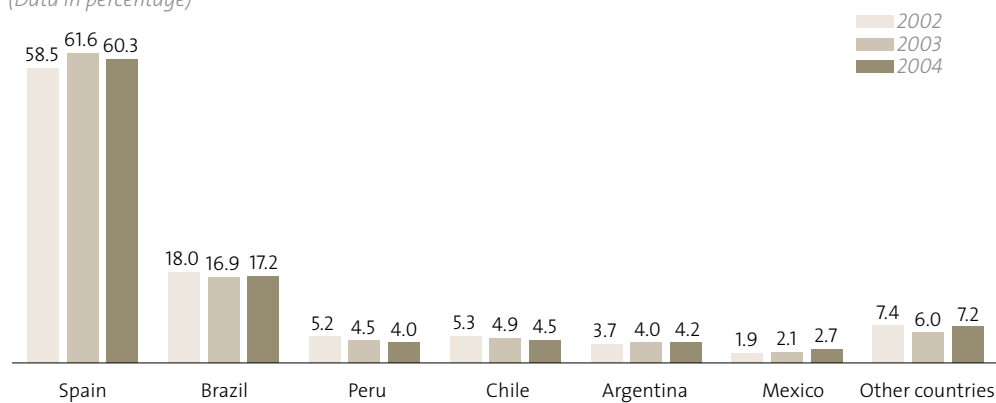
#### Latin America

- Throughout its 15 years in Latin America, Telefónica has invested over 70 billion euros in the region, including investment in acquisitions and infrastructure development.
- Telefónica announced an agreement with BellSouth to acquire all of its cellular assets in Latin America, thus consolidating its leadership in the region and entering new markets such as Ecuador, Panama, Colombia, Venezuela, Uruguay and Nicaragua. The initial value of the acquisitions is estimated at 5,850 billion dollars, which makes it one of the largest investment operations undertaken in Latin America.

#### Argentina

- In November, the Chairman of Telefónica announced to the Argentinean President the company's plans to invest more than 2 billion dollars over a period of four years. These investments will be oriented to develop the landline telephone network, extend the high-speed Internet access service (ADSL) and implant the GSM network for cellular phones, among other initiatives.



**DISTRIBUTION OF REVENUE BY COUNTRY (07-1)***(Data in percentage)*

- In 2004, Telefónica Móviles commenced the expansion of its cellular telephone network with GSM/GPRS technology. The network was already operational in the country's main inland cities during the first half of 2004.

**Brazil**

- In a meeting with the Brazilian President, Telefónica's Chairman reconfirmed the company's intention to maintain the current annual investment of approximately 2.5 billion reais in both fixed and cellular telephone operations.
- Brasilcel, the cellular telephone joint venture in Brazil operating under the Vivo brand and in which Telefónica Móviles and Portugal Telecom each have a 50% stake, announced plans to make friendly takeover bids for part of the shares in circulation in some of its subsidiaries (Telesudeste, Tele Leste, CRT and TCO), confirming and strengthening its commitment to the Brazilian cellular telephone market.

**Chile**

- In Chile, Telefónica Group companies are leading the Digital Agenda and the Chilean government has set them the following targets for the period 2003-2005:

-25% of households with Internet access, 100% of large and medium-size companies with broadband Internet access, 66% of SME's with Internet access and 90% of schools with broad bandInternet access.

-One million citizens with training in information technology.

-Advanced transition from an electronic information government to a more transactional and interactive government, with special emphasis on town councils.

-The use of information technology in social policy and to reduce poverty, particularly in the area of health care.

**Mexico**

- The Chairman of Telefónica confirmed Mexico's strategic importance to the Telefónica Group in discussions with the country's President, and its intention of establishing itself as a long-term investor in Mexico: Telefónica Móviles' is undertaking an investment programme to the amount of 1.5 billion dollars during the period 2003/2006.
- In 2004, Telefónica I+D was founded in Mexico with the objective of supporting and contributing towards the Group's technological development in the country.

**Peru**

- Telefónica's commitment to broadband technology will be reflected in annual investment of over 150 million dollars within the coming years.
- The launch of new pricing schemes has strengthened Telefónica's commitment to developing the country by giving financially underprivileged families access to the service.

**Other countries**

- Telefónica Móviles El Salvador deployed a new GSM network in 2004.

**Spain**

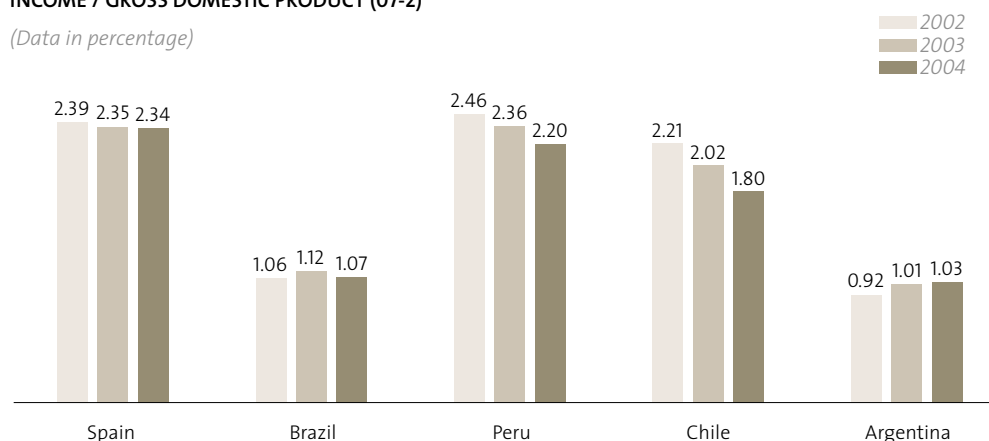
In Spain, Telefónica has been in operation for over 80 years. In 2004 Telefónica invested 1,970 million euro in the development of national telecommunications and:

- Telefónica Móviles España completed the installation of 2,500 third generation base stations offering service to 40% of the Spanish population. This investment is part of the company's commitment to invest one billion euros in developing a third generation infrastructure deployment plan.



## INCOME / GROSS DOMESTIC PRODUCT (07-2)

(Data in percentage)



- Telefónica de España deployed Imagenio, its interactive television service on ADSL, in Alicante, Barcelona and Madrid. During the first quarter of 2005, the service was extended to the Basque Country, Valencia and Zaragoza.
- Telefónica created the *Catalonian and Andalusian Councils* with the objective of promoting the development of the information society in both regions.
- At the local level in Madrid, Telefónica and the Community of Madrid agreed to develop transport infrastructures for the company's new headquarters in the Parque Empresarial de Las Tablas business park.
- *TPI Páginas Amarillas'* online street directory is now available in Catalan, Basque, Galician, English, Portuguese, French and German. This initiative makes it the first mapping search engine that can be entirely viewed in seven languages.

COMMITMENT TO THE ECONOMIES AND DEVELOPMENT OF COUNTRIES.  
2004 HIGHLIGHTS (07-3)**Mexico**

Revenues/GDP: **0.165%**  
 Customer (*thousands*): **5,639**  
 Employees: **6,493**  
 Suppliers: **822**  
 % Local purchases in volume: **94**

**Spain**

Revenues/GDP: **2.337%**  
 Customer (*thousands*): **38,812**  
 Employees: **59,978**  
 Suppliers: **4,114**  
 % Local purchases in volume: **93**

**Peru**

Revenues/GDP: **2.197%**  
 Customer (*thousands*): **5,621**  
 Employees: **10,733**  
 Suppliers: **1,965**  
 % Local purchases in volume: **86**

**Chile**

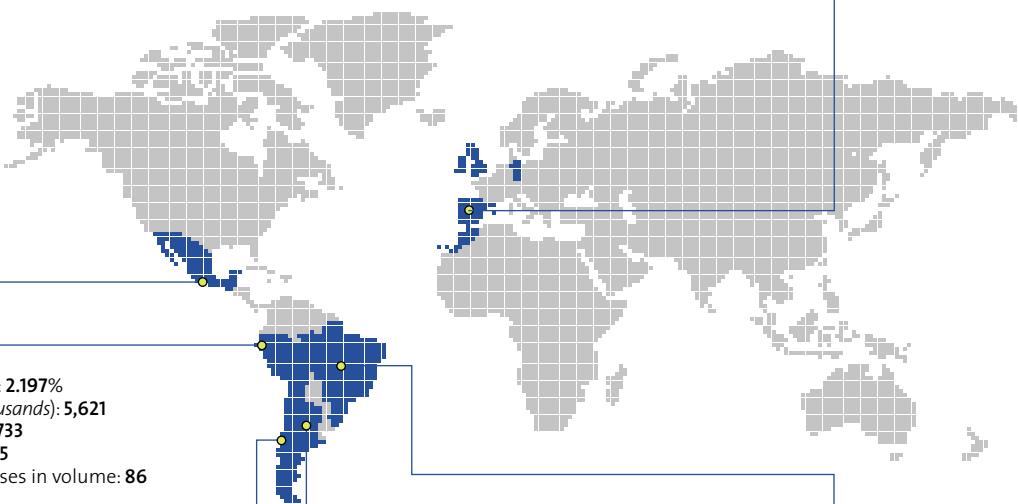
Revenues/GDP: **1.795%**  
 Customer (*thousands*): **5,946**  
 Employees: **10,060**  
 Suppliers: **1,763**  
 % Local purchases in volume: **76**

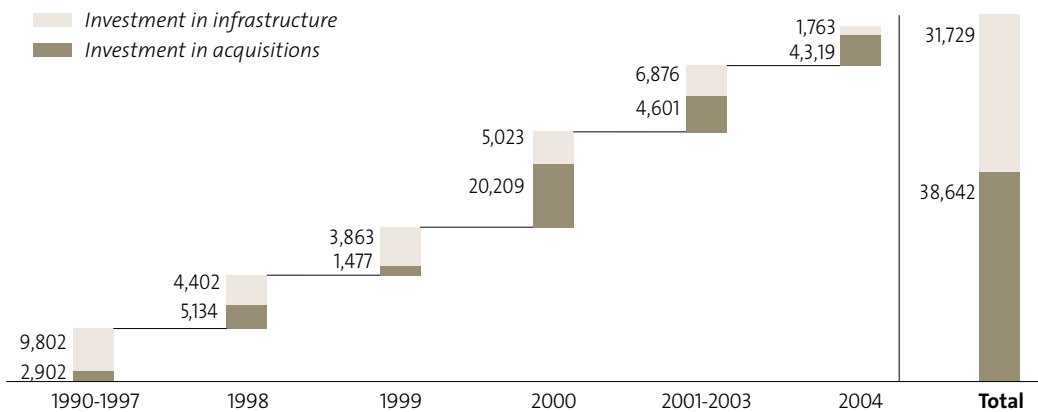
**Argentina**

Revenues/GDP: **1.029%**  
 Customer (*thousands*): **7,846**  
 Employees: **15,177**  
 Suppliers: **1,429**  
 % Local purchases in volume: **79**

**Brazil**

Revenues/GDP: **1.074%**  
 Customer (*thousands*): **36,846**  
 Employees: **51,741**  
 Suppliers: **3,420**  
 % Local purchases in volume: **98**



**TELEFÓNICA GROUP ACCUMULATED INVESTMENTS IN LATIN AMERICA (07-4)***(Data in millions of euros)***Redistribution of wealth**

The Telefónica Group plays an important role in redistributing wealth among all of its stakeholders. On the one hand, its main source of income comes from payments made for services which, along with other revenues, amount to over 38 billion euros (see chapter 11).

This amount is distributed as financial remuneration to over 173,000 employees, dividend payments to 1.5 million shareholders and payment to over 15,500 suppliers and Public Administrations. With regard to the latter, it is important to highlight Telefónica's role as a tax collector that has collected over 6.3 billion euros for the Public Administrations in the form of taxes, licences, sales and value added taxes.

The high percentage of contracts awarded to local suppliers (92%) is additional evidence of the importance of Telefónica's lines of activity in each region.

**Indirect impact of the services**

It is important to emphasise the indirect impact that the Telefónica Group's services have on the local economy. For example, activities targeted at reducing the digital divide, a reduction in the price of services, greater availability of broadband services and permanent connectivity are having a significant impact on individual and business productivity, as well as the economy in general.

**02 DRIVING TECHNOLOGICAL DEVELOPMENT: MOVING TOWARD THE INFORMATION SOCIETY**

It is believed that the Information Society will be essential for the competitiveness and productivity of countries, as well as the individuals, businesses and organisations that operate therein. Telefónica's commitment to developing the Information Society goes beyond innovative activities and takes the form

of several initiatives targeted at developing and popularising the Information Society.

The key to promoting the information society is to turn its potential benefits into real benefits for its users. To achieve this, along with the development of basic infrastructures and the fight against the digital divide, Telefónica undertakes important work in the area of research, meetings and publications, collaborates with universities, works jointly with other companies and develops services aimed at promoting productivity in the different business sectors and Public Administrations.

**a) Promoting the Information Society**

Telefónica was a pioneer in publishing the first report on The Information Society in Spain in 2000, a document that, year after year, analyses the status of the Information Society not only in Spain, but also in Europe and Latin America (Peru, Brazil, Argentina and Chile).

The 2004 Information Society in Spain Report is a detailed analysis of the current status of the Information Society in Spain after using a wide range of indicators and highlighting the close collaboration between all of the Autonomous Regions.

As a support mechanism, to complement the reports, and with the aim of initiating a debate to promote the development and implementation of the Information Society, Telefónica started a series of Round Tables that serve as a meeting point for all parties involved in the different areas of the Information Society. Five meetings of this kind were organised in 2004 on:

- The use of Information and Communication Technology (ICT) in Spanish companies (9 March 2004)
- Learning and teaching today in the Spanish Information Society (27 April 2004)

## INFORMATION SOCIETY REPORTS PUBLISHED BY TELEFÓNICA (07-5)



(\*) Publication forthcoming

- The challenges of mobility in the Information Society (27 May 2005)
- Home and leisure; two windows to the Information Society (28 June 2004)
- ICT in the Administration and health care: proximity to the citizen (15 November 2004)
- Opportunities and challenges for Argentinean companies in the Information Society (Buenos Aires, 2 December 2004)

Telefónica will launch an Information Society Portal in 2005, a new custom-designed website that will bring together all of the information on the development of the Information Society and Knowledge in Spain: the annual Information Society Reports, round table discussions, publications, courses and all other company initiatives aimed at publicising the latest technological innovations, the services they offer and their repercussions on private and professional fields.

The new technologies facilitate the use of applications such as tele-working, videoconferencing, online training, the integration of people with disabilities, telecontrol of industrial teams, etc., which make it possible to have a society where everyone can have access to information at any time any place and via any device. In this field, the new portal will serve to publicise how the effective use of new technologies can improve the quality of life, increase economic productivity, foster sustainable development and facilitate dialogue between cultures, amongst other issues.

Finally, aware of the need to join forces to promote the Information Society, Telefónica Latinoamérica has created the Latin American Industrial and Information Technology and Communications Forum, along with six other leading technology companies: Intel Corporation, IBM, HP, Microsoft, Time Warner and Cisco Systems. The objective of the Forum

is to help governments and public institutions in countries where Telefónica Latinoamérica operates to implement public policies that lead to economic growth, innovation and digital technology development.

In Spain, Fundetec (Foundation for the info-technological development of companies and society), in which Telefónica participates as a founding member in collaboration with Red.es, El Corte Inglés, HP, Intel and Microsoft, was founded with the goal of conducting specific activities targeted at digital literacy, increase the efficient use of technologies in SMEs and serve as a stimulus to the training in ICT.

#### b) Collaboration with Universities

In 2004, the Telefónica Group signed or renewed over two hundred agreements with Spanish universities and awarded over one thousand scholarships. The Group's efforts to support university training is evidenced by investment of 10.7 million euros last year, which was earmarked for Telefónica Lectureships - joint collaboration projects between the company and universities, scholarships (approximately 6 million) and other initiatives.

In 2004, Telefónica undertook a total of 102 training initiatives with universities and business schools (120 in 2003 and 65 in 2002). These initiatives were mainly focused on academic collaboration with universities, the provision of lecture halls and premises for teletraining, technological collaboration and the creation of the Telefónica Lectureships, joint collaboration projects between the company and universities focused on a range of specialised subjects. The main objectives of this programme include promoting basic and applied research and training professionals and SME's on the possibilities offered by the Information Society.

These are not the only collaboration initiatives of this kind between the Telefónica Group's companies and universities, as can be seen below:

**TELEFÓNICA LECTURESHIPS (07-6)***(University)*

	<b>Telefónica Lectureships</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Politécnica de Madrid	New Generation Internet	●	●	●	●
Carlos III de Madrid	Studies on telecommunications economy	●	●	●	●
	Studies on telecommunications technology	●	●	●	●
	Advanced Telecommunications Networks and Services			●	●
Autónoma de Madrid	Master in services economy	●	●	●	●
Complutense de Madrid	APIE Master APIE	●	●	●	●
	(Economic Information Journalists' Assoc.)				
Las Palmas de Gran Canaria	Experimental Multimedia Services	●	●	●	●
La Laguna de Tenerife	Unesco on Telemedicine		●	●	●
Politécnica de Valencia	Broad Band and Next Generation Internet	●	●	●	●
Politécnica de Cataluña	Technology specialisation and Knowledge Society		●	●	●
Pompeu Fabra	Multimedia Production	●	●	●	●
Zaragoza	The Quality of New Telecom y Servicios de Telecomunicaciones	●	●	●	●
Oviedo	New Information Technologies and Telecoms			●	●
Santiago de Compostela	Telemedicine			●	●

- Telefónica Móviles Lectureship at the School of Telecommunications Engineering at the Universidad Politécnica Madrid and the Universidad de Deusto.
- Agreement between Telefónica Móviles and Universidad de Valladolid (School of Medicine) and the Centro Superior de Investigaciones Científicas (Biology and Molecular Genetics Institute) to collaborate on subjects related to mobile telephony and health.
- Technological agreements and various collaboration initiatives between Telefónica Móviles and the Universities of Salamanca, Murcia, Cartagena, Málaga, Seville, Valencia and Zaragoza.
- Agreements between Telefónica I+D and all of the public universities in the Castile - Leon region, as well as the Universidad Pontificia de Salamanca.
- *Telefónica Empresas* has undertaken different activities with the universities of Palma de Mallorca, Complutense de Madrid, Santiago de Compostela, Maspalomas Summer School, the Balearic Islands, Murcia, Granada, Deusto and Navarra (IESE).

- Fundación Telefónica collaborates in the Universidad Internacional Menéndez Pelayo summer courses.

In 2004, the Telefónica Group awarded a total of 1,014 scholarships to students in technical studies at different universities through 264 agreements

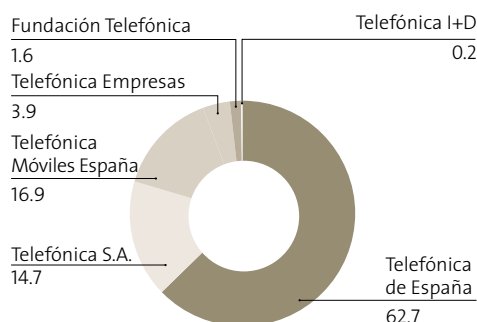
Fundación Telefónica's CampusRed initiative promotes the exchange of information and knowledge between universities in Latin America, facilitating teaching via Internet and shared management. At the end of 2004, CampusRed, which is open to the entire Spanish and Latin American university community, received over one million hits during the year.

Telefónica is collaborating more closely with universities in other countries, such as Argentina, Chile and Peru, as evidenced by:

- The signing of agreements to award scholarships to students and graduates at six Argentinean universities.
- In Argentina, promotion of academic collaboration with the Universidad Católica Argentina, Universidad del Salvador, Universidad de Buenos Aires, Universidad

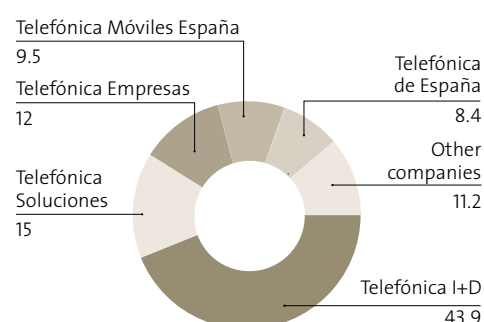
### DISTRIBUTION OF INVESTMENT IN UNIVERSITY INITIATIVES BY BUSINESS LINE (07-7)

(Data in percentage)



### DISTRIBUTION OF INVESTMENT IN SCHOLARSHIPS BY BUSINESS LINE (07-8)

(Data in percentage)



### ACHIEVEMENTS OF THE TELEFÓNICA LECTURESHIPS IN 2004

41

technological innovation projects

11

proyectos en colaboración con Telefónica I+D

17

projects in collaboration with other Universities and Information Centres

26

courses given to 1,259 students

2,538

hours of training

91

scholarships awarded in fields covered by the Lectureships

79

activities to promote scholarships (32 forums, 26 publications and 10 own websites)

8

Telefónica lecture halls

Nacional de La Plata and the Instituto Tecnológico de Buenos Aires.

- In Peru, Telefónica is supporting the country's first specialised course in Telecommunications Engineering, together with the Universidad Católica del Perú, including the establishment of a Telefónica Lectureship.
- In Chile, Telefónica Móviles is undertaking a project to increase cellular technology knowledge in collaboration with the Universidad Tecnológica Metropolitana.

#### c) MovilForum

One of the most noteworthy initiatives in the practical application of ICT is MovilForum, a forum for collaboration, training and technical support that helps companies develop their own businesses. Within this framework, and with the technical support of the consultancy area, applications are developed for very varied sectors ranging from health care, insurance and banking to industry and transport, among many others.

At the end of 2004, MovilForum had 5,860 members, 154 companies registered, 122 member companies and 103 applications developed. This initiative has largely been made possible by the institutional aid provided by the PROFIT (Programa de Fomento de la Investigación Técnica) programme run by Spain's Ministry of Industry, Tourism and Trade.

One of MovilForum's achievements is the creation of a Product and Services Catalogue designed to familiarise the company's sales force with mobile solutions developed by third parties in the sector, which includes over 200 applications. In addition, 17 MovilForum companies feature third generation (3G) service solutions.

Within the framework of MovilForum in 2004, Mobile Solutions for your Business was launched with the objective of providing SME's

with packaged, low cost mobile solutions for localisation, customer and sales force management, telecontrol/domotics and messaging applications.

#### d) Services that contribute value to Society

Telefónica has been working for several years on developing communications services that improve the productivity of public services and specific business sectors, as well as catering to the individual needs of certain groups.

#### Services that contribute value to the civil society

- The Mobile City project was created by Telefónica Móviles España in 2003 with the aim of improving the efficiency of the Administration and its relations with citizens and businesses. This initiative was distinguished with awards from the *Spanish Association of Telecommunications Users and the Information Society (AUTELSI)* as the best Digital City initiative.

-In Zaragoza, which won the *e.mobility* 2004 award, the Administration is using an alert service for job offers, building permits, suggestion box and schedules for cultural acts and events.

-In Madrid, a series of mobile tourist services have been introduced, *Information on Monuments, Tourist Routes and Postcards of Madrid*, the latter is exclusive to Movistar, which uses MMS technology to download postcards of Madrid onto mobile phones. In addition, Telefónica collaborated in the *Madrid Participa* project, a public opinion poll carried out by the City Council using exclusively new technologies.

-*Virtual parking metre*, which enables convenient, fast and simple payment for parking via Mobipay. In addition, the system alerts the driver when the parking time is

## CASE STUDY

**TELEFÓNICA LECTURESHIP ON NEW GENERATION INTERNET  
(UNIVERSIDAD POLITÉCNICA DE MADRID) (07–9)**

The main objective of the Lectureship is to create an interest group on the uses and services of new generation Internet, as well as organising activities related to this topic.

**The Lectureship is currently conducting the following projects:**

- *CyberAula* is a virtual classroom for exchanging educational content between UPM schools and Telefónica I+D. The aim is to experience new tele-education ideas and methodologies in a real environment. Six courses were given in 2004.
- The *Euro6IX (European IPv6 Internet Exchanges Backbone)* project is a European project undertaken in collaboration with Telefónica I+D. The objective is to create a pan-European pilot network based on IPv6, which has a similar architecture to the current Internet, where networks are connected via traffic exchanges (neutral points).
- The main objective of the *E-NEXT* project (developed with Telefónica I+D) is to strengthen Europe's scientific and technological excellence in the area of networks through the progressive and lasting integration of capabilities in the European Research Area (ERA).
- *Conferences on New Generation Internet* with the participation of nearly 30 educational centres in Spain (*TID, 13 universities and one Spanish Council for Scientific Research Institute*), Europe (*8 universities, ESA-ESRIN and Iceland Telecom*) and America (*MIT, Univ. Ottawa, CRC in Ottawa and Univ. Cauca-Popayan in Colombia*). Approximately 80 participants took part in the ETSI Telecomunicación, in addition to a further 600 in remote venues.
- 12 scholarships awarded to conduct projects on New Generation Internet and CyberAula support.

**Activities to publicise the Lectureship activities:**

- The website is the Lectureship's foremost communication tool and features advertisements and descriptions of the most important and interesting activities it conducts.
- Participation in forums on *Ipv6, W3C Technologies*.
- Publication of the book *Hacia una Internet de Nueva Generación* (Towards a New Generation Internet).
- The New Applications for Internet Awards (Fourth year) for which 19 application proposals were submitted covering the most significant trends in the development of new services. The first prize went to the Virtual Hospital application: A telemedicine system for caring for HIV/AIDS patients in their homes via the Internet, which was developed by the ETSITM Bioengineering and Telemedicine Group.

## CASE STUDY

## OBJECTIVES OF A DIGITAL CITY / MOBILE CITY PROJECT (07 -10)

- To improve the city's corporate image.
- To bring the Administration closer to the citizen.
- To obtain a solid information system that includes citizen services, file management, web information and processing.
- To improve the quality of service.
- To create awareness and encourage citizens to use new technologies.
- To promote interest groups (youth, women's, pensioners' associations).
- To facilitate and motivate business activity.
- To promote the city as a tourist destination: art, excursions, adventure, sports, gastronomy, trade.
- To offer quality training to citizens and Administration staff.

up in order to remove the vehicle or extend the parking time directly via mobile.

-*Ticketless* transforms the mobile phone into a tool that receives, stores and delivers tickets to places that require user authentication and is most typically used for purchasing and distributing sports, cinema and theatre tickets, etc.

- *Telefónica Soluciones* launched a multi-channel platform for citizen services that includes in situ, telephone and Internet service. This platform is the first of a series of solutions that the company will launch as part of the Digital Cities' Solutions Centre. The priority objective is the modernisation and socio-economic development of the city by implementing five service models: e-Administration, e-Citizen, e-Tourism, e-Companies and e-Learning.
- In Argentina, Telefónica has undertaken *Digital City* developments in regions such as like Mar del Plata and Pergamino. Moreover, a project signed in 2003 but completed in 2004, connected all branches of the College of Notaries of the Province of Buenos Aires in a virtual network, thus reducing the time

required for processing documentation and adopting a modern digital signature system for documentation processing. Other participants in this project included the research teams from the Universidad Nacional de La Plata and the Universidad Tecnológica Nacional.

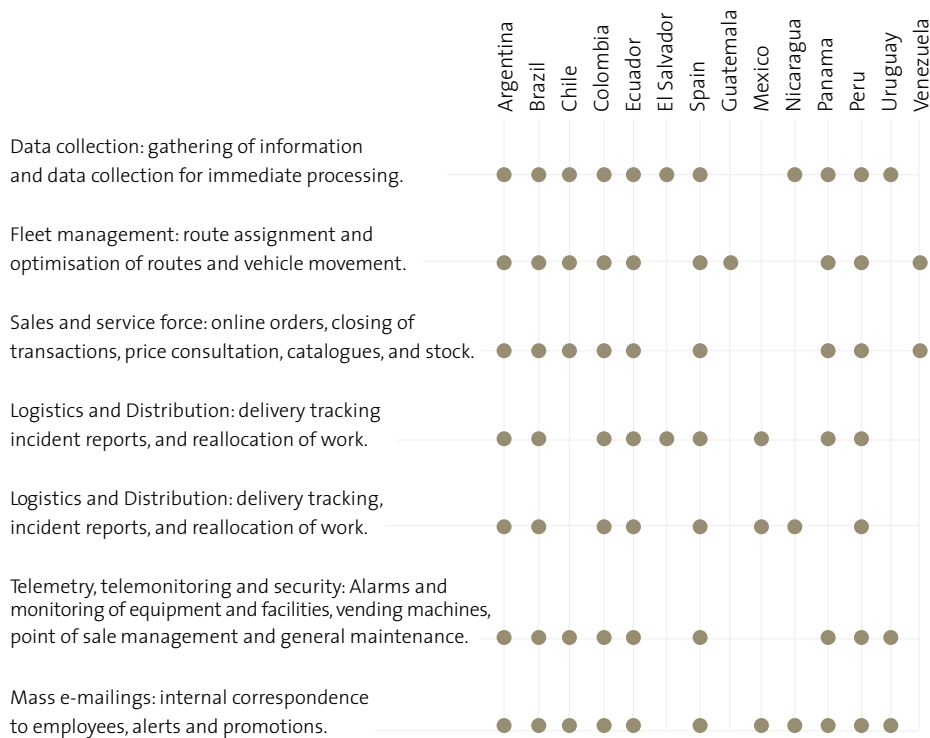
- Telefónica CTC Chile entered into agreements with organisations such as the *Asociación Chilena de Municipalidades*, the body that groups together the country's 345 communal governments and which now has a special provision of technological services.

Moreover, Telefónica Empresas Brasil currently connects over 6,000 Public Administration buildings in the State of Sao Paulo in 645 State municipalities, facilitating the connection of 70 government bodies.

- In Brazil, online trials are now a reality thanks to the interconnection between regional penitentiaries and the courts. Another noteworthy project enabled online voting in several parts of the country, including towns that were so far away that a satellite connection was necessary for counting online votes.



## MOBILE TELECOMMUNICATION SERVICES FOR BUSINESS CLIENTS (07- 11)



## CASE STUDY

## FOSTERING SME DEVELOPMENT IN ARGENTINA (07-12)

**SME Observatory and SME Training (Telefónica de Argentina)**

The SME Observatory participates together with the Ministry of Economy in the analysis of the evolution and degree of information technology development in SME's in Argentina. Telefónica also implemented a training program (called Capacitación Pymes, SME Training) in 77 SME's in the wine, food, automotive, construction and textile sectors, reaching a total of 700 employees in these areas.

**SME Training (Telefónica Móviles Argentina)** contributes to SME's by providing them with free access to information and general training. There are several programs that meet this goal:

- *Programa Creciendo Juntos* (Growing Together Program): Free day-long seminar addressing sales-related issues, management and service quality
- Talks on the Economic Situation: Free half-day seminar conducted by the chief economist of the Argentinean Chamber of Commerce.
- Marketing Seminars: Free half-day conference conducted by specialist Alberto Levy.

**Empresas en Expansión (Companies in Expansion Program) (T-Gestiona)**

T-Gestiona Argentina developed the Companies in Expansion Program which entails a comprehensive service that considers all activities directly and indirectly related to International Trade. The program is structured around 3 components: i) Consultancy ii) Export Promotion and iii) International Distribution.

Through this program, T-gestiona offers companies consultancy services in the area of foreign trade regulations, as well as legal and technical information related to the activity. In order to enable companies to promote awareness of and position their products abroad, the following services were made available: multimedia services, presence in guides, e-business tools and e-marketplace websites and activation of international contacts

**Added value services for SME's**

- These are implemented through collaboration with developers and businesses in other sectors.

-Telefónica Móviles España has also launched the SME Support Office, service, which identifies public subsidy programs suitable for mobility projects appropriate for SME's.

-In 2004, Telefónica signed an agreement with the Brazilian Ministry of Development, Industry and Trade for the establishment of 20 information and business tele-centres. These tele-centres will be installed in 2005 at the headquarters of representative entities of micro and small businesses and will include training, e-commerce, information searches and public and private services available through electronic means.

- Telefónica's capacity for technological development and business leadership is added to these specific support-centred actions with a view to providing specific solutions, particularly those related to ADSL Solutions, which enable small and medium sized companies to increase their productivity.

**Generic solutions for companies*****Multi-business services***

- Tele surveillance services: allow images recorded by an IP camera to be observed from any type of Internet connection, thus offering numerous possibilities in the areas of education as well as warehouse, plant and nursery school security.
- Videoconferencing: enables virtual meetings to be held, transmits high quality audio and video in real time and does not require a PC, as a connection can be established through any television set.

**CASE STUDY****MOBILE TELEPHONY AS A TOOL USED TO COMBAT GENDER VIOLENCE (07-13)**

With the goal of combating gender violence, Fundación Telefónica and Telefónica I+D have been working since 2000 on a tele-assistance system that allows the location and assistance to abused women who are in danger of further aggression.

The system is comprised of terminals that outwardly appear to be conventional mobile telephones, which enable not only normal voice conversation but also provide the location by GPS and GSM cells, thus reducing response time for law enforcement agencies. The system is completed by a control centre installed at the local police station, in the form of a computer that undertakes the geographical location, reception of messages and records the calls received. Its proper functioning requires that the women and participating police officers attend training courses.

In 2004, the program was expanded to Avilés, Baracaldo, Elche, Motril and Santander, as well as already existing services in Gijón, Palma de Mallorca, Pamplona, Valencia and La Rioja, where some 105 terminals have been distributed, 90% of which already in the hands of users. Moreover, further solutions for abused women have been undertaken through an agreement between Telefónica Móviles and Fundación Telefónica.

- Telefónica presented the book *Teletrabajo: Trabajar y vivir la Red* (Teleworking: Working and Living on the Net) a volume that analyses this form of labour and the cultural changes which it promotes; it entails new kinds of professional relationships and a new organizational scheme for work.
- The new *Geolocalization* service offered by Telefónica de España enables companies to know the physical location of their vehicles and personnel at all times, provided they have a mobile telephone with coverage within the country. This allows companies to obtain maximum optimisation of their mobile resources, while at the same time improving their business processes. Furthermore, the service increases individuals' safety (avoids distracting the driver with calls), streamlines company resources (enables access to the resource closest to the need e.g. the nearest ambulance in the event of an emergency) and periodically notifies the user that he or she may be located (the service requires the consent of the user who is being located).

#### **Agricultural Services**

- In 2004, Telefónica Empresas Argentina introduced the *VSAT Agro* product into the market, which allows small and medium sized businesses in the agricultural and livestock sectors to benefit from satellite broadband Internet access.

#### **Sales force support**

- For companies with personnel working outside of the company premises, Telefónica launched a product that allows companies to provide their employees with broadband Internet access and calls made free of charge from their homes to the company.

#### **Health sector**

- During the 2004 *MovilForum Fair*, Telefónica *Móviles España* launched the *Salud Móvil* (Mobile Health) initiative in order to foster the creation of new mobile services in the

public health sector, due in large part to *GPRS/UMTS* technologies.

- In *Movilforum's* fourth year, 14 projects in the public health field were presented, each developed by different members; notable among these projects are:

-*Hércules Emergencias*, developed by Telefónica I+D, manages emergency health assistance services.

-*GesAmbu*, ambulance fleet management system

-Automation of medical procedures, through a PDA device with access to the mobile telephone network.

-*Management of hospital appointments*, a project that enables appointment requests and consultations for all medical specialities in the hospital or day centre where the application is installed.

#### **Construction sector**

- At the *Salón Inmobiliario de Madrid (Madrid Real Estate Fair)*, Telefónica presented *Vivienda inteligente* (Intelligent Home), a solution that incorporates home domotics applications through the ADSL line. Telefónica's aim is to guarantee the user greater comfort, security, energy savings and ease of communication in the heart of the modern home.

#### **Emergency assistance**

The section devoted to Telecommunications and Sustainable Development in the Corporate Responsibility area of the Telefónica website analyses the impact of telecommunications on emergency situations:

- Thanks to the possibilities offered by tele-assistance, localisation and information, the mobile telephone is becoming an essential tool for services related to citizen assistance in general and emergencies in particular.

**MAIN COMPONENTS OF THE UNIVERSAL SERVICE EXPENSES (07-14)**

	Amount (millions)	Local currency	Exchange rate	Euros
Spain	198	Euro	—	198
Brazil	137.82	Brazilian real	3.63	37.79
Peru	27.832	Peruvian nuevo sol	4.08	6.82
Argentina	12.85	Argentinean peso	2.65	3.5
<b>Total</b>				<b>246.11</b>

- Observing applicable legislation in each country, all operators in the Group provide free access to emergency service organisations and entities rendering assistance services. Furthermore, the applications which enable the automatic localisation of active telephones within their cell are becoming a key tool employed in the localisation of people in emergency situations and individuals who have lost their bearings, vehicle recovery, etc.
- Of note are the special 24-hour services, implemented in certain countries, which offer all types of aid and information in the event of accidents which occur in the home or on roadways and during mechanical breakdowns; along with these services provided by telephone, medical and legal assistance is also offered. This type of service is available in Chile, Colombia, Ecuador, El Salvador, Spain, Guatemala, Mexico, Nicaragua and Peru.

**03 DRIVING DIGITAL INCLUSION**

The concept of the digital divide is defined as existing differences in access to new technologies. However, digital technology in itself is not responsible for the digital divide. The main factors contributing to this divide are the establishment of communication infrastructures throughout the entire country, as well as income levels and access to training to use the new technologies.

Telefónica, in its position as reference operator in its markets, and in fulfilment of its commitments to proximity and reliability, not only complies with regulations associated to the universal service, but also undertakes numerous initiatives aimed at reducing the digital divide within its spheres of influence.

In 2004, the Telefónica Group distributed copies of the book *Inclusión Digital, con la Palabra a la Sociedad* (Digital Inclusion, With Words to Society) throughout Brazil. The book highlights the main digital inclusion initiatives implemented in Brazil that have been promoted by the government, NGOs and private enterprises. The publication is a useful tool to move forward in the elimination of the digital divide.

**a) Regulations in force: Universal service****Universal Service in Spain**

Up to present, in Spain, Telefónica de España has assumed the net cost of providing the universal service, which in addition to offering telephone service, including Internet access at an adequate speed, entails a series of obligations of an eminently social nature, such as a special social rates, special services for the disabled, described at the end of this chapter, a telephone information service available at a reasonable price and provided free of charge from public phones, free telephone guides for customers and an ample number of public phones.

## CASE STUDY

## AVAILABILITY OF TELEPHONY IN PERU (07-15)

Telefónica is the only company that offers its services at the national level in both rural and urban areas. Regarding fixed telephony, operators from the competition basically offer their services to the corporate sector in Lima. The Internet service offered by Telefónica in Metropolitan Lima is the same as that offered in the provinces.

Approximately 2.2 million users of the rural network deployed by Telefónica del Perú according to the Concession Agreement benefit from rural coverage services, while in December 2004 the number of rural public telephones totalled 3,935 (and 4.013 lines). In October 2004, of the 1,829 districts in the country, 1,395 now have fixed telephone service.

The net cost of the universal service operations in 2003 came to 198 million euros according to Telefónica de España. This cost is divided between the net cost in non-profitable areas (122 million euros), users with special needs (64 million euros) and the cost of information and directories (12 million euros). The Telecommunications Market Commission (CMT) has not yet ruled on the final Net Cost to Telefónica in 2003.

The net costs for 2003 do not encompass the total cost which compliance with these obligations entails for Telefónica de España. Due to methodology established by CMT, associated losses are compensated, on one hand, by maintaining 20,017 phone booths in locations where their use does not cover their maintenance cost, which amounts to 76 million euros.

## Universal Service in Latin America

In Latin America, Telefónica companies collaborate with the different public initiatives to universalise the service, with a contribution of nearly 50 million euros to the universalisation funds:

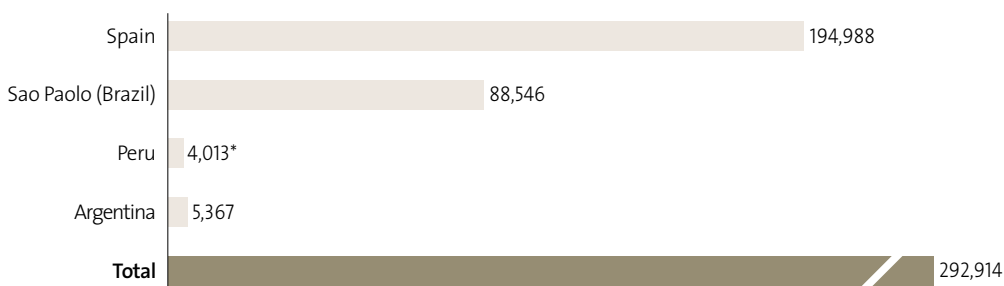
- In Argentina, despite the fact that the Fondo de Servicio Universal (Universal Service Fund), to which it is foreseen that the operators will contribute 1% of their turnover,

has not yet been established, Telefónica de Argentina has been providing services at a loss. From 2001 to March 2005, Telefónica has provisioned 33.04 million euros.

- In Brazil, the Fondos de Universalización de los Servicios de Telecomunicaciones (Telecommunications Services Universalisation Fund, FUST) is comprised of 1% of the gross operating turnover. Since the creation of the FUST, its funds have not been put to use by the government. A new service called Servicio de Comunicaciones Digitales (Digital Communications Service, or SCD) was put to public survey with a view to introducing broadband into the schools, hospitals, etc. and which would be financed by the FUST funds.
- In Chile, CTC is performing service and application promotion programmes on its own account (e.g. providing Internet access to 5,500 schools) to complement the programmes by the Fondo de Desarrollo de las Telecomunicaciones (Telecommunications Development Fund, FDT) financed directly by the Government.
- In Peru, the Fondo de Inversión en Telecomunicaciones (Telecommunication

## NUMBER OF CUSTOMERS BENEFITING FROM RURAL TELEPHONE SERVICES (07-16)

(December 2004)



\*Including data on public lines in rural areas

## COVERAGE PROVIDED BY TELEFÓNICA MÓVILES NETWORKS (07-17)

	Population coverage (%)	Base stations in rural areas (%) **
Argentina	90	16
Brazil	87 *	
Chile	95,4	
Colombia	70	5
Ecuador	73	40
El Salvador	72	66
Spain	99	
Guatemala	49	
Mexico	72	17,7
Nicaragua	60	
Panama	70	38
Peru	53,5	
Uruguay	70	11
Venezuela	89,5	7

(\*) Calculated using data from Vivo's areas of operation.

(\*\*) In towns with less than 5,000 inhabitants

Investment Fund, FITEL), was established through the contributions made by the operators equivalent to 1% of their total gross turnover. Telefónica del Perú, due to its position in the Peruvian market, has made a significant contribution to this fund, aimed at establishing services in rural areas and other places of preferential social interest.

#### b) Actions against the geographic divide

The geographic divide can be described as the barrier which prevents individuals from accessing basic forms of communication or broadband as a result of the physical location from which they wish to access these services. This gap may be international (services which are available in some countries and not others) or national (services which are available in certain areas and not others).

#### Basic telephony

Telefónica provides communication services to communities that are located in rural zones at

the same price as services in urban areas. In December 2004, nearly 195,000 customers benefited from this service in Spain, as well as almost 100,000 in Latin American countries.

In certain locations, customers only have the mobile communication alternative available to them. As an integrated operator, Telefónica alternates the use of fixed and mobile resources in order to serve its customers. On average, population coverage of Telefónica Móviles reaches 79% of the population in countries in which it operates.

- In Spain, universalisation of basic telephone service was achieved in the past due to the radio technology known as TRAC, a solution with presents serious disadvantages for Internet access. The TRAC Migration Project is a Telefónica de España and Telefónica Móviles España joint initiative which consists of providing voice and data services via radio utilising GSM and GPRS systems, to areas of low population density.

- In Mexico, Telefónica Móviles covers 26,000 km of roadways where mobiles are the only communication option. In December 2004, the Telefónica Móviles network covered 28,300 rural towns with less than 2,500 inhabitants.
- In Ecuador, it is estimated that in areas outside of the provincial capital and main cities, where fixed telephony companies cannot offer residential telephony services or where these services are very limited, some 600,000 people have mobile telephony service.
- In Brazil by the end of 2004, Vivo had extended its network to 62% of the municipalities in states where it operates.
- In Venezuela, mobile telephony represents the only communication option for 3.6% of the population, distributed among 738 towns with less than 5,000 inhabitants for a total of 888,000 inhabitants.

### Broadband

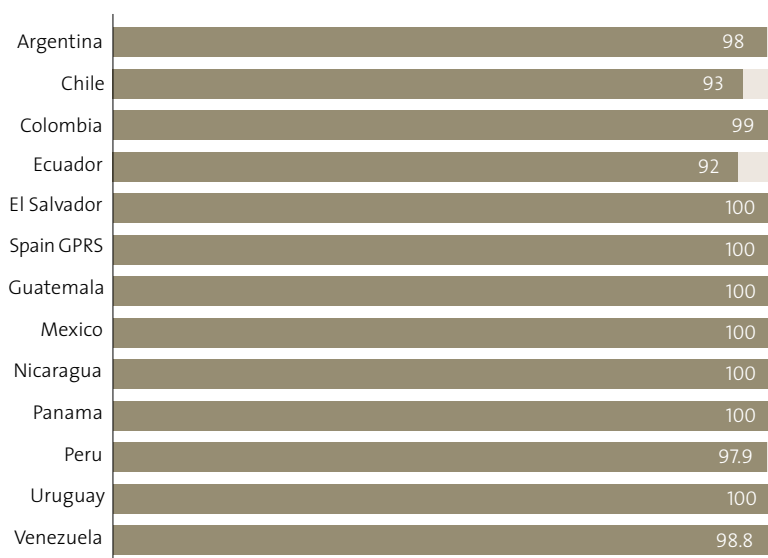
Investments made by Telefónica de España have increased the already significant ADSL coverage to 95% of lines, placing Spain in a position that is increasingly closer to attaining total broadband accessibility.

Investment efforts undertaken in Latin America to promote broadband are reflected in the digitalisation of the telephone system, which went from 96.1% in 2005 to 99.5% in 2004, particularly due to improvements in TeleSP (93.62% to 99.78%) and Telefónica del Perú (96% to 97%). Telefónica de Argentina and Telefónica CTC had already digitalised 100% of their networks in 2000.

This network digitalisation has made it possible to reach a high level of coverage in broadband services on fixed telephone lines, up to 95% in São Paulo (Brazil) and Peru, 90% in Chile and 88.1% in Argentina.

### 2.5G COVERAGE ON TELEFÓNICA MÓVILES NETWORKS (07-18)

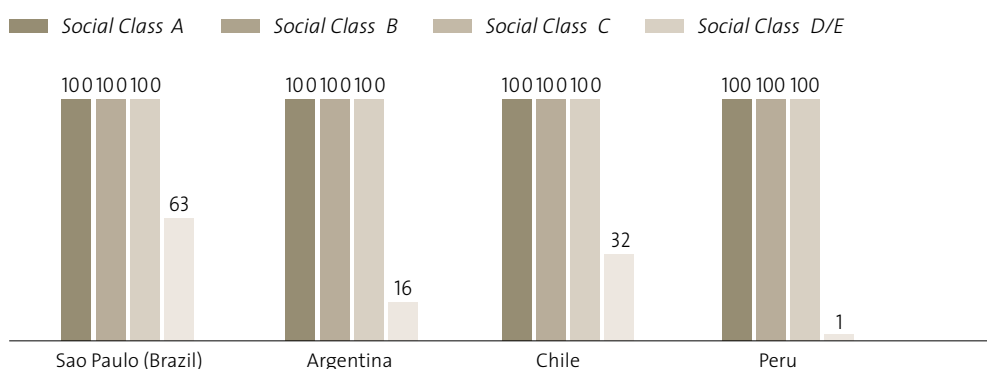
(Data in percentage)





## ESTIMATION OF LATIN AMERICAN HOUSEHOLDS ABLE TO PAY THE BASIC STANDING FEE\* (07-19)

(Data in percentage)



(\*) Assumes a maximum of 4% of earnings in telecommunication expenses and the basic standing fee of each country, which then determines the minimum income a household must have to be able to afford this expense.

Telefónica del Perú has launched the Llaqt@red project in order to incorporate rural areas in the country and provide them with access to information and international markets. The first stage of the plan provides service to 20 towns, providing continuous Internet access for a flat rate. This project was acknowledged in the Public Service category of the Creatividad Empresarial (Corporate Creativity) event held in Peru in 2004.

In line with the aim of providing users with broadband access in different locations via numerous devices, Telefónica de España finished 2004 with 350 Wi-Fi service points (Hot Spots or ADSL Wi-Fi Areas). In 2004, Wi-Fi ADSL Solution coverage areas provided high-speed wireless Internet access to close to 22,000 users in Spain. Additionally, 1,200 spots had been installed in Argentina, Brazil and Chile by December 2004.

Rural Internet via Satellite, offered by Telefónica de España, is an alternative broadband service for areas where neither fixed nor mobile coverage exists. A survey conducted on this service by Red.es revealed a high level of satisfaction among customers, the vast majority of which are schools located in rural areas. Of the respondents, 89.6% consider their access speed to be good to excellent, 92.8% value service availability and 86.4% highly rate overall satisfaction of Internet access via satellite.

Moreover, thanks to the new generations of mobile telephony and using the mobile telephone connected to a PC or PDA, mobile Internet has become a real alternative that offers society the option of broadband Internet connection from anywhere within the coverage areas. The high degree of incorporation of 2.5G technologies in the networks of Telefónica Móviles operators, reaching an average of 99.4% of the total Group infrastructures, contribute substantially to reducing the digital divide. In terms of the third generation, Telefónica Móviles' UMTS network coverage was over 40% of the population in Spain at the end of 2004.

### c) Actions against the economic divide

The social rate, together with prepaid plans, public telephony and restricted service lines are the fundamental pillars on which Telefónica has based its deployment of services aimed at low-income groups. According to studies conducted by the Group, such initiatives are necessary to encourage digital inclusion, as social classes D and E (those with the lowest incomes) would find it difficult to meet the basic standing fee otherwise.

Thus, it is essential to offer products and services according to the social and economic situations existing in the countries in which Telefónica operates, so as to satisfy the needs of those sectors which, because of economic reasons, cannot access telecommunication services.

#### Social rate

Telefónica de España offers the Social Rate in order to provide access to basic telecommunication services to customers in Spain with limited economic resources. It consists of a discount of 70% on the current connection fee, installation of the network terminal equipment (PTR) and a 95% discount on the monthly telephone line fee (free of any maintenance contract). A total of 386,430 persons were benefiting from the Social Rate in Spain in December 2004.

#### Prepaid plans

The system of billing by prepaid options and the reduced cost SMS service have been determining factors in the extension of mobile telephony to all social strata, as reflected in figures which indicate the use of these services. The strategy employed by Telefónica Móviles has always been to attain the largest customer base without focusing exclusively on the segments with the greatest purchasing power.

With this strategy, business policies have always been based on the reduction of terminal costs - Telefónica Móviles provides its

own low-cost terminals - and the availability of a variety of billing methods which have enabled millions of customers to choose the formula best suited to their communication needs and economic level.

#### Public telephony

Public telephony is yet another alternative to the home telephone in providing access to communications to the entire population, eliminating the need to pay connection and maintenance fees. A fact worthy of note is that in Spain there are currently 2,361 public telephones providing Internet access.

#### Lines adapted to users' resources

##### Argentina

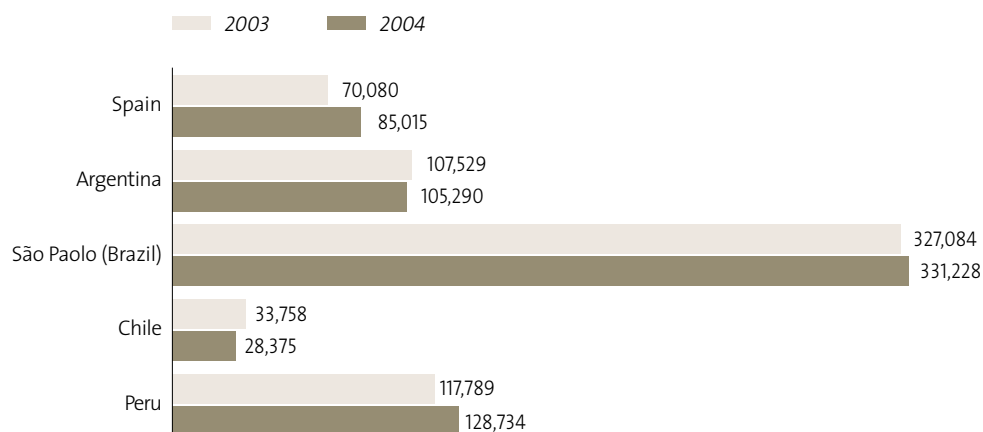
The increase in the take-up of basic telephony services in low-income segments in Argentina is founded on the development and provision of products tailored to the needs of the consumer and their budgets. As a result the Company designs products suited to their income levels. These include the following:

- Línea Control Plus: Similar to the above, but encompasses local, regional and international calls with savings and cost control.
- Telephony services with discounts for low-usage customers (retirees and Shelters)
- Social public telephony for welfare organisations (canteens, training centres, etc.)
- Bonus-call and Internet-access plans for schools, libraries, fire services, community technological centres, retirement homes, hospitals, etc.
- Upcoming launch of the virtual telephony service, a mailbox available to beneficiaries of the Heads of Household Plan as part of the government's support programme for the unemployed.

In 2004 the number of customers using our specially designed low-income services rose to more than 1,200,000, including 507,350 prepaid lines and 693,131 cost control lines.

#### PUBLIC TELEPHONES. TELEFÓNICA GROUP (07-20)

(Data in units)



### Brazil

In 2004, two specially designed products for people on low incomes were launched in Brazil. With the *Linha da Economia* the fixed line maintenance charge is equivalent to two-thirds the charge for a standard line, and with the *Linha da Super Economia* the maintenance charge represents one third that of a standard line. Both modes are for local calls. As regards long-distance calls and calls to mobile phones, customers can use prepaid cards to cut call costs.

No fewer than 1,447,687 customers benefited from the *Linha da Economia* in 2004 and a further 102,279 from the *Linha da Super Economia*. Moreover, 391,342 customers experiencing economic difficulties were also able to adjust their payment plans.

With a view to promoting Internet access for low-income groups, TeleSP and Fundación Telefónica began building tele-centres in city suburbs so that young people, children and adults could enjoy access to the virtual world for the first time.

### Chile

In Chile approximately 420,000 homes belong to the D social group and cannot afford to pay the sign-up fee. The companies of the Telefónica Group have launched several programmes designed to allow low-income families to access telecommunications services:

- At the end of 2004, a total of 219,688 lines were assigned to the Full Variable, Línea Super Economica and Línea Control plans.
- *Cuenta Controlada* and *Plan Solución*: the *Cuenta Controlada* (Controlled Account) and *Plan Solución* (Solution Plan) services have now attracted 152,000 customers and offer prepayment solutions for SME's and residential customers behind with their payments or looking to cut their bills.
- Broadband access for community infocentres, and public and state subsidised schools.
- Prepaid card known as the Tarjeta Línea Propia. 12.9 million of these were activated in 2004.

### CUSTOMERS WITH PREPAID PLANS AND SMSS SENT FROM TELEFÓNICA MÓVILES NETWORKS (07-21)

(Data in percentage)

Country of operation	% of customers with prepaid plans	Number of SMSs sent (million)
Argentina	63.2	466
Brazil	81.0	
Chile	86.0	213
Colombia	71.0	63
Ecuador	87.0	1,800
El Salvador	79.0	33
Spain	51.2	9,500
Guatemala	83.9	21
Mexico	94.6	268
Nicaragua	85.0	25
Panama	90.0	44
Peru	82.5	118
Uruguay	74.0	6
Venezuela	93.0	2,18

## Peru

Throughout 2004, Telefónica continued to carry out an active campaign to publicise its prepaid telephone service, which has allowed thousands of households without the economic resources to access conventional telephone service. As a result, sales in 2004 were the highest since Telefónica arrived in the country in 1994, with over 400 million lines sold.

Thanks to this factor, the penetration of fixed lines over the number of households has jumped substantially, particularly in the D and E segments both in Lima and in the provinces. According to the latest survey on socio-economic strata conducted annually by the consulting firm Apoyo, the penetration of fixed telephone lines in Lima rose from 44% in 2003 to 57% in 2004.

At the end of 2004, the lines targeted at these segments – restricted use and prepaid lines – reached 57% of the total. Likewise, during 2004 the cost of fixed – fixed lines through 147 cards (Telefónica's prepaid card) was cut, thus directly benefiting over 30 million cards sold annually.

## d) Initiatives combating the skills divide

The barriers that cause the so-called digital divide are not merely technological in nature. There are also skills and knowledge barriers that may prove more difficult to surmount, particularly in developing countries and among the elderly and disabled. In collaboration with its Foundation, Telefónica has been working on programmes designed to give people the skills they need to use new technologies.

One of the strategies most commonly employed by Telefónica is to promote the use of technologies among schoolchildren in each of the countries it operates in. The practical application of EducaRed and the Internet in schools are examples of this commitment, which aims to give Internet usage skills to primary and secondary pupils at both public and private schools.

One of the most common factors used to explain the high or low penetration of broadband in a particular region is the number of computers in that region. In 2004 Telefónica, in its capacity as a solid, trustworthy operator, offered PC & ADSL packages to many of its customers enabling them to take their first steps in the world of computers.

Disability is one of the many barriers that the Telefónica Group is working hard to bring down. Through projects such as Telefónica Accesible (Accessible Telefónica - described in more detail later in this chapter), Telefónica offers products and services that are specially designed to promote equal opportunities.

Below is a list of additional skills-oriented digital inclusion initiatives:

## Argentina

- In Argentina, Telefónica and Telefé gave their backing to the creation of a series of informative short television programmes highlighting the opportunities offered by new technologies for the general public.
- Telefónica de Argentina and the provincial government of Mendoza signed an agreement by which the company will make available 15,000 hours of Internet browsing as part of a joint pilot scheme entitled the Virtual Technological Literacy Campaign.
- Fundación Telefónica de Argentina signed an all-encompassing agreement with the City of Buenos Aires' Department of Education to sponsor education projects based on mutual cooperation.

## Brazil

- In Brazil, Telefónica is working closely with the Brazilian Ministry of Development, Industry and Trade to set up 20 information and business tele-centres as a means of enhancing digital skills in the country's micro companies.

## CASE STUDY

## DIGITAL INCLUSION FOR THE ELDERLY (07-22)

Telefónica is fully aware that technology can greatly improve the quality of life of the elderly and infirm. It also addresses the problems they face in terms of accessibility to communication services and any possible skill divides detected.

- *Telefónica Móviles España* launched a campaign specifically directed at the elderly people of Spain. The promotion included an easy-to-use telephone, cheaper rates and MoviStar's *Localízame* service that can be used to identify the location of a particular mobile phone with the consent of the user.
- Telefónica de España has relaunched the *Teclón*, a telephone keypad with large keys that responds to the needs of people suffering from long-sightedness and fine motor function problems. In November 2004 it also launched the *VideoTeléfono*, which has a screen allowing users to see each other.
- *Telefónica's Association for the Elderly* is a non-profit organisation representing nearly 3,000 of the Company's ex-employees. Both Fundación Telefónica and ATAM have partnership agreements with the Association and have set up a number of initiatives including computer courses for the aged.
- In 2004 Fundación Telefónica, in conjunction with the *Neurosciences and Ageing Foundation*, set up a channel for research into degenerative neurological illnesses such as Parkinson's and Alzheimer's, multiple sclerosis and cerebro-vascular accidents among others.
- ATAM's 2004 preventive campaign dealt with information for early detection of Alzheimer and other similar disorders affecting people over seventy. This campaign had the support and technical validation of the Spanish Society of Geriatrics and Gerontology, through the agreement signed by both entities. It is important to note that 34% of ATAM members are either retired employees or persons who took early retirement from the Telefónica Group companies. In addition, ATAM and QUAVITAE, a company engaged in social and health services management for the dependent elderly, have signed a collaboration agreement by which QUIVITAE has made its services available to members of ATAM throughout the country, offering special preference in taking up vacant places and discounts in the fees charged by their institutions.
- In 2004, Fundación Telefónica also gave its support to the first Spanish-language portal in the world dedicated to the elderly and the problems they face: [www.jubilo.es](http://www.jubilo.es). The website contains over 3,000 pages of information and content and receives an average of 8,000 hits a day.

## CASE STUDY

**PUBLIC TELEPHONE BOOTHS IN PERU (07-23)**

A phenomenon which is noted internationally in statistics on telecommunications and the Information Society is the large numbers of people who access the Internet in Peru. This situation is explained by the development and pervasiveness of public Internet booths throughout the country, with special emphasis given to regions with low-income households.

**The Peruvian Internet booth**

Approximately four types of public Internet booths can be found in Peru: those established for commercial reasons (for the purpose of obtaining a profit on the service), those existing as a result of municipal or local government initiatives, those promoted by universities and other institutions of higher learning, and those set up in primary and secondary schools.

Of these four types of booths, the one that has experienced the most marked boost and which has an identity of its own is the booth developed with the aim of obtaining a profit; this public Internet access model was employed by small businessmen throughout the country and implemented with a high degree of dynamism.

The first public booths appeared in 1994 as a model of community Internet access directed by the Red Científica Peruana (Peruvian Scientific Network, RCP). Current estimates place the number of for-profit public booths at more than 10,000. Most of these booths opened in the past two years due to the impulse given by broadband connections as a result of the introduction of ADSL services.

**The user**

Another factor has been the cultural change produced with the advent of public booths. Districts located on the outskirts of the capital with low-income segments (where the vast majority of the population of Lima is concentrated) are being drawn to the Internet and the number of Internet users has increased in these areas. Users employ Internet to access or send information for personal use. They access the Internet for communication purposes (92%), to download material (81%), to search for information (67%), entertainment (59%), academic purposes (56%), tourism (25%), finances (14%) and transactions (7%).

In recent years, Peru has experienced a significant emigration movement, especially among citizens with limited resources. As a result, communication between family members and emigrants is another use often detected, whether via e-mail or long-distance calls made over the Internet. It is interesting to note that these services are used even when the person using them does not have extensive knowledge of these tools. Assisted by booth personnel, senior citizens belonging to the lowest socio-economic segments use these services to communicate with the more than two million Peruvians who have left the country.

**EDUCATIONAL INTERNET IN CHILE (07-24)**

Since 1998, *Telefónica CTC* and *Terra* have been providing free Internet connection through switching accesses to 5,500 public primary and secondary schools. In December 2004, 2,560 educational institutions participating in the *Educational Internet* programme had migrated to ADSL broadband technology through the installation of 3,266 ADSL accesses.

The *Educational Internet* service is free of charge for institutions that keep the switch access and their preferential value through multi-user broadband (1 Mbps) was 34.5 dollars in 2004. In 2004, Telefónica CTC contributed the equivalent of 4.68 million dollars to switched access to the Internet in schools, taking into consideration IP traffic and ISP payment.

The *Educational Internet* programme has provided access to the Internet and the new technologies to young students in Chile, as well as to their teachers. Thus, the initiative favours digital inclusion of this segment of the population, for whom the Internet is simply one more resource in their training and their options for future development.

### Chile

- Telefónica CTC Chile, in conjunction with Fundación Telefónica, is working hard to promote digital literacy in the country by creating permanent and travelling workshops in partnership with Microsoft, Olidata and the Pontificia Universidad Católica of Chile's Vida Rural Foundation. These specially adapted programmes have had a huge impact on the quality of life of the 85,000 people who have benefited from them up to 2004. This amount represents 24% of the total number of people who have become digitally literate in Chile as a result of these government-backed courses.
- Digital literacy and Internet-skills schemes were also introduced for business people running small enterprises: training initiatives focused on e-billing and presentations on the added value IT provides in the management of micro and small companies.

### Spain

- Through the Spanish Association for the Elderly, Telefónica de España provided premises, telephone lines and a grant to help set up computer training courses for the aged.

### Peru

- The role of the telephone booth controller is very important in Peru as they are responsible for providing essential information to customers and handling their queries and enquiries.

Lastly, on certain occasions training is not focused on technologies but on business initiative and basic skills that can help combat social problems in some of the countries in which Telefónica is present.

## 04 DRIVING SOCIAL DEVELOPMENT

### a) Main Figures

The Telefónica Group plays a vital social and cultural role in all the countries where it operates. Its activities in these areas are channelled as follows:

- Fundación Telefónica is working with several civil organisations on various projects in Spain, Argentina, Brazil, Chile, Morocco, Mexico and Peru. In the Foundation's eyes, the application of new ICTs is fundamental to raising education standards, improving access to culture, developing society and enhancing quality of life, with particular attention focused on the most disadvantaged sections of society.
- ATAM, Telefónica's association for assistance to the disabled, receives contributions from nearly 62,000 employees, a figure that is doubled by the contribution made by the Company itself.
- Lastly, other Group companies are also engaged in non-profit schemes designed to foster the social and cultural development of the countries in which they operate.

### Fundación Telefónica

In its desire to raise living standards and to focus its attention on the demands and requirements of society, in 2004 Fundación Telefónica continued to give its backing to a broad range of educational, social and cultural schemes forming part of specific programmes and projects by investing a total of 25,011,000 euros in them.

The 238 programmes and projects sponsored by Fundación Telefónica can be divided into six major areas of activity: Education; Cooperation and Social Development; Telemedicine, Tele-assistance and Disability; Culture; Art and Technology; and the Information Society.



**BUDGET FOR THE TELEFÓNICA GROUP'S SOCIAL AND CULTURAL PROGRAMMES (07-24)***(In thousands of euros)*

	2003	2004
Fundación Telefónica España	17,548	16,525
Fundación Telefónica Latinoamérica y Marruecos	5,929	8,490
<b>Total Fundación Telefónica</b>	<b>23,477</b>	<b>25,011</b>
ATAM*	9,111	8,983
Other Group social and cultural initiatives	14,271	12,500
<b>Total Telefónica</b>	<b>46,584</b>	<b>46,498</b>

\*Contribution from the company complementing the contribution from Telefónica employees.

A total of 756 different bodies and agencies have helped implement these projects, which have benefited more than 25,000 organisations and over 26 million people.

In addition to the descriptions of the main projects set out in this chapter, detailed information on the projects sponsored and implemented by the Foundation can be found in Fundación Telefónica's 2004 Report and at the website, [www.fundacion.telefonica.com](http://www.fundacion.telefonica.com).

**ATAM**

ATAM was founded in 1973 by a committed group of Telefónica employees that attracted the support of the company's medical and social welfare services, the Telefónica Medical and Social services, the Telefónica Preventive Institute and workers' union representatives. In 1974 the organisation was included in Telefónica's collective bargaining agreement. The Association's bylaws define its governing boards and operating mechanisms.

ATAM is funded largely by voluntary donations made by nearly 62,000 employees and 23 companies of the Telefónica Group. Employees contribute 0.2% of their salaries with the companies doubling that amount. In 2004, the companies of the Telefónica Group donated a total of 8,983,350 euros to ATAM.

This amount includes both contributions from the companies forming part of the Association (0.4% of the salaries they pay) and those made by the Company for retired and former workers of Telefónica de España and workers taking early retirement, as well as contributions covering the operating costs of the governing boards detailed in the bylaws.

Details on its activities are available at [www.atam.es](http://www.atam.es), in its Annual Report available at [www.telefonica.es/publicaciones](http://www.telefonica.es/publicaciones), and in the section Caring Employees in chapter six of this report.

**Other social and cultural projects implemented by the Telefónica Group**

The companies of the Telefónica Group are engaged in a number of social and cultural projects that support Fundación Telefónica's programmes.

In 2004, a total of over 12.5 million euros was set aside for projects of this type. Some of the most significant sponsorship schemes were as follows:

- *Sponsorship of the Xacobeo* (Holy Year of St. James) 2004
- Telefónica Móviles' Proniño project, initially set up by Bellsouth's operators, with the aim of providing schooling for children in Latin American countries.
- Conferences and meetings on social issues such as *La Tercera Nación* (Third Nation) in Tijuana, Mexico.
- Theatre events such as the season at Madrid's Teatro Real, or musical events including the 2004 season of concerts by the *Society of Artistic Culture in Brazil*.
- Events held to celebrate the 25th anniversary of Democratic Town and City Councils in Spain.
- Artistic and cultural exhibitions such as the Gaudí Exhibition or the Maestros of Modernism in Brazil.
- Events held to raise awareness of social problems (1st Telefónica Móviles España Festival of Fellowship) or to raise money in other countries (*Telethons* organised in several countries in Latin America).
- Support for foundations and awards such as the *Príncipe de Asturias Awards*

## CASE STUDY

**HOW DO WE GO ABOUT CALCULATING THE NUMBER OF PEOPLE/ORGANISATIONS BENEFITING FROM THE FOUNDATION'S PROJECTS? (07-25)**

The following indicators have been used to calculate the number of beneficiary organisations:

- Social, welfare and cultural entities benefiting from the support or collaboration of Fundación Telefónica.
- Entities participating in public announcements or calls for proposals.
- Entities registered for Fundación Telefónica's Internet programmes (*EducaRed*, *Risolidaria* and *Merc@dis*).

**The following indicators have been used to calculate the number of individual beneficiaries:**

- Beneficiaries of social and welfare projects (disabled people, the elderly, people at risk of social exclusion and their families etc.).
- Participants in face-to-face and online courses.
- Participants in public announcements or calls for proposals.
- Participants in social, welfare or cultural initiatives.
- Visitors to Fundación Telefónica's websites and other portals developed with the technological assistance of the Foundation.
- Visitors to exhibitions, museums and other cultural institutions either managed or supported by Fundación Telefónica.

Both figures (the number of entities and participants/beneficiaries) are based on the data provided by the information system the Foundation uses to monitor the programmes and projects it conducts, as well as the data provided by the organisations collaborating with and participating in our programmes.

**OPINIÓN DE EXPERTOS DE ENTIDADES EDUCATIVAS, SOCIALES Y CULTURALES (07-26)**

With a view to increasing the transparency of the activities that the Telefónica España Foundation engages in, and to gauging and comparing the opinions and viewpoints of the people and the educational, social and cultural organisations participating in or collaborating with the Foundation in its major programmes, a series of working meetings were held to allow the Foundation to collate data and information it can use to complete and enhance its programmes and its future relations with organisations.

A total of seven working meetings were held. These were attended by 32 specialists representing 25 organisations. The meetings looked at a range of issues including the educational programmes *EducaRed* and *CampusRed*; the programme *Telecommunications Equipment for ONL*; the platform *International Solidarity Network (Risolidaria)*; the Telefónica Group's Corporate Voluntary Scheme; *Merc@dis*, the employment portal for disabled people; and the temporary art exhibitions held at *Fundación Telefónica's Art Centre*.

The Foundation's Annual Report for 2004 features a brief summary of the main conclusions and assessments reached by each group of experts.

## BREAKDOWN OF FUNDACIÓN TELEFÓNICA PROJECTS BY AREA OF ACTIVITY (07-27)

Area of Activity	Spain	Other Countries	Total
Education	8	22	30
Cooperation and Social Promotion	15	43	58
Telemedicine, Telecare and Disability	24	30	54
Culture	6	14	20
Art and Technology	28	31	59
Information Society	17	—	17
<b>Total</b>	<b>98</b>	<b>140</b>	<b>238</b>

## BREAKDOWN OF ENTITIES ASSISTING WITH FUNDACIÓN TELEFÓNICA PROJECTS (07-28)

Area of Activity	Spain	Other Countries	Total
Education	63	39	102
Cooperation and Social Promotion	409	62	471
Telemedicine, Telecare and Disability	50	40	90
Culture	23	6	29
Art and Technology	26	26	52
Information Society	12	—	12
<b>Total</b>	<b>583</b>	<b>173</b>	<b>756</b>

## BREAKDOWN OF ENTITIES BENEFITING FROM FUNDACIÓN TELEFÓNICA PROJECTS (07-29)

Area of Activity	Spain	Other Countries	Total
Education	11,281	8,384	19,665
Cooperation and Social Promotion	1,543	988	2,531
Telemedicine, Telecare and Disability	1,658	978	2,636
Culture	26	96	122
Art and Technology	26	36	62
Information Society	—*	—*	—*
<b>Total</b>	<b>14,534</b>	<b>10,482</b>	<b>25,016</b>

## BREAKDOWN OF PEOPLE BENEFITING FROM FUNDACIÓN TELEFÓNICA PROJECTS (07-30)

Area of Activity	Spain	Other Countries	Total
Education	5,782,264	5,556,784	11,339,048
Cooperation and Social Promotion	1,726,573	609,243	2,335,816
Telemedicine, Telecare and Disability	3,983,993	275,005	4,258,998
Culture	483,780	3,197,287	3,681,067
Art and Technology	4,206,024	407,854	4,613,878
Information Society	—*	—*	—*
<b>Total</b>	<b>16,182,634</b>	<b>10,046,173</b>	<b>26,228,807</b>

\* Information does not include participation figures as these are events organised in the main by third parties.

- Sponsorship of the 3rd International Language Conference.
- Support for research programmes and courses at Spanish universities.
- Patron saint celebrations and cultural events in a number of cities.

#### **b) Education**

With respect to education, Fundación Telefónica's main objective is to promote the development of education and equal opportunities by applying new ICT's to teaching and learning processes. The use of these new technologies, mainly the Internet, is therefore being promoted in all Fundación Telefónica's programmes and projects in these areas.

Always counting with the support of the education community, Fundación Telefónica creates innovative and powerful technological Internet platforms that use the most advanced tools and resources; it designs and promotes new teaching resources and innovations; it supports the training of teachers, students and parents in the use of new technologies; it invests its efforts in improving distance learning programmes; and promotes research exchanges and work through technological tools that can be used to create virtual communities.

In 2004, *Fundación Telefónica* was able to consolidate its primary and secondary education Internet portal (*EducaRed*) and its university training portal (*CampusRed*), both of which have become reference points for schoolchildren, university students and educational staff throughout Spain and Latin America. Furthermore, these portals continue to absorb the most useful and groundbreaking tools available in educational technology.

*Fundación Telefónica* has also implemented other programmes such as *Oficios en Red*, *FuTuRo* and *Aulas Unidas*, all of them aimed at

fostering quality and equal opportunities in education, both in the formal environment and in groups deserving of special attention: homeless and sick children.

Lastly, the Foundation's educational programme for 2004 was rounded off by its support of a raft of Spanish university and professional recognition and incentive initiatives in a number of fields linked to technology and social and cultural action.

#### **c) Cooperation**

Since it was founded, one of the main objectives pursued by Fundación Telefónica has been to make new ICT's a mainstay of cooperation and social promotion.

2004 saw the Foundation yet again reaffirm its objective of modernising the way in which the non-profit sector in Spain is managed by adapting and improving its telecommunications. In this respect, it responded to this challenge by introducing a programme to supply non-profit organisations with telecommunications equipment, which was supported by a call for public aid and the signing of various collaboration agreements. The programme has helped more than 360 Spanish organisations to significantly upgrade the efficiency of their activities, and thus help improve the quality of life of the groups of people with whom they work.

The International Solidarity Network (*Risolidaria*) provides an example of the Foundation's work in the areas of cooperation and social promotion. This platform comprises more than 700 organisations and its mission is to assist social organisations by setting up a network that helps them contact and work with each other. Fundación Telefónica also operates a group-wide voluntary worker scheme that has now attracted nearly 3,000 employees from the Group's different companies.

## CASE STUDY

## EDUCARED (07-31)

Since its inception in 1998, *EducaRed*, the Telefónica and Fundación Telefónica programme devoted to primary and secondary education, has continued to make its goal the promotion of educational use of information and communication technologies in the classroom, making the entire educational community aware of their potential value for teaching and education through the development of content and activities addressed at the three basic pillars of the programme: students, teachers and parents.

One of the most unique features of this initiative, whose principal vehicle of expression is its Internet portal [www.educared.es](http://www.educared.es), is that it is supported by the collaboration and active participation of 16 of the foremost institutions in the Spanish educational community, including professional associations, parents groups and labour unions.

In its seven years of life, the *EducaRed* website has become a reference point in its scope of activity, as proven by the 11,218 schools throughout Spain that have joined the programme, a figure that encompasses over 324,000 teachers and 4,070,000 students. An important note is that currently 54% of the schools connected to the Internet in the country are registered with this portal.

The number of participants registered with *EducaRed* grows each year, with 74% more visitors than in 2003, clearly evidencing that the Internet is increasingly more present in teaching. The global nature of the initiative is shown by the increase in hits each year from other countries, 68% more in 2004, particularly from countries such as Mexico and the United States.

After seven years of work, *EducaRed* is the Spanish-language educational website with the highest implantation in the Net. In fact, one of the main search engines in the Internet, Google, sends nearly 1,700 direct links to this portal, as well as ranking it as 5/10 in its Page-Rank.

Throughout 2004, *EducaRed* has continued to enrich its offer of contents and services, designed with the specific needs of the entire educational community in mind. Highlights of the innovations include the creation of the *Profesores Innovadores* (Innovative Teachers) and *Enseñar a Aprender* (Teaching how to learn) portals, access to the most complete encyclopaedias available and the latest version of the *Diccionario y Ortografía de la Real Academia Española* (Dictionary and Spelling Reference by the Royal Academy of the Spanish Language).

	Schools	Teachers	Students
Año 2002	10,911	305,851	3,918,291
Año 2003	11,091	311,143	3,986,142
Año 2004	11,218	324,033	4,073,889

Year	Number of EducaRed Hits
2001	583,096
2002	1,260,706
2003	2,717,975
2004	4,733,312

## CASE STUDY

## PROGRAMMES FOR THE SUPPORT OF WOMEN (07-32)

## The São Bartolomeu Dressmakers' Cooperative

Fundación Telefónica created the Income Generation Scheme for Women at the end of 2001 to support existing social initiatives promoting employment opportunities for female heads of family responsible for infants and children under the age of 18. It introduced a series of actions including training for these women, assistance in developing and marketing the products they make, in addition to training in management techniques and cooperative practices.

After three years, the dressmakers' cooperative, which now comprises 50 women, has posted many achievements, including: the creation of its own collection of clothing "Águas de São Bartolomeu", the opening of a shop selling its products, the presentation of its clothes at fashion events throughout the country, and the opening of its own head office. By 2004, this women's cooperative had become a profitable and self-sustaining business capable of generating salaries for its members above the minimum wage in Brazil.

Last year the initiative was named among the finalists of the 2004 EXAME Guide of Good Corporate Citizenship Awards.

## Master in Gender Equality

In Spain, Telefónica has joined forces with the Universidad Complutense de Madrid, in its Master of Gender Equality Agents, a programme which is not only financial but also an educational initiative.

Under the slogan Ningún Cooperante Sin Comunicación (Communication for all Volunteers), the Foundation has made the most modern and advanced technology available for voluntary workers involved in cooperation and humanitarian relief programmes all over the world. During the last year, as well as enabling 10,400 Spanish missionaries and aid workers around the globe to get in touch with their families in Spain during the Christmas holidays, the Foundation also implemented a host of other initiatives designed to guarantee telecommunications services in countries experiencing emergency situations as a result of armed conflict or natural disasters, such as the tsunami that hit South East Asia.

Finally, Fundación Telefónica is giving its support once more to a variety of social organisations by providing the necessary technical resources for initiatives aimed at raising awareness and encouraging the participation of society.

## d) Telemedicine, telework and disability

The overriding objective of Fundación Telefónica's telemedicine, tele-assistance and disability initiatives is to use new ICT's to improve the quality of life of the neediest groups, principally the disabled and the elderly. The activity of the Telefónica Group and Fundación Telefónica, in particular, in this field

involves vital R&D work mainly focused on increasing the access of these groups to information, communication, training and employment; enabling the provision of better healthcare and welfare services for the elderly, infirm, disabled and the vulnerable; and on helping improve health education and the prevention of illnesses and disabilities.

In 2004, Fundación Telefónica worked hand in hand with several prestigious social organisations to implement and support a number of projects for the disabled, including the following: *Merc@dis*, an employment website aimed specifically at the disabled; a unit demonstrating specially adapted equipment for disabled people at CEAPAT (National Centre for Personal Autonomy and Technical Aids); and the SICLA Project, which provides state-of-the-art technology enabling alternative communication.

As regards tele-assistance, initiatives include a localisation and help system for women at risk of domestic violence; and the Telesalud ADSL programme, designed to enable audiovisual contact between the elderly and medical professionals.

Fundación Telefónica has also joined forces with various social/health organisations in the field of telemedicine in the creation and technological maintenance of Internet portals

## CASE STUDY

## PROGRAMMES SUPPORTING CHILDREN AND YOUNG PEOPLE AT RISK (07-33)

**a) The City of Rights (Brazil)**

The space, City of Rights, available through the Risolidaria website and promoted by Fundación Telefónica, aims to explain the philosophies and policies promoted by the Children's and Young Persons' Statute (ECA) in an innovative, instructive, informative and enjoyable way.

**b) The Rights Protection System (Brazil)**

Fundación Telefónica and the National Council of Children's and Young People's Rights (CONANDA), part of the Brazilian Ministry of Justice, signed a partnership agreement within the framework of the Risolidaria platform. The agreement means that a series of working groups known as SGD (the Rights Protection System) has been set up for Risolidaria comprising CONANDA, the Human Rights Office, and the State Councils which oversee subgroups for the 27 Brazilian states. The SGD has a total of nearly 200 members.

**c) The Pro-Direitos Programme (Brazil)**

The Pro-Direitos programme, created in 1999 by Fundación Telefónica, provides financial and technical support for projects using new ICT's to create integrated networks safeguarding the rights of children and young people in the country. It works closely with the municipal councils by supporting their initiatives, and also promotes care networks for children and young people.

The project has assisted no fewer than 162 welfare organisations and over 38,000 children and young people at risk.

**d) Medida Legal (Brazil)**

The programme Medida Legal (Legal Measures) works towards a number of objectives: to guarantee the rights and improve the quality of life of young people at risk; to help combat social inequality and violence throughout the country; and to support the municipal councils as they go about their work.

The sums invested by Fundación Telefónica in the Medida Legal programme are used to support governmental and non-governmental projects designed to help 720 young offenders completing socio-educational monitored-probation programmes and performing community service work. These court-sponsored initiatives provide alternatives to custodial sentences and have proved to be extremely effective in cutting levels of re-offending among the young offenders benefiting from them.

**e) FuTuRo (worldwide)**

The FuTuRo project, set up by Fundación Telefónica in the seven countries where it is present, represents the first international initiative that aims to use new ICT's and values-based education and communication to encourage vulnerable children and young people staying at all types of children's homes to live healthy lives.

This project, which is tailored to the social and educational context of each country, allows hundreds of children and young people aged between 6 and 20 to discuss areas and issues such as growth, identity, healthy living, sexuality, sexually transmitted diseases and HIV/AIDS, drug addictions, healthcare resources and health centres: a virtual meeting and work network comprising 14 shelters for homeless children in seven different countries.

**f) The Children's and Young People's Helpline (Peru)**

In 1998 the Teléfono de Ayuda al Niño y Adolescente (the Children's and Young People's Helpline) was set up to help Peruvian children and young people in need. The initiative came about thanks to a partnership agreement between Fundación Telefónica and the ANAR Foundation.

This free helpline, donated by Fundación Telefónica, has handled 3,000 calls from children and young people who want to talk in private about their problems with a team of professionals made up of psychologists, social workers and lawyers, who give them advice and information and try to prevent them from becoming involved in situations that put their physical and emotional well-being at risk.

**g) Pre-vocational and occupational training for vulnerable children and young people (Peru)**

In collaboration with the Fundación Mundo Libre, Fundación Telefónica has helped set up a workshop equipped with six computers with Internet access that can be used to provide homeless children with vocational training, and to support the existing children's workshop. These workshops have already helped 80 boys and girls from underprivileged backgrounds, and their objective is for these young people to adapt to the new technologies used in the labour market of today.



on a range of medical specialties such as oncology and cardiology, and illnesses including Spina Bifida, Alzheimer's and Down syndrome.

In recognition of the fact that sport and physical exercise represent some of the best ways for disabled people to integrate themselves more easily into society, in 2004, declared the European Year of Education through Sport by the European Council, Fundación Telefónica continued to extend its support to organisations such as Special Olympics España, the Spanish Paralympic Committee, and the También Foundation, three major associations that help thousands of disabled sportspeople in Spain to get out and about.

#### **e) Culture**

Ever since it was founded Fundación Telefónica has dedicated much of its resources to promoting the use of new ICT's, particularly the Internet, to publicise artistic and cultural events, not just as a means of bringing culture to the people but also as a tool for exploring and developing new forms of cultural expression.

The activities of Fundación Telefónica are geared towards the dissemination of culture and its values through the use of the latest technology. In doing so the Foundation works in close conjunction with a number of prestigious institutions and organisations, and also lends its wholehearted support to sound proposals put forward by cultural associations all over the country.

True to its policy of supporting and promoting culture, in 2004 Fundación Telefónica continued to work on the virtual recreation of major monuments and buildings of cultural, artistic and historical interest in Spain and Latin America through its Ars Virtual programme. It is also actively involved in consolidating and raising the profile of the Spanish language on the Net through a series of initiatives promoting the language and Spanish-speaking culture.

The programme Technological Collaboration with Cultural Institutions pursues similar ends and provides technological support for the country's main institutions by creating new content and organising and publicising a range of cultural events.

Lastly, Fundación Telefónica restated its commitment to music teaching and the promotion of music by working closely with the Isaac Albéniz Foundation.

#### **f) Art and Technology**

The Telefónica Group's social projection also involves ceaseless support for artistic and cultural initiatives encompassing the most traditional approaches through to the avant-garde.

Since 1999, Fundación Telefónica's Art and Technology Office has managed the Telefónica Group's Artistic Heritage, made up of various specialist collections of works by twentieth-century Spanish and international artists, as well as its Historical/Technological Heritage, a collection consisting of more than 10,000 items, documents and photographs that tell the story of the Company since its foundation in 1924.

In much the same way as a museum, Fundación Telefónica, which pursues an active corporate art collecting policy, focuses its attention to curating, cataloguing, collecting new pieces and exhibiting these collections at its Art Centre and the Telecommunications Museum housed at the Company's Madrid headquarters.

In 2004 Fundación Telefónica continued to work towards its core objective of helping to promote and disseminate contemporary art and new technologies in their artistic applications. Last year saw the Foundation once again organise its Exhibitions Programme at the Art Centre, with centre stage being given to groundbreaking contemporary art. It also

## CASE STUDY

**DEMOCRATISING CULTURE: ARS VIRTUAL (07-34)**

With a view to promoting new forms of dissemination and the proximity of culture by using the options offered by the new information and communication technologies, in 2000 Fundación Telefónica developed its Ars Virtual programme, a digital macro-museum on the Internet that enables the visitor to surf some of the most important monuments comprising the artistic, cultural and historical heritage of Spain and other Latin American countries where Telefónica is present, thanks to the latest techniques in virtual reality.

Grouped into three categories – Temples, Royal Sites and Other Monuments – the aim of Ars Virtual is to allow the visitor to journey through the buildings with total freedom of movement, using three-dimensional technologies, music, background sound, light and shadow effects which, together with the quality of the images, which make each recreation a true and accurate reflection of reality.

In 2004, recreations presented included the Alhambra in Granada, Las Médulas and the Royal Monasteries of the Descalzas Reales, Santa Clara in Tordesillas and Santa María la Real in Huelgas. Soon to be added are the Real Colegiata de San Isidoro in Leon, a master work of the Spanish Romanesque, as well as the Virtual World of the Sierra de Atapuerca, which will show the content, discoveries and findings on human evolution taken from this site. The [www.arsvirtual.com](http://www.arsvirtual.com) site received 403,526 hits in 2004.

With the latest additions in 2004, Ars Virtual currently offers recreations of 18 different monuments.

organised its 6th International VIDA Awards, which reward artistic excellence in the field of artificial life.

In addition to these activities, the Foundation exhibits collections from other cultural organisations in Spain and overseas, and also loans its collections out, ensuring that its artworks and exhibitions are seen by a wide variety of audiences.

As regards technology, Fundación Telefónica's central objective is to put its historical/technological heritage on display to the public, particularly children, at the Telecommunications Museum. The museum takes visitors on an educational journey from the early days of telegraphy all the way through to the latest communication technologies such as mobile phones with cameras and pocket computers.

**05 DRIVING EQUALITY: SUPPORT FOR THE DISABLED**

The Telefónica Group has extensive experience in providing integrated support to the disabled. The Foundation for Social Development of Communication, Fundesco, was created in 1968 and from its inception studied the impact of the new technologies on disabilities. Another significant example is ATAM, a Telefónica association providing care for disabled people,

founded in 1973, born of the commitment of employees, labour unions and the company itself. Telefónica now seeks to use telecommunications, innovation and technology to help disabled people integrate into society, find work and allow them to go about their lives in complete freedom and enjoy their rights.

The Telefónica Group's commitment to this mission is deep rooted and the Group has demonstrated its support for this important minority over a long period of time in the following ways:

- making it a part of its Corporate Social Responsibility policy;
- Fundación Telefónica's social programme;
- the solidarity of the Group companies and their employees, which can clearly be seen in the work of ATAM;
- the innovation, technology and the products and services generated by the business units.

By bringing all these factors together, in 2004 Telefónica put the finishing touches to its cross-divisional disability project entitled the Integrated Accessible Telefónica Plan. The projects sets out to promote accessible

## INTEGRATED ACCESSIBLE TELEFÓNICA PLAN. OBJECTIVES (07-35)

- To foster research and the development of new telecommunications, information and knowledge technologies designed to promote accessibility and equal opportunities for disabled people.
- To improve the quality of life of citizens and encourage the integrated development of people with disabilities by supporting and promoting accessible telecommunications.
- To foster cooperation between public bodies and organisations representing disabled people, and to encourage them to participate in society in general, and in the Information Society in particular.
- To guarantee the Telefónica Group's complete accessibility as a player in society.

telecommunications and information technologies, and adheres to the concepts of equal opportunities, fair treatment and universal accessibility for all disabled people in line with the principles of the Global Compact.

Accessible Telefónica is structured into five fields of action that are described below and are taken from the National Accessibility Plan (IMSERSO, Ministry of Labour and Social Affairs). They are acted on through a variety of specific projects and actions, enabling the various business units and management areas to agree on areas of cooperation and work on accessibility projects with different disability communities.

### a) Training and awareness

Telefónica is aware of its hugely important role in society and the scope of its messages. These factors influence its contribution to raising awareness among different professional, social, institutional, public and private groups about the integrated focus of accessibility based on the rights of the disabled.

### b) Basic conditions for product and service accessibility

Telefónica uses a range of business lines to offer its experience and technology to disabled people, thus enabling them to access and use technologies, products and services connected with the Information Society. Progress made in 2004 includes:

#### Mobile telephony

- An SMS text messaging service that provides an extremely effective communication solution for deaf people.
- A speaking phone service that allows sight-impaired people to access the same text messaging service.

- A telephone for the visually impaired (Owasys). The phone uses a voice synthesiser to provide information and enables blind users to use some functions previously inaccessible to them, such as creating and reading messages, using the phone book and checking phone settings.

- The new video call service is based on UMTS technology and has attracted positive feedback from sign language users.

- The geographical people locator service Localizame, which gives users information on the geographical whereabouts of a person when making a call, sending a short message or using the Internet. The service is extremely useful for disabled people who need assistance from their families, guardians or carers.

- Telefónica Unifón (Argentina) launched a new mobile telephony service aimed at deaf and speech-impaired users. As part of the service an operator answers customers' calls and then sends them an SMS text message notifying them of the call. The service answers all calls, recovers messages and then sends them to the customer. Customers receive the messages on the screen of their telephones and can respond to them by sending a text message to another cell phone or an email address.

- T. Móviles Argentina also launched its free Braille billing service.

#### Fixed telephony

- The cost of the Deaf Persons' Liaison Centre is being met by IMSERSO, and Telefónica de España is cutting the cost of calls made to the centre thus making it more economical to communicate with the deaf.
- Telefónica de Argentina's service for helping put deaf people and the hard-of-hearing in touch with the outside world handles

## TRAINING AND AWARENESS INITIATIVES IN 2004 (07-36)

Model for the Provision of Care for Disabled People (ATAM, over 3,600 people benefiting in 2004)	Launched by ATAM in conjunction with the Royal Trust for the Disabled, the model consists of three key components: integrated assessment of the person's capabilities; personalised planning with personal support schedules; and management systems for their application. These systems constantly monitor and evaluate results in terms of quality of life. The model for the provision of care is based on the principle of social empowerment and integration, which involves gradually giving people the skills they need to complete tasks and activities previously deemed to be beyond them.
Project: Accessible Communication for All (8 interviews)	Meetings with groups representing the disabled to identify barriers, guidelines and verbal, non-verbal and technological criteria in order to generate non-discriminatory communication. Communication needs and requirements are identified in relation to different types of disability with a view to generating basic knowledge and, in subsequent phases, to combating discrimination.
Book: <i>The Siblings of Disabled People: A Pending Task</i> . (5,000 copies released)	Fundación Telefónica and the <i>Association for the Adaptation and Re-Education of the Disabled (AMAR)</i> set up a number of reflection workshops that provide the siblings of disabled people with a place to go for information, reflection, guidance and support.
Municipal Care Centres for the Disabled (300 beneficiaries)	This project is the result of cooperation between the <i>Telefónica Perú Foundation and the Foundation for Solidarity-Based Development (Fundades)</i> . The partnership has also led to other initiatives such as the Centre for Employment Training or the Information Service for Disabled People (INFODIS).
Project: <i>Rede Saci</i> (6,200 users)	Sponsored by the Telefónica Brasil Foundation, the project's goal is to promote the communication and dissemination of information among the disabled and their families, specialists and public bodies.
New Technologies Access Classroom (Infomédula: 2.5 million hits in 2004)	Opened in December 2004 at the National Paraplegics Hospital in Toledo. This partnership also resulted in the creation of the National Register of Bone Injury Patients, available at <a href="http://www.infomedula.org">www.infomedula.org</a>
The Deaf Persons Network (25 associations involved)	The Telefónica España Foundation is working with the <i>State Confederation of Deaf Persons' Foundation</i> on the creation of a parent network for deaf persons' associations.
<i>Canal Down21</i> (4,250 registered users)	The Telefónica España Foundation helped set up this website which now has received 347,182 hits.
Centro Español de Documentación sobre Discapacidad	The Spanish Disability Archive Fundación Telefónica in Spain worked closely with the Royal Trust for the Disabled in 2004 to design and create a new website <a href="http://www.cedd.net">www.cedd.net</a>
Mercadis (218 people hired in Chile)	A virtual job search facility that aims to help disabled people of working age to access the labour market. Now operating in Spain and Chile. In Spain, Mercadis has received 1,800,000 hits.
Website dedicated to <i>Poliomyelitis in Peru</i> (700,000 potential beneficiaries)	A portal was created for people suffering this disability as a result of a joint initiative between Fundación Telefónica and the Peruvian Polio Society.
Website for the <i>Daunis Foundation</i> (40% de incremento de ventas)	Fundación Telefónica contributed to helping Mexico's Down syndrome sufferers integrate into society by creating a portal that publicises the activities of the <i>Daunis Foundation</i> . Thanks to this portal, the Foundation's sales have been increased.

10,000 calls a month. The service has been running since 1998 and receives 50.000 calls a month, 10,000 of which are calls answered and handled by the service operators. It also offers customers a Braille billing service.

- Telefónica de España offers its sight-impaired customers the same billing service and the first ten calls free to its 1003 enquiries service in each billing period.

#### **Other Group companies:**

- Telefónica Soluciones launched TeleAcceso.com, the first specialised e-commerce and integrated telecommunications services portal in Spain for disabled people.
- In Argentina, CARE (the Special Adaptation and Rehabilitation Centre) developed computer devices specially adapted for the disabled with the support of Fundación Telefónica.
- Thanks to the enquiry and helpline service set up by Fundación Telefónica in Chile, more than 800,000 people were able to exercise their right to vote in the general elections held in October.
- In Chile, Fundación Telefónica launched its Closed Caption system – one of the most significant technological innovations ever designed for deaf people – to enable the country's more than 500,000 deaf and hearing-impaired people to follow the President of the Republic's speech on the Annual National Accounts.
- The Guide to Communication Solutions for the Elderly and Disabled was published in 2003 and showcases Fundación Telefónica's products and innovations.

#### **c) Innovation and quality**

Both Telefónica I+D and the Group's companies are engaged in active research with a view to developing innovative technologies that make life easier for disabled and elderly people alike.

**Telefónica I+D** is currently working on the following disability initiatives:

- It designs its own solutions such as the Hércules (HIS) healthcare information system, healthcare protocols (clinical pathways) and an electronic prescription viewer.
- SeguiTel is a tele-assistance home-help solution that meets the needs of people who, because of their age, personal situation or physical condition, may require constant, specific or rapid assistance in the event of an emergency.

**Telefónica Soluciones** boasts an Accessibility Laboratory that operates as a resources centre for specialists in telecommunications accessibility. The lab develops solutions for disabled people such as the QWERTY virtual keyboard, a built-in touch pad and a mouse simulator. It also develops groundbreaking technology such as the Beethoven System, which enables the deaf and hearing-impaired to communicate with other people by phone.

**Telefónica Móviles'** innovation programme revolves around the Usability Group, a centre where disabled people are invited to test its products and services.

**Fundación Telefónica** developed the following applications:

- The SICLA programme, which develops alternative communication systems for speech-impaired people who need to use other non-verbal systems. This innovative programme comprises voice technology to allow the speech-impaired to communicate with their families and the outside world using the telephone, Internet and email.

- Fundación Telefónica also helped set up a unit demonstrating specially adapted equipment for disabled people at CEAPAT (National Centre for Personal Autonomy and Technical Aids) in Madrid, as well as the Cantabrian Information and Guidance Centre, which provides information on telework and employment opportunities for people with sensory impairments and the physically and mentally disabled.
- TeleSalud ADSL is a system developed by Telefónica I+D in 2004, with the support of Fundación Telefónica, addressed at improving the equality of life of the elderly through the new information and telecommunications technologies.

#### d) Plans and programmes

Accessible Telefónica's remit is to adapt all the Group customer service channels and enable disabled people to access and use them without restriction. The most significant developments in this area in 2004 were as follows:

- *Customer care service via text telephony:* Telefónica Móviles España was the first business unit to install a text telephony switchboard at its Customer Service Centre, thus allowing deaf people to make enquiries using their text phones.
- *Movistar Accesible* ([www.movistar.com/accesible](http://www.movistar.com/accesible)) provides detailed information on products and services that can be used as tools to help people with disabilities overcome specific problems.
- Moreover, accessibility criteria were taken into consideration in designing and constructing the Group's new headquarters in Spain, Distrito C.

#### e) Participation

As a means of gauging the needs of people with disabilities at first hand and defining specifications for its products and services, Telefónica cooperates closely with major social actors to set up partnerships and strong links with the main disability communities. Partnership opportunities are channelled through management areas and business units so that the specific characteristics of each individual project can be assessed. The most significant of these initiatives in 2004 were as follows:

- As a sector association, ATAM is an active member of the leading confederations that make up the network of Spanish associations for the disabled.
- *Fundación Telefónica* signed partnership agreements with associations for the disabled in all the countries it operates in, resulting in the aforementioned projects.
- *Telefónica Móviles España* signed agreements with disability groups in Spain to develop and test its products and services. In 2004, it also signed an agreement with the *Médico Rural Foundation* to set up the *20th Century Project*, which aims to promote telemedicine and its availability in rural communities.
- As a Group company specialising in the field, Telefónica Soluciones is a member in Spain of the AENOR Group and helps set web accessibility criteria.
- Telefónica I+D took part in several European projects in the EU's 5th Framework Programme designed to set out best practice guidelines in the development and provision of services in a range of areas including social inclusion (e-inclusion). One such project involved the creation of a

## CASE STUDY

**PARTICIPATION IN DISABILITY EVENTS (07-37)**

Telefónica shares its strategy in Telecommunications and disability with its stakeholders through participation in seminars and other forums

- As part of the Latin American Year of the Disabled, the Group was represented by ATAM, Fundación Telefónica and several of its business units at the 5th Latin American Disability and New Technologies Forum held in November 2004 and organised by AHCIET (Latin American Association of Research Centres and Telecommunication Companies) and the Chilean Junior Ministry of Telecommunications.
- Fundación Telefónica made its contribution to the First National Disabled Persons' Congress, held in December, through its Risolidaria platform. The Foundation teamed up with the United Nations Development Programme (UNDP) at the event, which brought together more than 1,300 disabled people from all over the country and a number of leading disability organisations such as ONCE, RIADIS and CERMI.
- In January 2004, the Chairman of the Commission for the Disabled in Argentina visited the Company facilities managed fully by disabled persons who provide service to others with disabilities.
- Telefónica I+D participated in the W3C 2004 Tour, organised by the Spanish W3C office.
- In December 2004, the Telefónica Group's strategy with regard to Telecommunications and Disabilities was presented at a series of seminars offered by El Nuevo Lunes, entitled Disability and Corporate Social Responsibility

**SPORT AND DISABILITIES (07-38)**

Sporting events for the disabled have long been supported by Telefónica as a means of self-fulfilment and a way to promote social awareness of social integration for the disabled.

- In Spain Fundación Telefónica lent its support to the Special Olympics, an organisation that represents 15,000 mentally disabled sportsmen and women, and also worked with the Spanish Paralympic Committee on several initiatives. It also gave its support to ATAM's Basic Sports Club.
- Mexico Special Olympics currently comprises 20 state associations representing over 8,000 athletes. As part of its collaboration with the Mexican organisation, Fundación Telefónica helped organise the 11th National Special Olympics held in Pachuca Hidalgo in September 2004.
- In Peru, the Foundation is involved in a similar partnership with Peru Special Olympics, which has so far given its support to over 9,000 athletes around the country. The Foundation also sponsored the 4th Olympic Games at the Special Education Centre in Kallpa with a total of 824 disabled athletes taking part



## CASE STUDY

**AWARDS AND RECOGNITION RECEIVED BY TELEFÓNICA FOR ITS COMMITMENT TO THE DISABLED (07-39)**

- In 2004, Fundación Telefónica was awarded the CERMI.ES 2003 Social and Cultural Action Award, for its valuable work in supporting society's most disadvantaged groups and for having developed a range of programmes designed to bring about social integration and improve living conditions for the disabled.
- In Peru, through the National Council for the Integration of Disabled People (CONADIS), the Ministry for Women and Social Development (MINDES) recognised Fundación Telefónica for its unstinting work in defending and promoting the rights of the disabled.
- Atento Chile won an award presented by the Chilean Programme for the Labour Recruitment of Blind People in recognition of its efforts to help bring about integration.
- ATAM has won a number of awards since it was founded many years ago in support of the rights and quality of life of disabled people. These include the Sagardoy Foundation Award, the Autonomous Government of Catalonia Award, and the Reina Sofía Award.
- The website infomedula.org won the 2004 IMSERSO Princess Cristina Communication Award for its accessible design and ambitious structure enabling the development and provision of services to its users.
- The Telefónica España Foundation received an award from HRH Princess Elena in recognition of its support for the Spanish Paralympic Committee.
- A project on accessibility put together by an employee of Telefónica Soluciones won the competition Proyéctate, organised by the Social Department of the bank, Caja Madrid. The proposal, Stickers for Computer Keyboards and Telephone Handsets, is designed to help visually impaired people.

database featuring these best practices with an emphasis on e-government.

- It also sat on the European *Telecommunications Standards Institute's Technical Committee on Human Factors*, which looks at disability issues, and on the *Technical Standardisation Subcommittee AEN/CTN 139/SC 8, Systems and Devices for the Elderly and Disabled*, chaired by the Spanish Standardisation and Certification Association (AENOR).
- One of the most notable partnership initiatives in 2004 was the agreement signed between *Fundación Telefónica and the Aragon Association for the Physically*

*Disabled* with a view to working on and implementing the project *Employment Integration for People with Major Disabilities*. The project aims to create a telephone service centre that provides paid employment to people with severely reduced mobility, a segment of the population that has great difficulty in finding work. The service centre has subsequently been equipped with the infrastructures, telecommunications equipment and technical aids needed to help these people go about their work.

The Group continually seeks the cooperation and consensus of the disabled in all its activities related to this sector.

08

Environment: respect and protection

08/01	<p>environmental commitment</p> <p>The companies in the Telefónica Group have upheld a commitment to the environment via Global Compact</p> <p><b>NEW ENVIRONMENTAL POLICIES</b> Telefónica Móviles</p>	08/02	<p>environmental management</p> <p>The Telefónica Group has established internal regulations governing <i>Minimum Environmental Requirements</i></p> <p><b>MINIMUM ENVIRONMENTAL REQUIREMENTS</b></p>	08/03	<p>monitoring of environmental issues</p> <p>Telefónica endeavors to minimize the impact of its activities on the environment</p> <p><b>27</b> COMPANIES REPORTED IN 2004 (5 IN 2003)</p>
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08/04 development of services with a positive impact on the environment

Telecommunications services contribute to efficiency and savings in natural resources

**PROJECTS EVALUATED**

**318**  
Telefónica I+D

*Telefónica*

Telefónica's commitment to the environment is embodied not only by minimizing the impact of its activities, but also by promoting products and services that contribute to its preservation

## TELEFÓNICA'S COMMITMENTS TO THE ENVIRONMENT (08-1)

Year	Company	Commitment
1996	Telefónica de España	• ETNO (European Telecommunication's Operator Association) environmental commitment Telefónica joins the ETNO working group on the environment
1997	Telefónica I+D	• Telefónica I+D environmental policy (revised in 2003). This policy includes a commitment to develop telecommunications services that contribute to the protection of the environment and the sustainable development of society.
1998	Telefónica Móviles España	• Telefónica Móviles España environmental policy. The policy is comprised of ten commitments of a broad scope.
1999	Telefónica de España	• Telefónica de España environmental policy. This policy follows ten lines of action, all developed in coordination amongst each other.
2002	Telefónica Group	• United Nations Global Compact, three principles of which are related to respect for the environment: -Principle 7: Businesses should support a precautionary approach to environmental challenges; -Principle 8: undertake initiatives to promote greater environmental responsibility; -Principle 9: encourage the development and diffusion of environmentally friendly technologies.
2002	Telefónica Móviles España	• Sustainability Excellence Club. Founded with 15 other companies with the aim of fostering sustainable development amongst companies.
2003	Telefónica Group	• GeSI (Global e-Sustainability Initiative). Initiative supported by UNEP (United Nations Environmental Program) and the ITU (International Telecommunications Union). It groups manufacturers and operators in the sector to promote the sustainable development of the information society.
2003	Brazil	• A working group formed by experts and employees to promote the environmental policy
2004	Telefónica Group	• Corporate regulations: Minimum Environmental Requirements that must be contemplated in the operations of the company subsidiaries
2004	Telefónica Móviles	• Approval of an environmental policy applicable to operations undertaken in Argentina, Chile, Colombia, Ecuador, El Salvador, Spain, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela.
2004	Telefónica Soluciones	• Approval of the Company environmental policy.
2004	T-Gestiona España	• Approval of the Company Environmental By-laws, as a first step toward in the implementation of an environmental management system.



## 01 TELEFÓNICA, COMMITTED 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 the past several years.

The *Minimum Environmental Requirements* established by the Telefónica Group in 2004 require each company or business line to define a commitment to protect its environment, an environmental policy at the highest level of the organization that encompasses a minimum of the following criteria, provided they are applicable to its activities:

- Identification of the environmental issues related to the company's activities, facilities and products.
- Compliance with the applicable environmental legislation in effect and fulfillment of all other commitments the organization has made in this area.
- Gradual evaluation of the environmental impact of the products and services it develops.
- Continual upgrading of internal action procedures, taking into account the principles of pollution prevention and the conservation of natural resources.
- Gradual incorporation of environmental criteria in the purchasing, supplier selection and sub-contracting processes.
- Regular publication of the company's environmental indicators and practices, and promotion of communication in environmental issues with all stakeholders involved (employees, customers, suppliers, the Public Administration, etc.)

- Training of personnel in environmental issues, oriented toward increasing awareness and improving control over environmental issues arising through the Group's activities.

In 2004, Telefónica Móviles approved and published an environmental policy that intends to be implemented at all levels of the organization, which is applied as specific action procedures for all the activities and facilities that may affect the environment.

In September 2004, Telefónica Soluciones approved an environmental policy as the jumping off point for implementing its environmental management system, which is expected to be certified under UNE-EN ISO 14001 standards in 2005. Under this policy, Telefónica Soluciones management establishes the protection of the environment as one of the company's strategic goals, and involves all the company's activities and employees in its achievement.

The 2004 year also saw Telefónica Gestión de Servicios Compartidos España (T-Gestiona) draw up a set of environmental by-laws, which will enable the company to undertake a series of actions this year addressed at improving conservation of the environment, particularly taking into consideration its role in managing all general services at the new Group headquarters in Spain, *Distrito C*. T-gestiona will be responsible for providing its services to all the Group companies that are slated to move to this new development.

In addition to these commitments, Telefónica collaborates with organizations involved in the defense of the environment, such as:

- The Wildlife Foundation in Argentina.
- The *Charles Darwin* Foundation in Ecuador.

## ISSUES CONSIDERED AT THE *MINIMUM ENVIRONMENTAL REQUIREMENTS* (08-2)

- Energy consumption
- Consumption of water
- Consumption of paper and other office material
- Waste management
- Dumping of waste water
- Noise
- Emissions into the atmosphere
- Radio electric emissions
- Use of substances that damage the ozone layer
- Vehicles
- Visual impact on the natural surroundings

- The Soria 21 Forum on Communication and Sustainable Development, and the Fundación Entorno in Spain, bodies in which Telefónica Móviles acts as a collaborating company.

- The 6th National Environmental Congress in Spain, sponsored by Telefónica Móviles.

- The *Cambie* Environmental Conservation prize, convened by the Southern Scientific University (UCSUR) in Peru and sponsored by Telefónica Móviles, which aims provide recognition for institutions, organizations and persons who work in favor of the environment.

- TPI participated in the work done by the *European Association of Directory and Database Producers (EADP)*, addressed at establishing a European environmental commitment in the directory sector.

foundation, the regulations include additional voluntary requirements that will be gradually implemented in all the companies to reach a uniform level of operation.

The companies must identify the environmental factors arising from their activities and establish practices for their effective control, documenting such practices and the related responsibilities in internal regulations. These procedures should:

- Envisage monitoring and measurement of the main company environmental factors.
- Respect with the legal provisions in effect as well as other requirements within the organization.
- Define responsibilities within the company with regards to control and measurement of environmental factors.
- Be updated periodically, to ensure their efficiency and compliance.
- Be broadly publicized amongst company employees, as well as employees of the sub-contractor companies that may intervene in environmental matters.

## 02 ENVIRONMENTAL MANAGEMENT

### a) Minimum environmental requirements

Throughout 2004, Telefónica continued its in-depth analysis of control of the environmental risks arising from its activities, based on studies carried out in 2003 and 2002 on the Group's work in Latin America and Spain, respectively. The analysis concluded that the companies providing fixed and mobile telephony services have a much higher environmental impact, due both to the type of activity and the greater number of facilities in operation. The study was undertaken by the Internal Corporate Audit areas, with Telefónica I+D acting as expert advisor.

The knowledge acquired from these studies has served as the basis for drawing up internal regulations on *Minimum Environmental Requirements*, addressed at unifying the conduct of all the Group companies in this area. Taking fulfillment of the different legal requisites in each country as a basic

### b) Environmental management in Spain

Since 1999, Telefónica de España has implemented an Environmental Management Project based on the model of the UNE-EN ISO 14001 standard. As part of that project, the Logistics Center implemented an Environmental Management System, the certification of which was renewed by AENOR in 2004. This logistics center, located in Villaverde, Madrid, has the primary mission of reception, storage and distribution of the materials handled by Telefónica de España.

Telefónica de España has established a procedure for the identification and evaluation



**CASE STUDY****TELEFÓNICA MÓVILES ENVIRONMENTAL POLICY (08-3)**

Telefónica Móviles considers respect for the environment fundamental in all its activities and encourages the development of telecommunications services that contribute to the protection and sustainable development of society.

Based on its commitment to respect the national and international environmental laws and regulations applicable to us, Telefónica Móviles promotes programs and actions with the following objectives:

- Evaluation of environmental issues, whether positive or negative, arising from the company's activity.
- Optimize the consumption of energy and natural resources.
- Reduce pollution through the correct treatment of waste and promoting better processes for recycling of materials.
- Gradually extend awareness and training in environmental issues among all the company employees.
- Include environmental considerations in decisions to buy and withdraw equipment.
- Establish environmental objectives and goals, endeavoring to continually improve our environmental performance.
- Regular publication of the Company's environmental indicators and practices and the promotion of communication on environmental issues with the various groups involved.

**IDENTIFICATION OF SIGNIFICANT ENVIRONMENTAL IMPACTS FOR TELEFÓNICA DE ESPAÑA (08-4)**

- Consumption of poles
- Consumption of fuel for vehicles
- Waste wire: plastic coated wire
- Electric power consumption
- Emission of combustion gases from generators
- Visual impact of aerial wires
- Water consumption
- Dumping of waste water
- Consumption of wire cleaning products
- Consumption of fuel in generators
- Bio-sanitary waste: used first-aid and puncturing materials
- Hazardous waste from gas detector tubes
- Emission of gases from vehicle combustion
- Consumption of wire splicing material
- Waste from storage batteries
- Noise produced by heat and air-conditioning equipment
- Noise produced by generators
- Noise in construction of external plant
- Alteration of the landscape by radio masts

of environmental impacts in its operations. During the inspections done in July 2004, 110 direct environmental factors were analyzed, of which 19 were found to be of significance. Also studied were 12 potential environmental impacts, of which one was identified as being significant. It is important to note the existence of the Environmental Management Team, the composition of which includes company labor representatives.

The environmental management system at Telefónica Móviles España covers 100% of its activities and has been certified by AENOR to the UNE EN ISO 14001:1996 standard since 1998. This certificate must be renewed every three years and received its last validation in 2004, with no deviations and a very positive evaluation for the high degree of implementation of the System.

The environmental management system at Telefónica I+D encompasses all the activities with environmental impact carried out at the work centers in Madrid and Boecillo (Valladolid); the company's certification to ISO 14001 standards was recently renewed in 2004. The specific scope envisaged is the *preparation of studies, research, applied research and exploratory development of telecommunications products, services and systems* at the aforementioned centers.

Internal environmental audit processes continued in 2004 in various Group companies in Spain; the audit of TPI was concluded and the process commenced in other companies.

Likewise, in 2004 Telefónica Soluciones initiated the implementation of the Environmental Management System in its activities in accordance with the ISO 14001 standard, with a view to certification in 2005.

The environmental by-laws approved by *T-Gestiona España* (Telefónica Gestión de Servicios Compartidos) is focused on savings in

the consumption of paper and energy, a reduction in the generation of waste and the implementation of selective waste collection. The development of these actions contemplates the fact that some of the companies soon to be located in *Distrito C*, are already certified by AENOR in ISO 14001, and that specific steps will be necessary to maintain that certification.

No environmentally related fines or sanctions were imposed on the Telefónica Group companies in Spain in 2004.

### c) Environmental management in Latin America

After approval of the *Minimum Environmental Requirements*, the various Telefónica Group companies in Latin America have planned and implemented a series of actions to fulfill this commitment. The degree of environmental management varies from one country to another, as will be commented below.

#### Operations with environmental certification

- Telefónica Móviles México: In October 2004, AENOR carried out a certification audit that accredited the *Environmental Management System* under the ISO 14001/1996 standard.
- In Argentina, T-Gestiona's *Environmental Management System* has been implemented and certified by IRAM, under the ISO 14001 standard since 13 January 2004. The services certified are: logistics, management and administration of stock, quality control, warehouse management, transport and distribution management; physical conciliation of accounts and administrative back up (back office).

#### Operations with identified environmental risks and processes

- In 2004, Telefónica Móviles Chile drew up an action plan for the implementation of an Environmental Management System under the ISO 14001:2004 standard for 2005. As an



## FULFILLMENT OF ENVIRONMENTAL GOALS 2004 (08-5)

Company	Goal	Status
Telefónica de España	• Prevention and control of Legionnaire's disease in cooling towers	100%
	• Replacement of 9.8% of the fleet of older vehicles managed by Telefónica which, at year-end 2003, were not equipped with catalytic converters	124%
	• Preparation of an inventory of septic tanks and proposed plan for their elimination through connections to the sewer system.	38%
	• Study of the repercussions on Telefónica de España of application of the Directive on Waste Electrical and Electronic Equipment	60%
	• Audits of maintenance companies to ensure their fulfillment of the environmental clauses in their contracts.	Delayed until 2005 100%
	• Adaptation of the fuel tanks in boilers and generators to current legislation (delayed from 2003)	100%
	• Extension on registration as a producer of Hazardous Waste (delayed from 2003)	40%
Telefónica Móviles España	• 5% reduction in electrical power consumption	100%
	• 5% reduction in incidents caused by generator spills	100%
	• Application of the Directive on Waste Electrical and Electronic Equipment	In progress (goal 05)
	• Implementation of 10% of the actions to lower the noise level at UMTS base stations described in their specifications	In progress (goal 05)
Telefónica I+D	• 65.4% reduction in the consumption of paper by the year 2009, reaching a maximum cap of 24.91 sheets / thousand €.	91%
	• 5% reduction in the emission of greenhouse gases in Boecillo as compared to the estimated reduction achievable with conventional systems.	In progress
	• Improve the project environmental evaluation process.	100%

initial measure, the company undertook a legal environmental diagnosis.

- T-Gestiona Brazil is entrusted with the management of the Telefónica Group's equity in that country. In 2004, a proposed environmental policy was drawn up, which will give rise to the implementation of an *Environmental Management System*, first in T-Gestiona and later extending to other companies in the country.
- Telefónica Móviles Colombia undertook an inventory / audit of the current status of the activities with environmental impact as the first step in embarking on the process of implementation of an environmental management system.
- In October 2004, Telefónica Móviles Ecuador commenced a project for the Implementation of an Integral Management System focused on setting into motion a *Risk Analysis and Management System* to study quality, the environment, and occupational health and safety. In addition, environmental audits have been carried out in base stations and company buildings in Quito and Guayaquil.
- At year-end 2004, Telefónica Móviles Peru was in the study phase of the

implementation of the *Environmental Management System*, after the initial analysis and diagnosis of the impact of its activities.

- After appointing an environmental unit, Telefónica CTC Chile embarked on the identification of the factors of its activity with the greatest potential environmental impact.
- T-Gestiona Argentina included the following point in its logistics policy: *Preservation of the environment, by avoiding pollution, conserving natural resources and proper handling of wastes.*

#### Operations with identified environmental units.

- In Brazil, Vivo has created the *Environmental Management Forum*, the aim of which is to define and approve projects and actions that contribute to the conservation of the environment in its activities.
- Telefónica Móviles Argentina has commenced a consolidation process for environmental projects established by the two merged operators, with a view to beginning implementation of an environmental system in 2005.

## ENVIRONMENTAL GOALS 2005. SPAIN (08-6)

Company	Goal
Telefónica de España	<ul style="list-style-type: none"> <li>• Replacement of four Cooling Towers as a preventive measure against Legionnaire's disease.</li> <li>• Replacement of 8.1 % of the fleet of vehicles under renting-back, which at year-end 2004 were not equipped with catalytic converters.</li> <li>• Extension of registration as a producer of hazardous waste: Incorporation of the generator maintenance waste and hazardous waste at the inter-provincial logistics centers</li> <li>• Study and definition of the requirements and drawing up of the procedures for the suitable collection and treatment of Electrical and Electronic Equipment Waste</li> <li>• 10% reduction in paper consumption.</li> <li>• Paper consumed: 60% recycled and 40% white.</li> <li>• Consideration of the environment as criteria for sponsorship, and participation in at least one such sponsorship.</li> </ul>
Telefónica Móviles España	<ul style="list-style-type: none"> <li>• Application of the <i>Directive on Waste Electrical and Electronic Equipment</i></li> <li>• Implementation of 10% of the actions to lower the noise level at UMTS base stations described in their specifications</li> </ul>
Telefónica I+D	<ul style="list-style-type: none"> <li>• 65.4% reduction in the consumption of paper by the year 2009, reaching a maximum cap of 24.91 sheets / thousand €</li> <li>• Integral environmental scorecard</li> </ul>
T-Gestiona	<ul style="list-style-type: none"> <li>• Implementation of the Manual on Good Environmental Practices and its internal dissemination</li> <li>• Placement of posters informing about the types of waste and containers</li> <li>• Placement of waste containers</li> <li>• Information on the procedures to follow with more contaminating waste, (toner, batteries, etc.)</li> <li>• Reduction in the consumption of contaminants</li> <li>• Increase in the percentage of selective waste collection</li> <li>• Reduction in paper consumption, thus reducing the environmental impact involved</li> </ul>

## ENVIRONMENTAL GOALS 2005. LATIN AMERICA (08-7)

Company	Goal
TeleSP Brazil	<ul style="list-style-type: none"> <li>• Efficient energy consumption in the network</li> <li>• Reduction of the noise generated by operations</li> <li>• Adaptation of fuel storage systems</li> <li>• Replacement of storage batteries using acid</li> </ul>
T-Gestiona Brazil	<ul style="list-style-type: none"> <li>• Project for the <i>Rational Consumption and Use of Water</i></li> <li>• Efficient energy consumption in offices and facilities managed</li> <li>• Paper recycling (implementation of <i>Proyecto Recicla</i> in the Telefónica Group).</li> </ul>

## CASE STUDY

## ENVIRONMENTAL TRAINING IN TELEFÓNICA MÓVILES ESPAÑA (08-8)

Telefónica Móviles España's Environmental Training plan took the form of three training activities in 2004:

- An e-learning (a+) course: *Mobile Telephony and Society*. The goal was to teach employees and raise their awareness of the impact of Network Deployment on the environment, with a view to doing away with the "myths" associated to environmental management. This course, available since 2003, was attended by 1,598 employees and is currently available to the public on the company website.
- Theoretical-practical course on an introduction to environmental acoustics, attended by 59 employees whose responsibilities include noise control.
- Course on office waste targeted at the staff responsible for handling the Company waste, attended by 23 employees.

To facilitate access to environmental regulations, Telefónica Móviles España employees have access to the *e-comovil.ley* application on the corporate Intranet. This application offers information on environmental legislation applicable in the European, national, autonomous community and local scopes. Throughout 2004, 541 applicable regulations were added to *e-comovil.ley*.

Moreover, Spain was the scene for the development of a 20-month internal awareness campaign addressed at savings in natural resources, during which email messages were sent to all employees regarding how to use the various waste containers, how to recycle mobile phones and the efficient use of energy and paper.

- Telefónica Móviles El Salvador and Guatemala have concluded the bidding process for certification as *Consultants for the Implementation of Integral Quality Systems* (ISO 9001 / ISO 14001)
- At the end of 2004, Telefónica Móviles in Nicaragua, Panama, Uruguay and Venezuela were in the study phase for the implementation of an environmental management unit in the company.

## d) Environmental training and awareness

Telefónica has over 173,000 employees throughout the world, and is present in more than 15 countries. With a view to proper management of its environmental impact, the various companies in the Telefónica Group have undertaken a series of training activities targeted at their employees and collaborating companies.

The Intranet is one of the most frequently used channels in employee environmental training.

- The Telefónica *Intranet* provides access to the environmental section of the Corporate Responsibility page, which provides a summary of the Group environmental policies and the main measures to reduce

environmental impact that have been implemented. It includes a section on *Telecommunications and sustainable development*, which offers information on the negative or positive environmental impact of certain services provided by Telefónica.

- Telefónica de España has an environmental website on the *e-Domus* quality website, which includes a tele-education course on environmental management that is currently being renovated and updated.
- In Brazil, TeleSP has created an Intranet section on natural resources.
- In Spain, Ecuador, Mexico and Peru, *online* courses that focus primarily on electromagnetic emissions are offered to Telefónica Móviles employees.
- In Mexico, environmental content was added to the training course given to all new employees.
- Telefónica I+D also has an internal environmental web page that was redesigned in 2004 with new content that now includes the subject of sustainability. The page is continually updated with news and innovations on this topic.

**TELEFÓNICA DE ESPAÑA INFRASTRUCTURES  
(08-09)**

Type of use	No of properties	constructed M <sup>2</sup>
Management	349	651,853
Telephone services	6,400	1,179,587
Mixed	504	1,640,869
<b>Total</b>	<b>7,253</b>	<b>3,472,309</b>

Courses on environmental legislation and management of hazardous waste were given to 42 Telefónica de España employees in 2004. Telefónica I+D offered courses related to waste management and good environmental practices to 23 employees. In addition, information about the environment was disseminated during the Conference held on the occasion of the *World Environment Day*.

In Ecuador and Chile, Telefónica Móviles has trained personnel responsible for environmental management in the ISO 14001 standard. And in Argentina, El Salvador and Guatemala, environmental training programs were planned for 2005 as part of the implementation of their respective Environmental Management Systems.

Amongst other employee awareness activities were:

- TeleSP held two work days focused on natural resources, which included topics related to efficient electrical power and water consumption, impact on the ozone layer, recycling, noise and dumping.
- Telefónica Móviles Chile and Panama: campaigns to reduce the consumption of paper, water, and electrical power in the company offices.
- Telefónica Móviles Colombia: campaign to recycle waste from printers, photocopy machines and faxes.
- T-Gestiona España prepared a Communications Plan to make its employees aware of the need to put its environmental by-laws into operation.
- T-Gestiona Argentina offered internal courses and talks on topics within its environmental management system attended by approximately 100 of its own employees and 15 collaborating companies.

**e) Environmental requirements for suppliers**

In addition to managing the environmental impacts of its own operations, Telefónica contributes to the promotion of responsible practices in its supply chain. Thus, the contracts between Telefónica and its suppliers include environmental clauses that require compliance with environmental legislation, and particularly that related to waste management.

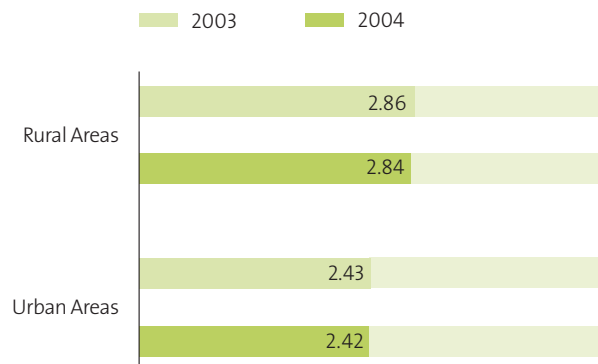
Companies contracted for construction, installation and maintenance work play a fundamental role in environmental issues, as they are responsible for the elimination of the waste produced in the course of their activities. With this in mind, in 2004 Telefónica de España published 10,000 copies of a *Guide to good environmental practices for External Plant installers*, which was distributed to collaborating companies, that sets out the requirements to be fulfilled in the management of the waste generated by their work. This guide joins a similar publication drawn up in 2003 on good practices in work done at customers' homes.

TeleSP prepared training activities on efficient consumption of electrical power and water for the operational areas and companies contracted for facilities maintenance. Moreover, the company monitored and audited the waste produced, and required documentation from the specialized companies in charge of handling waste to accredit the final processing of the material.

Telefónica Móviles is in the process of establishing mechanisms in its operations that oversee and control waste management, based on verification of the contractor's technical and legal capacity to handle hazardous wastes and control of the volume of the waste removed, which requires evidence and /or certificates that accredit the proper elimination of the waste and the systematic control of the status of the facilities.

### VISUAL FRAGILITY OF TELEFÓNICA MÓVILES ESPAÑA INFRASTRUCTURES (08-10)

(scale of 1 a 5)



In Spain, Telefónica Móviles has put a Supplier Evaluation Program with environmental repercussions in operation. The Program identifies the activities with environmental impact in the different suppliers, informs them their environmental requirements and obligations and envisages audits to verify fulfillment of the same.

Within the framework of its biennial operations audit, TPI España closely monitors the printing and distribution of the guides it sub-contracts with external companies. In particular, in 2004 the TPI Group continued its policy of applying the principle of traceability to control the sustainability of the paper it consumes. Thus, paper suppliers must have environmental ISO 14001 certification, and the raw materials used to make the final products must be of sustainable origin, that is, they must guarantee that their product does not damage the balance of the ecosystem. Therefore, all the paper used in the Group for publication of directories was made from wood grown in sustainable forests.

### 03 MONITORING OF ENVIRONMENTAL ISSUES

The companies in the Telefónica Group establish procedures to monitor key environmental factors for various reasons: because they are subject to requirements of a legal or other nature, because many situations needing monitoring arise or because their characteristics could have a significant impact on the area surrounding the company. In those cases in which such procedures are not established, approval in 2004 of the regulations governing the *Minimum Environmental Requirements* will encourage their future implementation.

#### a) Reduction of the impact of infrastructures on the environment

Telefónica upholds a commitment: to make the extension of its services over the maximum area possible while minimizing the impact of

its infrastructures on the environment. Particularly in the case of mobile telecommunications, base stations and antennae are required to provide the necessary coverage. These facilities, although occupying a relatively small amount of land (between 50 and 100 m<sup>2</sup>), must be located at a certain height in relation to their surroundings, generally in the form of towers or on buildings.

When deploying networks in rural or urban areas of special interest due to their landscape or historic-artistic heritage, Telefónica takes into account such options as imitating the surroundings, reuse of existing structures (own or shared with other operators) and the reduction of the size of the equipment.

At the end of 2004, the activities of Telefónica de España were carried out in 7,253 buildings used totally or partially by the Company (floors of buildings or business premises, in particular 6,256 telephone centers) with a total constructed surface area of 3,472,309 m<sup>2</sup>, a 5.6% drop as compared to year-end 2003, and 8,829 telecommunications masts. It is important to note that the Company has carried out environmental impact studies on a total of 922 facilities.

In the State of Sao Paulo, TeleSP manages a total of 1,721 network infrastructure buildings, 1,129 telecommunications masts, 6,266 antennae and 20 administrative buildings. CTC in Chile has 630 infrastructure buildings, 756 masts, 23 antennae and 160 administrative buildings.

Telefónica Móviles España applies its own methodology to objectively quantify the visual impact of its base stations. The evaluation tool used is *Visual Fragility*, which measures alteration to the landscape, and is currently being adopted in the planning phase for Telefónica Móviles Mexico facilities. In addition, the company has identified the fact that 1.9% of all its base stations are located in protected areas of particular environmental interest,

### TELEFÓNICA MÓVILES SITES AROUND THE WORLD (08-11)

	Sites
Argentina	1,647
Brazil	9,669
Chile	950
Colombia	503
Ecuador	237
El Salvador	147
Spain	15,304
Guatemala	417
Mexico	2,854
Nicaragua	286
Panamá	115
Peru	386
Uruguay	100
Venezuela	745
<b>Total</b>	<b>33,360</b>

## CASE STUDY

## DISTRITO C, THE NEW TELEFÓNICA HEADQUARTERS (08-12)

*Distrito C*, the new headquarters of the Telefónica Group in Spain, located in the northern part of Madrid, will be the most visible representation of Telefónica's new corporate culture and new ways of working. The project has won recognition from *Actualidad Económica* magazine, which awarded it the *Most Representative Real Estate Project* in the Community of Madrid.

- The Campus design will be located on 17 hectares of land, of which approximately 65% of the available space will be building-free. The complex is comprised of four towers, with ten buildings encompassed under a canopy-type structure, and a myriad of services including catering, a gymnasium, a nursery, a health center, an auditorium and a training center, amongst others.
- The buildings are set around a large central square with gardens, where water and trees will create an area that encourages interpersonal relations, outdoor work and relaxation.
- Its enormous environmental value lies in the three elements differentiating the project's cohesion – the canopy, landscaping and façades – which improve the temperature, humidity and noise levels. Other significant environmental data are: 32% saving in electrical power for climate control; 100% saving in energy for hot water; 42% saving in power consumption through lighting control.
- *Distrito C* is the largest solar powered office complex in the world. The total project represents a 48% decrease in emissions into the atmosphere, of which 30% will be the direct consequence of energy savings and the remaining 15% the result of its energy-producing capacities.
- Also worthy of note is the *Resource Plan* defined in line with the recycling parameters set out in the ISO 14001 certification. In terms of the use of paper, the policy will focus on a lower number of printers and decrease in paper consumption. In addition to its environmental impact, this policy contributes to the integration of the new technologies in the Company's working methods.
- The project was designed within the framework of an urban planning philosophy that envisages open spaces, without closed areas or barriers, with low buildings largely interconnected through exterior accesses, designed to facilitate the functions and duties of employees, not vice versa.
- In addition to being an urban and architectural project, *Distrito C* is a project that transforms spaces, placing people first, a project addressed at changing the way we work. It envisages a change in the need for physical presence on-site, moving toward alternative options, such as tele-working; an increasingly greater presence at customer's premises and of the customer in the company; more collaborative work and project teams. The spaces created will encourage mobility, cooperation, flexibility and productivity. Moreover, modern technologies implemented will allow the exchange of know-how, innovation and creativity, personal interrelationships, motivation, personal commitment and a balance between work and family life. *Distrito C* makes it possible for work to be done not only in the office or the traditional workplace; it provides the means and spaces that best adapt to the various types of interaction. In a word, a new work culture.
- The project design places particular emphasis on accesses, with a view to facilitating employee use of public transport. Telefónica has reached an agreement with the *Consorcio de Transportes de la Comunidad de Madrid* (the Transport Consortium of the Community of Madrid) to co-finance an underground line with a station at *Distrito C* that will allow transport from our headquarters to the center of Madrid in minutes. The line will be completed in early 2007.
- Furthermore, a new section has been set up on the Company Intranet to inform employees of the progress of the work and provide drawings of the new working environments as well as news about the upcoming move.
- Employees have been encouraged to participate in the project through interviews with Directors and surveys made to learn about the way they work and supplementary resources they use (for example, meeting rooms), all with a view to suitably allocating the workstations in the new environment. Likewise, employees were asked to offer their opinions on services and future needs through open surveys on the portal and individualized surveys made for random groups.

## CASE STUDY

## MANAGEMENT OF THE ENVIRONMENTAL IMPACT OF TELEFÓNICA MÓVILES FACILITIES (08-13)

Country	Activities
Argentina	<ul style="list-style-type: none"> <li>• Environmental impact studies on 155 antennae sites (15 were changed)</li> <li>• Verification of the noise level at 90 sites (3 were changed)</li> </ul>
Colombia	<ul style="list-style-type: none"> <li>• Minimization of 5 masts in urban areas, incorporating them into the surroundings</li> <li>• 190 acoustic insulations in electrical power and air-conditioning plants</li> </ul>
Ecuador	<ul style="list-style-type: none"> <li>• Environmental impact studies on the stations located in the city of Quito, and in the new stations installed since May 2004</li> <li>• Verification of the noise level at 77 sites (10% were changed)</li> </ul>
Spain	<ul style="list-style-type: none"> <li>• 34 environmental impact studies on antennae sites</li> <li>• 186 environmental adaptation actions in base stations (194 in 2003), 74 of which were imitations of the surroundings (40 in 2003)</li> <li>• 320 share agreements (232 in 2003)</li> <li>• At year-end 2004, the company had installed nearly 9,000 cross-polar antennae, which significantly reduce the visual impact on the environment.</li> </ul>
Guatemala	<ul style="list-style-type: none"> <li>• Environmental impact studies on 247 sites</li> </ul>
Mexico	<ul style="list-style-type: none"> <li>• 548 Environmental impact studies to obtain the relevant authorizations</li> <li>• 750 Verifications of noise level; no modifications were required</li> </ul>
Panama	<ul style="list-style-type: none"> <li>• Environmental impact studies on 5 sites (2 changed)</li> <li>• Painting of antennae installed on roofs in the same color as the buildings and replacement of old antennae for smaller-sized cross-polar units</li> <li>• Verification of noise levels at 15 sites (2 changed)</li> </ul>
Peru	<ul style="list-style-type: none"> <li>• Environmental impact studies on 15 sites (3 changed)</li> <li>• Verification of noise levels at 30 sites (9 changed)</li> </ul>

including protected zones declared *Red Natura in Spain*.

In Argentina, t-Gestiona evaluated the environmental factors and impacts of its intelligent-automated storage Center in the city of Avellaneda.

#### b) Reducing consumption of scarce resources

##### Electric power

Powering the communications networks is a major consumption item both for fixed and mobile telecommunications operators. Energy consumption is one of Telefónica's most significant environmental concerns, as the reduction of this consumption has direct effects on the savings in scarce natural resources and the reduction of pollution. In addition, this issue has a significant impact on efficiency and cost reduction in the Group companies.

In 2004, the Telefónica Group made notable progress in identifying the power consumed by its operations, basically through measurement

of this consumption in the Telefónica Móviles, TPI and T-Gestiona companies in Latin America, which showed a result of 9.17 million GJ.

Throughout the 2004-year, the operators in the Telefónica Group developed significant energy saving procedures in both networks and offices through:

- The use of alternative energies: At the end of 2004, Telefónica Móviles España had two base stations with solar panels and seven with solar panels and wind-driven generators. The company has studied the use of mixed alternative energies, such as wind and photovoltaic power. In Brazil, TeleSP purchases energy produced through two Small Hydroelectric power plants.
- The increase in the operating temperature in certain equipment and technical control rooms, with the subsequent energy savings in air-conditioning (TeleSP, Telefónica Móviles Argentina, Nicaragua, Mexico, Panama) as well as passive cooling systems (Telefónica Móviles España and Uruguay)



## ELECTRIC POWER CONSUMPTION IN THE TELEFÓNICA GROUP COMPANIES (KWH) (08-14)

Company	Country	Power consumption in the network		Power consumption in offices	
		2003	2004	2003	2004
Telefónica de España	Spain	712,319,444	<b>648,504,755</b>	236,680,555	<b>235,045,564</b>
TeleSP	Brazil	639,472,000	<b>534,217,753</b>	41,660,000	<b>46,453,717</b>
Telefónica del Perú	Peru				<b>15,500,000</b>
TASA	Argentina		<b>140,550,000</b>		<b>(A)</b>
Telefónica CTC	Chile		<b>70,253,490</b>		<b>4,436,180</b>
Telefónica Móviles	Spain	324,382,132	<b>307,003,333</b>	46,221,468	<b>47,766,111</b>
	Argentina				<b>6,008,909</b>
	Brazil		<b>276,425,321</b>		<b>(A)</b>
	Chile		<b>29,337,468</b>		<b>1,867,260</b>
	Colombia		<b>34,257,155</b>		<b>7,824,256</b>
	Ecuador		<b>7,709,645</b>		<b>1,263,500</b>
	El Salvador		<b>11,334,804</b>		<b>1,729,008</b>
	Guatemala		<b>10,881,960</b>		<b>1,108,764</b>
	Mexico				<b>10,621,666</b>
	Nicaragua		<b>2,550,297</b>		<b>1,863,033</b>
	Panamá		<b>6,660,000</b>		<b>4,770,000</b>
	Peru		<b>21,623,023</b>		<b>5,998,919</b>
	Uruguay		<b>5,600,000</b>		<b>1,400,000</b>
	Venezuela				<b>20,986,694</b>
Telefónica I+D	Spain	na	<b>na</b>	13,124,494	<b>12,401,728</b>
TPI	Spain	na	<b>na</b>	5,264,000	<b>6,284,652</b>
	Chile	na	<b>na</b>		<b>1,431,807</b>
	Perú	na	<b>na</b>		<b>881,881</b>
Telefónica Gestión de Servicios Compartidos	Spain	na	<b>na</b>		<b>699,385</b>
	Argentina	na	<b>na</b>		<b>4,481,858</b>
Terra	Argentina	na	<b>na</b>		<b>164,160</b>
	Chile	na	<b>na</b>		<b>336,498</b>

(A): Data included in the network electric energy consumption figures

N/A: Not applicable

## ENERGY EFFICIENCY INDICATORS (08-15)

Company	Indicator	Data	Units
Telefónica de España	Energy efficiency in the network	0.0572	KWh / € invoiced
	Energy efficiency in offices	6.928	KWh / employee year
Telefónica I+D	Energy efficiency in innovation	0.0634	KWh / € in production and innovation
T-Gestiona España	Energy efficiency in offices	2,185	KWh / employee year

**INDIRECT POWER CONSUMPTION (08-16)***(Calculated in accordance with the GRI Energy Protocol)*

	Direct consumption	Indirect consumption						
		Fossil resources			Renewable energy / others			
		Coal	Natural Gas	Petroleum products	Biomass	Eolic	Hydroelectric	Nuclear
Spain	4.528	5,868	209	1,235	105	86	689	5,560
Argentina	544	34	934	101	0	0	195	195
Brazil	3.086	315	15	396	0	0	3.529	148
Chile	388	434	150	76	0	0	163	0
Peru	158	0	32	65	0	0	148	0
Otros países	470	46	248	3	0	0	505	0
<b>Total</b>	<b>9.174</b>	<b>6,697</b>	<b>1,588</b>	<b>1,876</b>	<b>105</b>	<b>86</b>	<b>5,230</b>	<b>5,903</b>

- The reduction of the recharge time for system support batteries (Telefónica Móviles Argentina, Panama...)
- The shut-off of office lights at a particular time and employee awareness campaigns (TeleSP, Telefónica Móviles in Chile, Colombia, Ecuador, Spain, Nicaragua, Panama, Peru, t-Gestiona in Argentina, Brazil...)
- Installation of low-energy bulbs (Telefónica Móviles Colombia, t-Gestiona España and Brazil...)
- Temperature control in the various plants with a view to saving electrical power, both in heating and air-conditioning (TeleSP, T-Gestiona in Spain and Brazil...)
- Optimization of the trigeneration plant at the Telefónica I+D building in Valladolid

Telefónica de España's own consumption was 883,5 million kWh, 6.9% lower than in 2003. Telefónica Móviles España and Telefónica I+D reached electric power consumption reduction levels of over 5%.

**Fuel**

The telecommunications sector is not one that generates a significant direct demand for fuel, since its consumption is associated to 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 7.5 million liters (8.8 million liters in 2003). In addition, Telefónica de España's power generators consumed a total of 0.57 million liters, as compared to 0.51 in 2003. Oil consumption for boilers amounted to 1.14 million liters (1.02 in 2003)

The fuel consumption identified by Telefónica Móviles operators surpassed 7.8 million liters, of which Telefónica Móviles España consumed some 50%.

The 642 TeleSp generators operate solely in the event of emergency, in cases of power failures and consumed 500,000 liters of fuel. As a measure addressed at reducing consumption, the time between periodical inspections of generators was lowered.

In 2004, Telefónica I+D used 163,000 liters of oil for heating and 295,537 m<sup>3</sup> of natural gas at the trigeneration plant in Boecillo. Its reduced vehicle fleet consumed 12,750 liters of fuel.

**Water**

Water consumption in the telecommunications sector is quite minor as compared with other industries or service sectors. Its main impact consists of water consumption in offices and air conditioning systems.

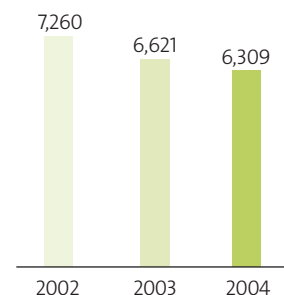
**Paper**

Paper consumption is another of the significant environmental factors related to Telefónica's activities, traditionally linked to three areas: offices, invoicing and directory publication.

**Paper consumption in offices**

The consumption of administrative paper at Telefónica de España has dropped 23.7% in absolute value and 13.8% in relative value in relation to the number of employees, reaching an average of 15.9 kgs / employee. In T-Gestiona this figure reaches 33 kgs / employee, as a result of the employee awareness campaigns regarding the rational use of documents.

Telefónica I+D continues to move forward in its environmental goal of becoming a paperless office. In 1998, the company established the goal of reducing paper consumption by 65.4%, to a maximum of 24.91 sheets / thousand g in 2009. At the end of 2004, paper consumption had been

**TELEFÓNICA DE ESPAÑA  
VEHICLE FLEET  
(08-17)***(Units)*

**FUEL CONSUMPTION IN THE TELEFÓNICA GROUP COMPANIES (08-18)**  
(Thousands of liters)

Company	Country	Group fuel	Vehicle fuel
Telefónica Móviles	Chile	42.2	102.9
	Colombia	1,034	164
	Ecuador	100	139.5
	El Salvador	38.6	120.5
	Spain	4,867.5	504.3
	Guatemala	38.6	175
	Nicaragua	56	63
	Panama	100.8	54.4
	Peru	31.2	85.3
Telefónica de España	Spain	570	7,515
TeleSP	Brazil	500	2,813
Telefónica CTC	Chile	184	127
Telefónica de Argentina	Argentina	220	3,348

**ESTIMATED WATER AND PAPER CONSUMPTION IN THE TELEFÓNICA GROUP COMPANIES (08-19)**

Business line	Country	Water consumption <sup>1</sup>		Paper consumption <sup>2</sup>	
		2003	2004	2003	2004
Telefónica Móviles	Argentina				<b>106</b>
	Chile		<b>23,019</b>		<b>29.4</b>
	Colombia		<b>19,035</b>		<b>140</b>
	Ecuador		<b>1,808</b>		<b>47.8</b>
	El Salvador		<b>1,679</b>		<b>27.8</b>
	Spain	57,600	<b>55,173</b>	131	<b>145.3</b>
	Guatemala		<b>12,544</b>		<b>29.9</b>
	Mexico				<b>32.5</b>
	Nicaragua		<b>16,200</b>		<b>15.5</b>
	Panama		<b>600</b>		<b>19.8</b>
	Peru		<b>19,330</b>		<b>174</b>
	Venezuela				<b>97.5</b>
Telefónica de España	Spain	1,078,315	<b>906,927</b>	707	<b>539.6</b>
TeleSP	Brazil	1,070,132	<b>1,165,045</b>		
Telefónica del Perú	Peru		<b>327,521</b>		
Telefónica CTC	Chile		<b>880,990</b>		
Telefónica de Argentina	Argentina		<b>421,241</b>		
Telefónica I+D	Spain	37,681	<b>37,404</b>	37	<b>32.25</b>
T-Gestiona	Spain				<b>10.6</b>
T-Gestiona	Argentina				<b>2.88</b>
TPI	Spain		<b>15,280</b>		<b>84.8</b>
	Brazil				<b>10.4</b>
	Chile		<b>14,802</b>		<b>29.6</b>
	Peru		<b>5,718</b>		<b>12.7</b>

(1): In thousands of litres

(2): In tons

## CASE STUDY

## TELEFÓNICA I+D MOVING TOWARDS THE PAPERLESS OFFICE (08-20)

Measures related to computer and information systems:

- Use of printing *driver* that allows the printing of a maximum of 8 pages/side
- Network fax service
- Intranet applications that replace the use of forms on paper (holidays, time off, training, purchasing, etc).

Measures at the document reproduction center

- Document scanner service
- Multiple photocopy (1 photocopy on both sides of up to 8 pages)
- Preparation of notebooks from paper printed on one side, or from the first and last pages of each new package of paper
- Authorization required for photocopying manuals and making color photocopies

reduced by 62.31% with respect to figures for 1998.

Other measures adopted in 2004 to reduce the consumption of paper in offices included:

- More administrative steps available on the Intranet (Telefónica de España, Telefónica Móviles in Argentina, Colombia, Ecuador, Mexico, Uruguay)
- Employee awareness campaigns to encourage double sided printing of documents (Telefónica de España, Telefónica Móviles Chile)
- Control of the use of photocopy machines and restrictions on the printing of documents (Telefónica Móviles in Colombia, Ecuador, Spain, Mexico)
- Replacement of personal printers by network printers (Telefónica de España)
- Use of recycled paper (this accounts for 68% of paper and cardboard consumption in Telefónica Móviles España)

#### Invoicing

Telefónica de España achieved a 1.89% reduction in operational paper consumption, which dropped to 3,409 tons in 2004. On a positive note, at year-end 2004, 120,000 Telefónica de España customers no longer received their invoices on paper. However, ADSL customers are invoiced more frequently (monthly), a more negative factor.

Other measures adopted in 2004 to reduce the consumption of paper in invoicing included:

- Electronic invoices and the possibility of making queries and taking administrative steps online (Telefónica Móviles in Argentina, Chile, Ecuador, Peru, Panama)

- Double sided printing of detailed call information (Telefónica Móviles in Chile, Peru, Panama)

#### Directories

TPI is aware that, as a publisher of directories and other publications, it consumes a large amount of paper. Therefore, the purchase of paper is a factor that is meticulously controlled to ensure its responsible and sustainable use. In 2003, TPI consumed over 50,000 tons of paper and card in the production of its guides and directories.

#### c) Responsible waste management

Telefónica separates and handles each type of waste produced in the course of its activities in a different manner. The waste collected is classified as follows:

- Non-hazardous, including paper, plastic equipment parts, rubble and construction waste, packaging materials; and
- Hazardous, which include motor oils, used batteries of all types, fluorescent lamps, toner cartridges (in certain regions) and other waste produced from smoke detectors and fire extinguishers equipped with substances that damage the ozone layer. The Telefónica Group companies all work toward the goal of hazardous waste management carried out by government authorized firms.

Telefónica de España also intends to broaden its registration as a producer of Hazardous Waste to include other types of waste that had previously been the responsibility of collaborating companies.

Telefónica Móviles España has a methodology defined by the Integral Management System, which identifies and removes waste from the

## CASE STUDY

## MANAGEMENT OF CUSTOMERS' USED BATTERIES AND HANDSET (08-21)

Country	Activities
Spain	Participation in activities such as the <i>Tragamóvil</i> (mobile-phone swallower), the objective of which is to recycle unused mobile telephones. Up to September 2004, nearly 53 tons of mobile telephone waste was eliminated, making a total of 175 tons since the programme got off the ground in 2001.
Argentina	A program for collection of batteries has been underway since 1999 (backed by the Wildlife Foundation and Secretariat of the Environment of the Government of the city of Buenos Aires), which has set up 27 deposit boxes in the Company's commercial offices.
Chile	The sales formula promotes the recovery of handsets through an exchange system, collecting a total of 280,618 units throughout the 2004 financial year. To achieve this, the process for the return of equipment from companies was changed, an informative letter sent out and a strict system of fines for non-return was applied, as well as a special unit that was set up for the removal of this type of equipment.
Colombia	Launch of a pilot program called <i>Celupilas</i>
Mexico	Planning for a similar campaign for the collection of batteries and handsets
Peru	16.6 tons of material were collected in 2004
Panama	Customer service offices are equipped with special containers for the collection of batteries
Uruguay	Launch of a pilot program called <i>Montevideo, te quiero pila</i>

## WASTE MANAGED BY THE TELEFÓNICA GROUP COMPANIES (KGS) (08-22)

		Non hazardous waste Kg	Hazardous waste Kg
Telefónica Móviles	Argentina		20,000
	Chile	29,400	15,500
	Brazil	208,204	
	Ecuador		5,000
	Spain	480,688	1,038
	Mexico	307,481	71,596
	Peru	29,600	48,000
	Venezuela	20090	
Telefónica de España	Spain	12,504,862	1,004,789
TeleSP	Brazil	247,665	474,705
Telefónica I+D	Spain	91,355	10,151

## WASTE MANAGED AT TELEFÓNICA DE ESPAÑA (08-23)

Amounts (kg)	2004	Amounts (kg)	2004
<b>Non Hazardous Waste</b>		<b>Hazardous Waste</b>	
Internal plant waste	3,767,857	Bio-sanitary waste	9,413
Waste wire	5,196,982	Radiological waste	500
Telephone equipment waste	1,215,248	Battery waste	945,273
Telematics equipment waste	87,651	Hazardous waste managed by Logistics	5,937
Scrap aluminum	6,249	Removal of halon	43,666
Scrap iron	516,894		
Wood	369,760		
Polycarbonates, ABS and other plastics	50,356		
Paper for recycling	1,282,465		
Vehicles for scrap yard	11,400		
<b>Total</b>	<b>12,504,862</b>	<b>Total</b>	<b>1,004,789</b>

construction and installation of base stations and from the Company buildings:

- Waste produced by network activities is handled through the supplier companies.
- Containers are distributed throughout office buildings and points of sale to deal with urban / municipal waste (paper and cardboard) and hazardous waste, such as batteries, telephone batteries and fluorescent lights.

All the waste is subject to selective collection and is managed in keeping with the legislation in effect, through authorized waste managers who recycle and/or recover the materials where possible.

Other mobile telephony operators have also distributed special bins for the collection of paper in offices (Argentina, Chile, Colombia, Panama and Venezuela), toner cartridges from printers, fax machines and photocopiers (Chile and Colombia), a collection center for waste produced in technical operations, with recycling programs for scrap and batteries (Colombia) and separate containers for all types of waste: paper, organic, glass and plastic (Ecuador and Mexico).

In Brazil a new project for Recyclable Materials Management is now underway with respect to paper, construction work, maintenance and equipment. This project, shared by TeleSP, Telefónica Empresas Brazil and t-Gestiona, affects selective collection services, mercury lamps, electrical accumulators, transport and the final destination of the waste produced.

In Argentina, when the treatment process undertaken by contractors produces hazardous waste, these contractors must show documentation accrediting that their activity complies with all existing legislation applicable to that area. Contractors are responsible for removing all the hazardous

waste produced by the services they render to Telefónica.

Technological innovation and the passage of time make replacement of terminals inevitable, which produces waste materials that in some cases, such as batteries, are potentially hazardous to the environment. Despite the fact that management of this type of waste should not be the exclusive task of the operators, a responsible company is expected to participate in the reduction of the environmental impact that such waste could have if it does not take the suitable actions.

The companies operating in Spain are currently analyzing recovery policies as a result of the application of the new *Royal Decree on electrical and electronic equipment* and the management of the waste they produce. In the case of Telefónica de España, rented terminals are recovered and handled as waste; in the Telefónica Móviles companies, a series of different procedures has been developed for the recovery of batteries and handsets. With a view to making society more aware of the importance of recycling, a film was produced to show the full mobile telephone recycling process (available on the website).

For over five years, TPI Peru has had a campaign underway that includes the collection of out-of-date directories. The project also has a social component, as the money obtained from recycling the directories is donated to a charitable institution that promotes education among needy children. Nearly 204 tons of paper were collected in 2004. In Argentina, t-Gestiona also runs a recycling program for the benefit of charity.

#### d) Emissions into the atmosphere

The optimization of fossil fuel consumption linked to the use of energy naturally involves a reduction in the greenhouse gases produced

**Estimated indirect emissions  
of greenhouse gases**  
(Co2 equivalent tons)

**33,891**  
paper consumption  
(Telefónica Móviles, TID, TPI,  
T-gestiona, T. de España)

**1,601,030**  
power consumption  
(Telefónica Móviles España,  
Telefónica de España)

(CO<sub>2</sub>, NO<sub>x</sub> and CH<sub>4</sub>, amongst other), thus contributing to reducing one of the main problems that threatens our planet today.

For some years, the companies in the Telefónica Group have carried out improvement actions in favor of reducing GEGs (greenhouse effect gases):

- Renewal and reduction of the vehicle fleet, replacing vehicles not equipped with catalytic converters with others that comply with current regulations on emissions.
- Measures to save electric energy, such as raising maintenance temperatures in equipment rooms up to 23°C, disconnection of underused rectifiers, reducing time of use of management buildings, decreasing lighting in traffic areas in telephone centers, etc.
- Optimizing spaces occupied in buildings, isolating unoccupied areas to suppress their heating and air-conditioning.
- Internal awareness campaigns on energy saving.
- Use of alternative energy sources to power mobile infrastructure networks.

The contribution to greenhouse gas emissions resulting from transport, fuel consumption in generators and electrical power consumption in the activities of the Telefónica Group is estimated at 1.6 million equivalent tons of CO<sub>2</sub>, taking the 2002 *CORINEAIR Guide* and the 2002 *Toxics Release Inventory* as references.

Certain substances used as coolants, solvents, propellants and fire extinguishing systems are harmful to the ozone layer, such as CFCs, HCFCs and Halon. The Telefónica Group companies are working toward the gradual elimination of this type of materials.

- In previous years, a project was undertaken to eliminate the Halon 1211 and 1301 at all Telefónica de España facilities. The project was completed in 2003, at which time the aforementioned substances were no longer in use at company facilities. In terms of other cooling agents, there is no longer equipment using CFC 11, and the equipment using HCFC22 is currently being replaced. The new cooling systems are designed to incorporate other types of coolants.
- Telefónica Móviles España has reduced the emissions of CO<sub>2</sub> into the atmosphere by nearly 5% with regards to the previous year, despite the increased volume of its operations.
- In 2004, Telefónica I+D worked toward the goal of reducing greenhouse gas emissions at its facilities in Boecillo through the use of its cogeneration plant, as opposed to conventional power systems. At the moment, the reduction achieved is around 1%, and the 5% goal has not yet been reached.
- In Brazil, TeleSP no longer purchases air-conditioning equipment with that uses CFC 11 and 12, nor fire extinguishers with Halon 1211 and 1301. With respect to HCFC22 (R22), the company has projected future demand of equipment using R-134, when possible within the options offered by its suppliers.
- In Argentina, Telefónica Móviles made an inventory of its air-conditioning and fire extinguishing equipment, with a view to determining the current status and drawing up an adaptation plan.
- In El Salvador and Guatemala, no cooling substances that damage the ozone layer have been used since 2003. In Colombia and Uruguay, the fire prevention systems use only clean, non-halon agents. In Panama, the use of R134, which does not affect the ozone layer, is quite generalized, and has replaced Freon R22.



## CASE STUDY

## DIRECT TELEFÓNICA CONTRIBUTION TO THE GREENHOUSE EFFECT (08-24)

Emissions in tons	Power in networks (a)	Power in offices (a)	Fuel consumption in generators (b,c)	Fuel consumption in vehicles (b,c)
CO <sub>2</sub> Equivalent (d)	1,323,749.86	277,280.43	22,095.36	33,414.61
SO <sub>x</sub>	13,432.81	2,813.72	4.69	7.11
NO <sub>x</sub>	4,133.76	865.88	247.80	132.12
COVNM	113.77	23.83	46.88	224.63
CO	250.30	52.43	107.15	2,241.71
CO <sub>2</sub>	1,306,812.84	273,732.70	21,029.17	31,581.95
CH <sub>4</sub>	22.75	4.77	1.34	20.41
N <sub>2</sub> O	53.09	11.12	3.35	4.53

(a) Estimated from the 2002 Toxics Release Inventory issued by the Ministry of the Environment and on the information on net electrical power production published in the Electrical Energy Statistics in December 2002 (Ministry of the Economy and the Spanish Electricity Grid)

(b) Source: 2002 CORINEAIR Guide

(c) Estimation based on the sulfur content of the fuel used

(d) CO<sub>2</sub> equivalent = CO<sub>2</sub> + 21 x CH<sub>4</sub> + 310 x N<sub>2</sub>O

- Telefónica Móviles in Chile and Peru have undertaken a gradual elimination of the use of gases that affect the ozone layer; thus, new cooling and fire prevention systems do not contain any of the damaging elements. Likewise in Mexico, since January 2005 these substances are no longer allowed in the cooling systems used in the new radio bases.
- In Ecuador, a plan for the reduction of the Freon R22 used at company facilities has been implemented, aimed at fully eliminating its use.

#### 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 fulfillment of the current regulations and the laws in effect. Therefore, it not only rigorously controls the electromagnetic emissions from 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 various countries in which we operate (5,194 sites in 2004). 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 from the European Union, based on constant revision of ongoing research.

In Spain, Telefónica Móviles has continued its task of ensuring fulfillment of all regulations and respecting the limits established in *Royal Decree 10666/2001*, as well as in its work to provide information and transparency to all its stakeholders. In compliance with the aforementioned regulations and *ORDER CTE/23/2002* of 11 January 2002, a total of 4,214 certifications with measurements were carried out, including new sites or sites with significant changes, as well as in sensitive areas located less than 100 m from the base stations. In addition, a further 4,276 sites communicated in previous certifications have also passed inspection. These are sites that do not surpass 25 percent of the power levels or 50 percent of the field intensity levels of reference established in *Royal Decree 10666/2001* with the habitual presence of people in the surroundings; levels below the established limits were recorded at all such sites.

Moreover, the company keeps numerous channels of communication to society open to provide information on the impact of mobile telecommunications on health and the environment.

In Brazil, TeleSP complies with *Anatel Resolution 303*, which calculates the electromagnetic emission levels at all its transmitting stations. In keeping with this resolution, physical measurements were taken at a sample group of 1,400 antennae, while the remaining sites were calculated on the basis of statistics.

## CASE STUDY

## TELFÓNICA MÓVILES ESPAÑA ENVIRONMENTAL COMMUNICATION (08-25)

Actions	2003	2004
Nº of sessions on the Telefónica Móviles España environmental web page	30,752	58,299
Nº of accesses to <i>www.sociedadmovil.com</i>	29,921	26,739
Nº of calls to 1488	5,046	3,617
Nº of queries responded to through <i>medioambiente@tsm.es</i>	47	52

**100%**  
measured installations  
comply with international  
organization  
recomendations

In Peru, theoretical calculations were made for radio links with directional antennae in accordance with the procedures set out in the Regulations of the Ministry of Transport and Communications (*Supreme Decree No 038-2003-MTC on the Maximum Permissible Limits for Non-ionizing Radiation*), showing that the company complies with the aforementioned regulations, as the figures obtained are better than those required by the Ministry Regulations.

All mobile telephones must comply with the standards that ensure that the maximum radiation levels specified in the standards are not exceeded. The World Health Organization and the *International Commission on Protection against Non-Ionizing Radiation* (ICNIRP) oversee the levels specified in the various standards. The limit value SAR (Standard Absorption Rate) generally used for mobile phones is 2.0 Watt/Kg average for each 10 grams of tissue. This value includes a considerable safety margin to protect users and exclude divergent measurement.

The SAR figures may vary depending on the requirements set in the different countries and network bands. Although the SAR value may vary in function of the handset or the position in which it is used, all the figures comply with the EU requirements for exposure to radio electric wave emissions. The set of 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 this information, the SAR data measured (specific for each terminal) and the information on the ICNIRP values are systematically provided in the instruction booklets accompanying each handset.

At the same time, despite the fact that there is no scientific evidence that antennae and mobile telephones, within the limits established, may be harmful to health, citizens'

concern has made it sensible to continue to provide more training and information both for employees and for the public in general.

- Given the alarm caused by mobile telephony facilities arising largely due to lack of knowledge and misinformation, Telefónica Móviles España wishes to assist in calming such public fears by providing clear, detailed information on its services and the technology on which they are based. Along these lines, Telefónica Móviles has designed a training course on mobile telephony which furnishes all the necessary information related to this service and its multiple applications, its operation and the infrastructures behind it, the regulations in effect and the latest, state-of-the-art scientific data regarding electromagnetic emissions and their effects on health. In addition, it includes a glossary of the most common terms used, as well as a full informational dossier for all those who wish to receive further information.
- The Intranet at Telefónica Móviles Argentina offers information to employees regarding radio electric wave emissions.
- Telefónica Móviles Chile furnishes a half-yearly report on power density measurements to the *Undersecretary of Telecommunications* (SUBTEL).
- In Ecuador, an e-learning module on antennae and health was posted on the company Intranet and website; also undertaken were a series of informative talks to publish the information from the World Health Organization and the publication of a brochure developed for informative meetings with communities.
- In Mexico, the corporate Intranet health page posts the latest information in this respect, which is regularly updated, talks are held and informative brochures distributed

## ELECTROMAGNETIC EMISSION MEASUREMENTS IN TELEFÓNICA GROUP COMPANIES (08-26)

		Sites measured in 2003	Sites measured in 2004
Telefónica Móviles	Argentina	130	<b>334</b>
	Chile	1,218	<b>532</b>
	Spain	5,872	<b>4,214</b>
	Panama	na	<b>15</b>
	Peru		<b>15</b>
TeleSP	Brazil		<b>1400</b>

n.a. No applicable

in all the regions of the country, both to employees and the public in general, with regards to emissions and health.

- In Panama, presentations on radio electric wave emissions have been made to the Inter-institutional Council, comprised of the Ministry of Health, the University of Panama, the Regulatory Body and representatives of Environmental Health Quality.
- In Peru, an international forum was held on the effects of electromagnetic waves on human health, attended by the Association of Public Service Companies (ADEPSEP), the Universidad Ricardo Palma, the WHO and municipalities from all over the country.

#### 04 DEVELOPMENT OF SERVICES WITH A POSITIVE IMPACT ON THE ENVIRONMENT

The telecommunications sector has an enormous impact on the environment; however, and unlike what tends to occur in other business sectors, this impact is largely positive. Thus, communications contribute to efficiency and savings in valuable resources such as electrical power, product dematerialization and the optimization of transport processes in the most effective manner.

Certain services that are traditionally considered to have a positive impact on the environment are teleworking, remote office, audio and video conference calls, tele-education, e-commerce, mobile service to consult personalized information, network answering machines and call identification. The impact of these services is even greater when considering transport and distribution systems, energy efficiency in buildings, and savings in paper through electronic or non-paper catalogues and invoices (for example, the replacement of individual answering machines by network answering services).

Moreover, advanced mobile telephony services may also contribute to reducing environmental impact. For example, thanks to *Third Generation* mobile telephony, it is now possible to send control and environmental data in real time from UMTS mobile devices. These devices have a broad range of uses, such as for measuring pollen and spores, noise, the ozone level, water quality or fire control. Other 3G applications useful for the environment include monitoring wildlife and dumping control.

In January 2002, Telefónica I+D commenced a procedure addressed at systematically evaluating the environmental impact of its latest developments. In the course of 2004, 318 projects were analyzed, as compared to 353 in 2003. Amongst the conclusions reached were the following:

- 54.72% enabled the update or future repair of equipment or facilities.
- 32.4% involved a reduction in transport needs
- 32.2% entailed a reduction in transport needs

The methodology used to objectively evaluate project impacts was revised in 2004. This involved the environmental evaluation of an Intranet application and the compilation of a bibliography on the environmental evaluation of information and communications technologies.

With a view to promoting debate on the role of telecommunications in the sustainable development of the planet, on its website Telefónica has begun to publish a series of monthly articles that analyze the relationship between the use of the new technologies and sustainability. The first articles focused on the impact of tele-working, the use of energy in the information society and the digital home.



09/01 | large number  
of suppliers

Telefónica's  
activities generate  
revenues for over  
15,500 suppliers  
worldwide

AWARDEE SUPPLIERS

**15,639**

09/02 | objectivity  
and  
transparency

Telefónica  
manages its  
purchases through  
its Advanced  
Purchasing System  
(SAC)

CATALOGUE OF SUPPLIERS

**34,688**

*suppliers registered as of 31 December*

09/03 | mutual  
benefit

The new e-business  
systems facilitate  
and speed up the  
relationship with  
suppliers

ELECTRONIC MARKET  
BUSINESS VOLUME

**3,990**

*(million euros)*

09/04 | sustainable  
development

Telefónica extends  
its commitment  
to corporate  
responsibility to  
its supply chain

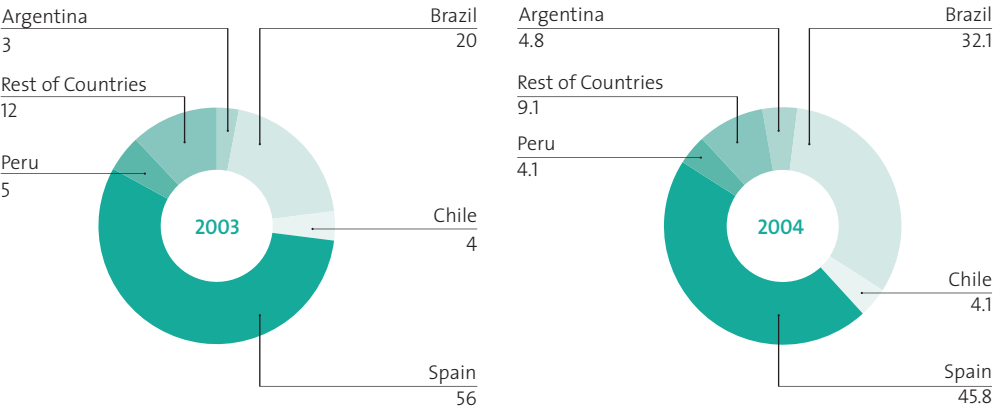
VOLUME OF PURCHASES  
FROM LOCAL SUPPLIERS

**92%**

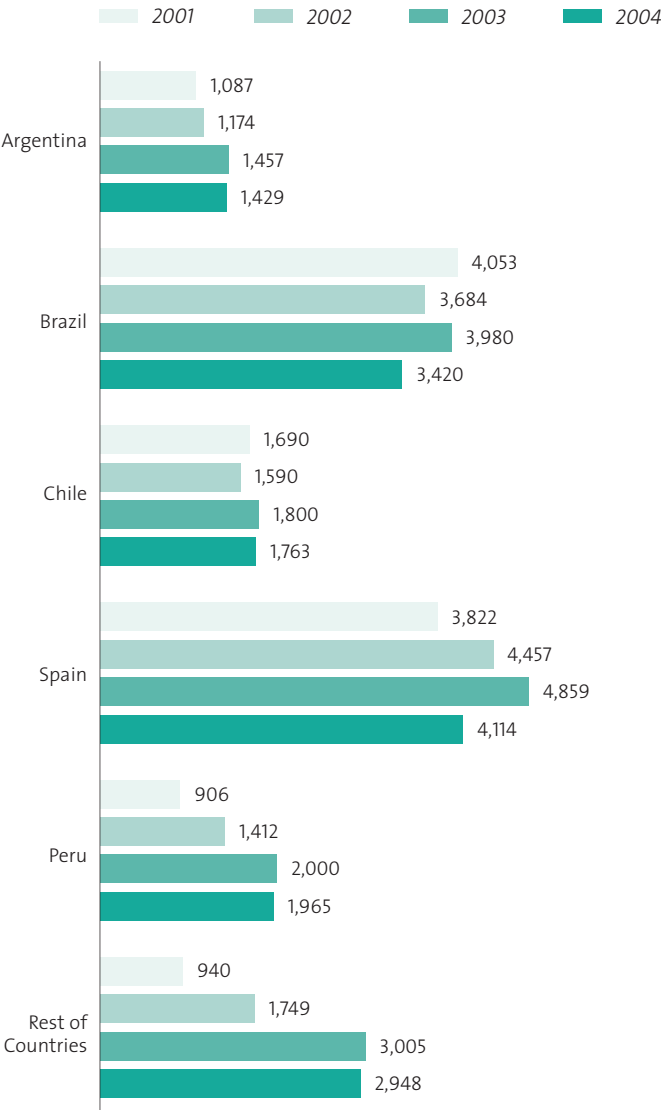
*Telefonica*

The trust of our suppliers and partners is the consequence of transparency, equal opportunities and the quest for mutual benefit in all our shared activities

DISTRIBUTION OF PURCHASING VOLUME BY COUNTRIES (09-1)  
(Data in percentage)



NUMBER OF AWARDED SUPPLIERS (09-2)  
(Data in units)





**DISTRIBUTION OF PURCHASING VOLUME BY PRODUCT LINES (09-3)**

(Data in percent)

Product lines	Description	2003	2004
Network infrastructure	Switching, transmission, data and energy systems	18	21
Services and Works	Maintenance and extension of the external plant, general renovations and services	32	30
Market Products	Material, terminal equipment, instruments and tools	30	30
Information Systems	Hardware, software, development and maintenance of information systems	14	13
Publicity and Marketing	Publicity and marketing activities	6	6

**01 LARGE NUMBER OF SUPPLIERS**

During the 2004 year, the Telefónica Group's purchasing volume amounted to over twelve billion euros, which was distributed amongst 15,500 suppliers.

The ten main suppliers by amount of purchases were the following (in alphabetical order): Alcatel, Brightstar, Ericsson, IBM, LG, Lucent, Motorola, Nokia, Siemens, Vitelcom.

**02 PRINCIPLES OF OBJECTIVITY, TRANSPARENCY AND EQUAL OPPORTUNITY**

Conscious of the importance of purchasing and relations with suppliers in business results, Telefónica handles purchasing in all its companies through a common management model: the Advanced Purchasing System. The goal of this model is to optimise purchases in its triple dimension of: price, quality and service, endeavouring to reduce costs, improve competitiveness and create value.

In December 2004, the purchases of 118 Group companies, distributed throughout the 19 main countries where Telefónica is present, were all managed through this model.

The purchase process, according to the model, centres on Purchasing Boards, forums where the various areas involved analyse the purchase, establish their target prices for the same and finally decide unanimously on the award. There are currently 7 Purchasing Boards in operation, located in Madrid, Sao Paulo, Rio de Janeiro, Lima, Buenos Aires, Santiago de Chile and Mexico D.F., thereby enabling either worldwide or local purchasing, as deemed most suitable in each case. Two new Purchasing Boards are scheduled to begin operations in 2005: one in Venezuela and the other in Colombia.

The Telefónica Purchasing Model has a series of features that facilitate objectivity and transparency:

- The opportunity for global registration (for the entire Telefónica Group) in the Telefónica Catalogue of Suppliers is open to all those firms interested in working with Telefónica. This catalogue is valid for all the Group companies and registration is done through the Supplier website. At the end of 2004, there were 34,688 suppliers registered as possible bidders in the Telefónica Catalogue of Suppliers.
- All the areas affected by the purchase participate in the Purchasing Boards, and decisions are made unanimously, thus ensuring the objectivity and transparency of both the analysis and the decision-making.
- Telefónica has a Style Manual that describes the general principles and rules of conduct to be fulfilled by all those who participate in the purchase process. Among such principles, the most noteworthy is the equal opportunity afforded to all bidding suppliers.
- Furthermore, the e-business applications used and developed by the Telefónica Group also allow the automation and optimisation of the processes, as well as greater transparency in the management of suppliers' bids.

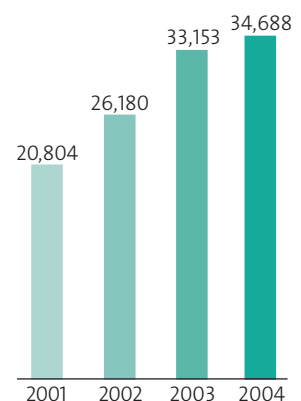
In Brazil, in compliance with resolution 155 of ANATEL, TeleSP is required to publicly advertise all its purchase processes for communication services and the acquisition of equipment valued over 1 million *reales*. For this reason, all public tenders are posted on the website to guarantee and encourage equal opportunity.

**03 MUTUAL BENEFIT**

Telefónica has developed a series of tools to implement improvements throughout its entire supply chain and collaborate with its suppliers.

**SUPPLIERS REGISTERED IN THE TELEFÓNICA CATALOGUE OF SUPPLIERS (09-4)**

(Data in units)



## SUPPLIERS INCORPORATED IN ELECTRONIC MARKETPLACE (09-5)

Purchasing volume (mill €)				N° of processes negotiated	
Country	2002	2003	2004	Country	2004
Argentina		33.89	343.73	Argentina	1,583
Brazil		78.27	405.94	Brazil	1,623
Chile		7.72	186.01	Chile	647
Spain	256	740.33	2,516.15	Spain	6,992
Mexico			264.05	Mexico	371
Peru		6.13	274.20	Peru	1,459
Total	256	866.34	3,990.10	Total	12,675

## a) Electronic commerce

Telefónica uses the latest cutting-edge technology in its relationships with its suppliers to automate and optimise the entire purchase process and to establish new and better lines of communication with its suppliers.

To that end, through Adquira España, Telefónica is implementing and developing a global e-business platform for the management of the purchase and supply process. Adquira España is a leading company in negotiation and supply of solutions and services, in which four large Spanish corporations hold stakes: BBVA, Iberia, Repsol-YPF and Telefónica (through Telefónica de España and TPI). This e-business platform enables automation in:

- The management of bids and negotiation of the same, as well as auctions (*e-sourcing*).
- The preparation, approval and digital signature of commitments (contracts and award letters).
- The management of goods and services orders by the relevant areas through catalogues previously negotiated by Purchasing Departments (*e-procurement*), dispatch of delivery notes by the supplier and acceptance of the goods or services at their destination.
- The supplier invoicing process from the orders placed and accepted electronically.
- Supplier evaluation: quality, fulfilment of commitments, delivery dates, services rendered etc.

These e-business initiatives afford a number of advantages for suppliers, particularly:

- Reduction of the costs associated to the process as a result of its automation.

- Greater agility in the exchange of information.
- The possibility of integrating the platform into their own computer systems.
- Greater transparency in negotiations and, in general, the entire purchase process, as well as equal opportunity for all suppliers by ensuring that the same information necessary for preparation of the bids is made available to all suppliers at the same time.
- Increased likelihood of supplier sales through access to a virtual marketplace that, in addition to Telefónica, serves other companies, such as BBVA, Iberia and Repsol-YPF, as well as other Adquira client companies.

Electronic management of bids for certain products and services is currently a reality in Spain, Brazil, Argentina, Peru, Chile and Mexico. The purchasing volume negotiated in 2004 through the electronic market amounted to 3.99 billion euros, in 12,675 purchase processes. At the end of the year, a total of 5,260 suppliers were incorporated into the system.

In 2004, Telefónica implemented a new purchase negotiation format through electronic auctions, which offers greater transparency and objectivity in the purchase process and full equal opportunity to all bidding suppliers, as well as making the process more agile and simplifying purchase management.

With respect to other e-business initiatives in 2004, the Spanish companies in the Telefónica Group continued to implement *e-procurement* (a corporate electronic supply model), which also began operating in the Group companies in Brazil and Peru. Moreover, electronic invoicing was also initiated and is now operational in Telefónica S.A. Finally, work was



## SUPPLIERS INCLUDED IN TELEFÓNICA MARKETPLACE (09-6)

(Data in units)

Country	2002	2003	2004
Argentina	79	906	<b>1,262</b>
Brazil	225	888	<b>1,333</b>
Chile		200	<b>459</b>
Spain	797	1,247	<b>1,497</b>
Peru	44	161	<b>315</b>
Mexico		30	<b>394</b>
<b>Total</b>	<b>1,145</b>	<b>3,432</b>	<b>5,260</b>



done during the year on a corporate project for electronic contracting.

### b) Supplier Website

The Supplier Website, accessed at: [www.telefonica.es/proveedores](http://www.telefonica.es/proveedores), is the main channel of information between Telefónica and its suppliers. It furnishes potential suppliers access to general information on how to become a Telefónica Group supplier, on Telefónica's purchase process and the main projects Telefónica is undertaking in relation to e-business.

Furthermore, registration in the Catalogue of Suppliers may also be handled through the Supplier Website, which also provides access to the Adquira e-business platform (primary operational channel for relations with suppliers). The website also includes access to other, specific websites for the Telefónica Group companies, such as e-Agora, from Telefónica de España.

## 04 SUSTAINABLE DEVELOPMENT OF SOCIETY

### a) Encouraging ethical standards in the supply chain

Telefónica requires compliance with current legislation on issues such as working conditions, health and safety in the workplace and environmental impact, as set out in the "General Conditions for the Supply of Goods to Telefónica S.A.".

These criteria are applied to all alike, although the regulations in effect in certain countries may envisage other, additional aspects more directly related to the product or service to be purchased. Likewise, in the case of certain products and services, purchase contracts envisage other aspects more directly related to the service or product in question.

Moreover, the Telefónica Group endeavours to contribute to the encouragement of responsible business practises throughout its entire supply chain by its collaboration with other companies and in initiatives that go far beyond the legal requirements.

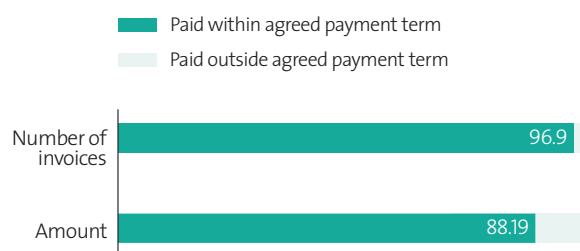
### Collaboration with other companies

This commitment was made public through Telefónica's adhesion to the *UN Global Compact* and other programmes developed by ETNO (*European Telecommunication Network Operators*) and GeSI (*Global e-Sustainability Initiative*). In this respect, Telefónica participated in the European Conference on Telecommunications and Sustainability organised by ETNO where, together with another 17 European companies, it signed the *Sustainability Charter*, a document that sets out the application of sustainability criteria to the entire supply chain as one of its guiding principles.

Likewise, Telefónica is active in the *GeSI Supply Chain Working Group*, the aim of which is to transmit practises that drive sustainability throughout the entire supply chain in the participating companies. In 2005, the first step will be an analysis of the interest and degree of supplier acceptance of sustainability criteria in commercial relations.

### Initiatives that surpass legal requirements

Telefónica has been actively involved in developing numerous schemes to encourage responsible practises in its supply chain. With regards to the environment, certain of these, described in chapter 08 of the present report, encompass training activities for the employees of collaborating companies, the importance of environmental management certifications in the contract award phase, and activities focused on control and evaluation of suppliers with environmental impact (such as those done by Telefónica Móviles España and TPI)

**FULFILMENT OF SCHEDULED  
PAYMENT CONDITIONS TO SUPPLIERS (04-07)***(Data in percentage)**(Data referring to the 783,655 invoices paid by Telefónica de España and Telefónica Móviles de España)***CASE STUDY****COMPRES TRABAJO ARGENTINO (BUY ARGENTINIAN WORK) (09-8)**

On 28/11/01, the Government of Argentina approved Act 25.551, which establishes the Purchase Regime for the State and Public Service Concessionaires and Licensees, entitled *Compre Trabajo Argentino (Buy Argentinian Work)*. This scheme gives preference to national companies and products over foreign products.

Telefónica de Argentina S.A., as a public service licensee, was obliged to undertake a series of changes in its processes to comply with the Buy Argentinean Work scheme:

- Adaptation of its contracts to the regulations set out in the Act and regulatory decree.
- Preference to national bids for goods, work and services, within the framework established by the Act.
- Compliance with the regime of public announcement of its purchases and other rules contained in the legislation.
- Compliance with the relevant procedures regarding reporting to the authorities on its observance of the Act in the purchases made.

**TRAINING OF SME SUPPLIERS IN ARGENTINA (09-9)**

In 2004, Telefónica de Argentina provided training at the Universidad Católica Argentina to 12 SME suppliers who deal with various companies in the Group.

The dynamics of this training consisted of identifying key factors and control variables in the growth of their companies and learning new aspects of business administration to incorporate the tools necessary for their survival and growth. Furthermore, each company underwent a strategic diagnosis and a plan was drawn up to face the challenges of competition and to develop new business at the medium and long-term.

The training included a *coaching* session on the preparation of business plans targeted at growth of the SMEs, thus enabling Telefónica to work with suppliers who are more qualified from an academic viewpoint. Given the success of the programme, plans include continuing with this model in 2005, as well as extending its benefits to a larger number of suppliers.

## TELEFÓNICA DRIVE FOR LOCAL SUPPLIERS ( 09-10)

% Local purchasing volume			% Local awardee suppliers		
Country	2003	2004	Country	2003	2004
Argentina	89	<b>79</b>	Argentina	96	<b>95</b>
Brazil	96	<b>98</b>	Brazil	99	<b>99</b>
Chile	79	<b>76</b>	Chile	98	<b>96</b>
Spain	85	<b>93</b>	Spain	84	<b>91</b>
Mexico		<b>94</b>	Mexico		<b>90</b>
Peru	85	<b>86</b>	Peru	94	<b>90</b>
Rest of Countries	92	<b>68</b>	Rest of Countries	65	<b>85</b>
<b>Total</b>	<b>88</b>	<b>92</b>	<b>Total</b>	<b>90</b>	<b>92</b>

In Brazil, Telefónica Group purchases are subject to the approval of the Company legal and labour relations departments prior to their approval by the Purchasing Board. Representatives of these areas visit the proposed supplier to ensure that the company complies with all legal regulations in effect, and repeats the visits after award to verify its fulfilment of health and safety conditions in the workplace.

In Spain, Telefónica Móviles España has established the goal of ensuring that all its sub-contractors have obligatory training in this issue. For this purpose, the Company has prepared a *Contract Coordination Module for Prevention of Occupational Risks* with the collaboration of the *Intercenter Health and Safety Committee*, that sets out a system of accreditation and control for the employees in such companies and their compliance with certain minimum standards of occupational risk prevention. Moreover, the module includes generic information related to the risks the sub-contractor company may encounter at the Telefónica Móviles España facilities.

Again in 2004, Telefónica de España held its annual meeting with companies that collaborate in operations, representing the work of over 30,000 employees. The meeting stressed the importance of improved compliance with the *Occupational Risks Act* and the significant role of Training, to which over 60,000 hours were devoted in 2004.

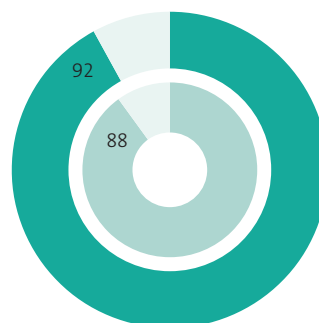
As a particularly outstanding initiative in the area of integration, Telefónica plans to require fulfilment of the *Disabled Persons Integration Act* from all the suppliers who intervene in the "Distrito C" project. Those firms that do not fulfil this requirement within their own companies will be offered the Integration Services provided by ATAM, the Association of Telefónica for the assistance of the disabled.

## b) Boosting local suppliers

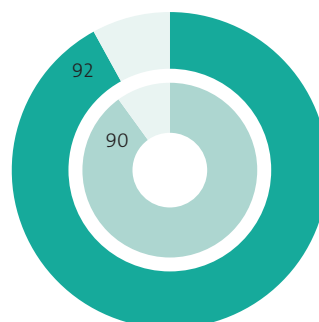
Telefónica is firmly committed to economic and social progress in the countries in which it is present. This commitment is embodied in the high percentage of awards to suppliers located in the country itself, an average of 92% in 2004.

## TELEFÓNICA DRIVE FOR LOCAL SUPPLIERS (09-11)

2003  
2004



% Local purchasing volume



% Local awarded suppliers



# 10

Media: information and transparency



10/01

interest in  
Telefónica  
activities

Telefónica  
presence in the  
media is constant  
and creates  
interest in  
different  
audiences

REFERENCES TO TELEFÓNICA

**74,093**

*written press in Spain*

10/02

complete,  
accurate  
information

Telefónica  
undertakes an  
important effort in  
offering complete  
and rigorous  
information to  
the media

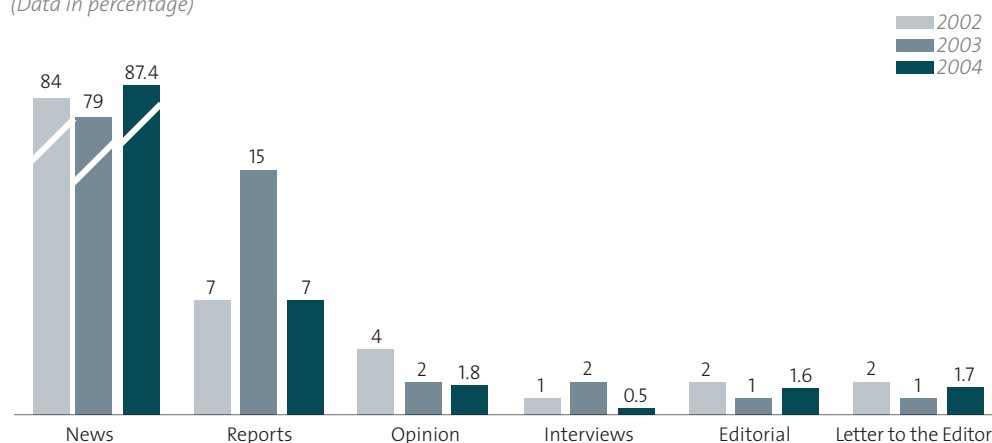
PRESS RELEASES

**2,905**

*published in 2004*

*Telefonica*

The trust of our stakeholders is strengthened by a policy of transparent communications with the media, considering its great interest in offering information about the Telefónica Group

**PRESS COVERAGE OF THE TELEFÓNICA GROUP IN SPAIN (10-1)***(Data in percentage)*

The Telefónica Group promotes a policy of communication based on truth and transparency, through permanent interaction with the media. The Company, through its Corporate Communication Department and the Communication Departments in the various business lines, maintains a close relationship with the media in all its operating markets, facilitating a continual flow of information.

Likewise, the Corporate Communication Department carries out coordination tasks to guarantee the coherence of strategic, financial and operational news, working closely with the other Company Departments in communication with the market, primarily in reporting relevant facts, in the different quarterly and annual result publications, as well as the preparation of the respective reports addressed to the Company's stakeholders.

**01 INTEREST IN TELEFÓNICA'S ACTIVITIES**

The presence of Telefónica in the media is of interest to many different audiences. During 2004, the Telefónica Group appeared in the printed Spanish press 74,093 times, which represents an average of 200 news items and mentions of Telefónica every day. The companies most frequently referred to in the press were Telefónica S.A., Telefónica Móviles and Terra.

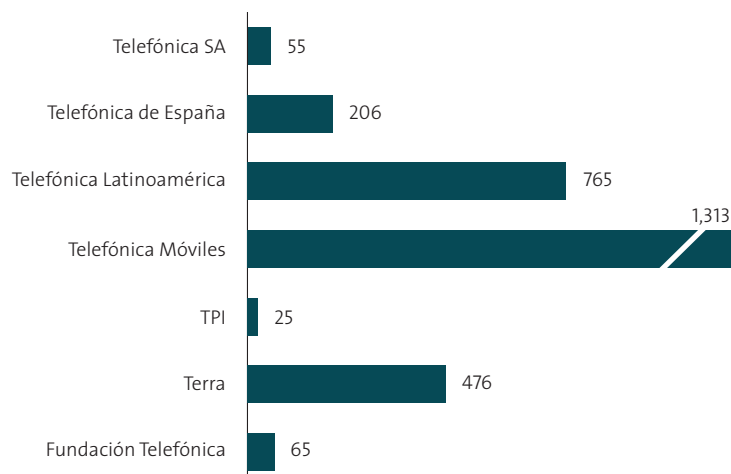
The type of coverage given by the media to the Telefónica Group is fundamentally news (87.4%) and reports (7%).

**02 COMPLETE, ACCURATE INFORMATION**

The Telefónica Group issued 2,905 press releases throughout the 2004 year. By categories, the issues that featured most regularly were financial press releases and those dealing with strategy and investment in 2004. This distribution allows the Telefónica communications to adapt to the business needs of each of the countries, as well as to the informative needs of the local media.

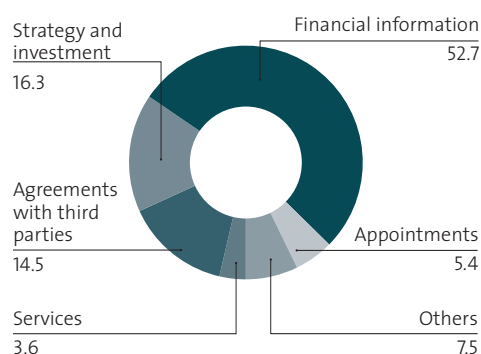
On a geographic level, distribution is quite balanced between the countries, the most active of which are Spain, Brazil and Chile. In terms of lines of activity, the most active in issuing press releases was Telefónica Móviles with 1,313 of the total published by the Telefónica Group, followed by Telefónica Latinoamérica with 765 and Terra with 476.

Together with the Press Releases and the information supplied online, the ongoing personal contact with the media on a day-to-day basis is of particular relevance.

**DISTRIBUTION OF TELEFÓNICA GROUP PRESS RELEASES BY BUSINESS LINES (10-02)***(Data in units)*

## DISTRIBUTION OF TELEFÓNICA'S RELEASES BY TOPIC

(Data in percent)



### CASE STUDY

#### INFORMATION SUPPLIED ONLINE (10-4)

##### Online Press Room

In order to foster transparency and make information more accessible, the Telefónica Group has an Online Press Room ([www.telefonica.es/saladeprensa](http://www.telefonica.es/saladeprensa)) with the following services:

- Publication of all press releases since 1997.
- Search service for press releases organised by country, line of activity and dates, including a direct search service.
- Download of more than 300 photographs, senior Managers' profiles and CVs, graphs and results.
- Real time consultation of Telefónica share prices.
- Link to the websites of the companies in the Telefónica Group.

This channel received 82,073 user sessions in 2004 and provided 531,701 downloads covering different information.

##### Telefónica Website

It is also important to highlight that in January 2004, the first stage of the *Framework Plan for Telefónica on the Internet* was completed. The mainstays of this model are the *telefonica.country* websites, which became the reference portals for Telefónica on the Internet in each of the countries, channelling all the online relations between Telefónica and its customers. During the rest of 2004, the second stage of the *Framework Plan* was put into operation with a view to completing these developments and tackling the transformation of a large part of the rest of the online content. This work has been carried out under the aegis of the *Telefónica and Terra Strategic Agreement*, within the *Alquimia Project*.

In June 2004, Telefónica, in addition to the Group's other business divisions listed on the stock market, adapted its website to the *Corporate Transparency Act* and the new regulations of the *National Securities Market Commission (CNMV)*. The chief innovation was the creation of a new section: [www.telefonica.es/accionistaseinversores](http://www.telefonica.es/accionistaseinversores), which became the main communication channel with shareholders and investors from that time on.

The Telefónica S.A. website has received two Awards:

- Award for the *Spanish company providing the most transparent and reliable corporate and financial information on the Internet*, awarded by the *Spanish Association of Accounting and Business Administration (AECA)* at its 3rd annual awards.
- *Investor Relations Websites and Online Annual Reports Global Rankings and Awards* (known as the MZ Awards): First prize in Spain for the Telefónica S.A. Shareholders and Investors Internet page and *the best Online Annual Report in Spain* for the Telefónica online Annual Report.

##### Other specific new sections

- In January 2004, a section was included that provides the online version of all the Annual Reports published by Telefónica since its foundation in 1924.
- In March 2004, a page specifically covering all the information related to the purchase of the *Bellsouth* mobile operations in Latin America was published.



## Telefónica's Commitment

People come first  
Communication comes first  
Education comes first  
Innovation comes first  
Reducing distance comes first  
Making life easier comes first  
Reaching everywhere comes first  
Eliminating barriers comes first  
Quality of life comes first  
Evolution comes first  
Reliability comes first  
Speed comes first  
Answers come first  
Being by your side comes first  
  
What comes first for you  
comes first for us.

• Jordi • Alicia • Walter • Felipe • Nadia •  
Camilo • Carina • Gonzalo • Miriam • Inés  
• Rafael • Gloria • Pablo • Paola • Ramiro •  
Camila • Matías • Ana María • Manuel  
• Paco • Zuleima • Martí • Diego • Martina

11 • Elisa • Pedro • Carlos • Oscar • Sara • Isaac  
• Daniela • Laura • David • Susana • Emiliano

You come first

• Chema • Marc • Ramón • Julián • Salvador  
• Juan • Montse • Renato • Paloma • Cristina  
• Jorge • Iván • María • Vicente • Marisa •



122  
million customers

1.5  
million shareholders

173,000  
employees

500  
million people living in the society  
where we operate

15,600  
suppliers

---

Telefónica has vision to become the best and largest integrated telecommunications group in the world. To achieve this, it assumed the commitment to be a responsible company to all its stakeholders

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# Redistribution of revenue\*

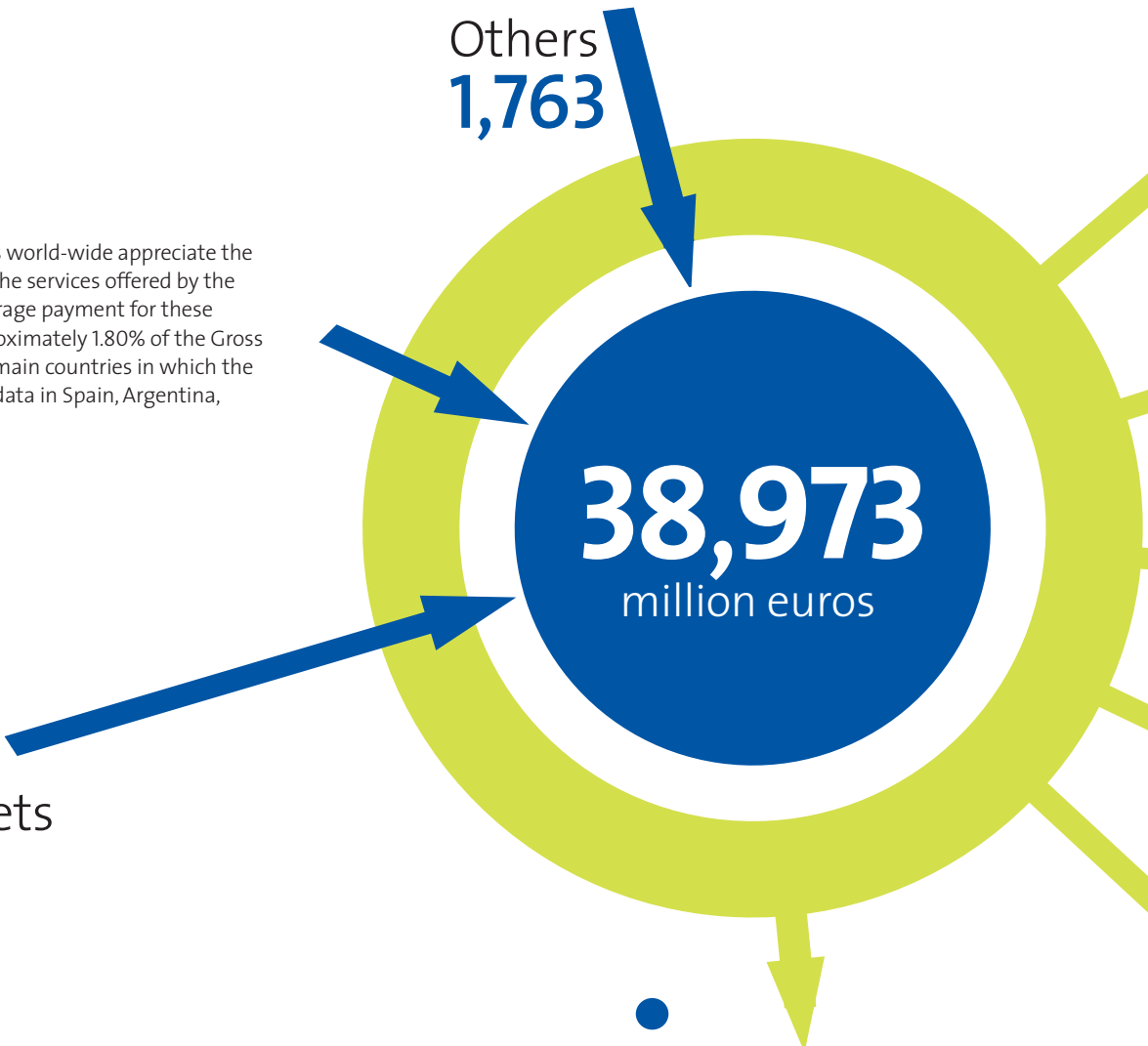
THESE PAGES AIM TO PROVIDE A SUMMARY OF THE CONTRIBUTION BY TELEFÓNICA ECONOMIC ACTIVITY TO SOCIETY. THE EXAMINATION OF THE ECONOMIC FLOWS THE TELEFÓNICA GROUP IS INVOLVED IN, SHOWS THE DISTRIBUTION EFFECT AMONG THE DIFERENT SOCIAL GROUPS, SUCH AS SUPPLIERS, EMPLOYEES, PUBLIC ADMINISTRATIONS, LENDING INSTITUTIONS, SHAREHOLDERS AND CUSTOMERS.

● Customers  
**36,335**

The 122 million customers world-wide appreciate the added value provided by the services offered by the Telefónica Group. The average payment for these services amounts to approximately 1.80% of the Gross Domestic Product of the main countries in which the Group operates (average data in Spain, Argentina, Brazil, Chile and Peru).

● Sale of assets  
**875**

Others  
**1,763**



● Investment  
**6,309**

The profitable growth strategy of Telefónica is basically materialised in investment in assets that allow its business to be expanded in the future (fundamentally investment in innovation, in development of the market and specific acquisitions) and divestment from non strategic or non-profitable assets.

Total Income:	38,973	➡
<i>(In millions of euros)</i>		
Total Payments:	38,973	➡

## Public administrations 6,302

A Group the size of Telefónica makes an important contribution to public funds in the countries where it has activities through direct taxes on its profit, rates for licences, and indirect taxes.

## Suppliers Commercial 14,914 CapEx 3,488

The Telefónica Group redistributes a major part of its revenue through the 15,600 companies with which it collaborates in each one of the countries in which it operates, that contribution is eminently local in each country, as confirmed by the fact that, on average, 92% of the volume of procurement in each country is from local suppliers.

## Employees 3,851

The Telefónica Group has more than 173,000 employees, being one of the companies that generates more employment in Spain and Latin America.

## Shareholders 2,949

Shareholders remuneration is one of the basic factors of the market economy the Telefónica Group operates under. Direct payment of dividends, the amount of which is shown on the graph, is in addition to other non monetary retributions such as capital increase issues, repurchase of shares and their later amortisation.

## Financial creditors 1,160

Lending institutions provide a source of funds that allow growth and development. In this sense, the Telefónica Group has an intense activity in financial risks, providing dynamics to the financial sector in some of the countries it operates in.

It is important to emphasise the commitment the Telefónica Group has to the society in which it operates, a commitment involving:

- A contribution exceeding 46.5 million euros in social and cultural action, performed by Fundación Telefónica (25 million), ATM (9 million) and the rest of the companies in the Telefónica Group (12.5 million).
- The net cost of the universal service obligations in Spain, that came to 198 million euros in 2003 according to *Telefónica de España*.
- The contribution to the Universal Service Funds in the Latin America countries (Argentina, Chile and Peru) amounting to 48 million euros.

(\*)

*The information published in this page has been obtained from internal sources of the Telefónica Group, and has been contrasted by the verifiers of this report. The data mentioned may be affected by later events and evolutionary effects that may cause modifications to the content.*

*For detailed analysis of the consolidated financial statements of the Telefónica Group, the audited information is included in the consolidated annual accounts.*

# Corporate Responsibility

You come first

## Why trust?

Because trust:

- 1 is the outcome of fulfilling commitments, and of understanding and comprehending the needs of all our stakeholders
- 2 to our customers arises from our efforts to listen to them, anticipating their needs and striving for excellence
- 3 to our shareholders is based on the generation of results, transparency and honesty
- 4 to our employees is founded on the personal and professional growth of each and every one of them
- 5 to our suppliers and partners is the result of seeking mutual benefit in all our operations

## How to manage Corporate Responsibility?

With five Principles of Corporate Responsibility Management

1 Proactive risk management

2 Flexibility and adaptability

## Who?

Customers  
quality and compliance

Shareholders  
returns and transparency

Employees  
clarity and development

## What?

HITS  
2004

Customer Orientation Programmes  
*Compromiso Cliente* and *meta: cliente*

Unification in quality of service parameters

New website for shareholders and investors

Listing on the *Dow Jones Sustainability Index*

Unification of workplace environment surveys

Group Labour Audit

CHALLENGES  
2005

Implementation of the Customer Relations Principles

More contacts with socially responsible investors

Internal Communication Plan linked to the Company transformation process

6 to the countries in which we operate is determined by our degree of commitment and the economic, social and technological progress of all

7 to society is sustained by respect for human rights, protection of the environment and respect for cultural diversity

8 in our service is based on the reliability of our operations and on our commercial capacity to adapt to the needs of our customers

9 is the result of applying all our technological capacities to innovating products and services that improve the quality of life

10 in our human resources is the lever that drives us to reach our goal as a company

3 Relations with stakeholders

4 The creation of sustained value for all stakeholders

5 Transparent information

Society  
contribution  
and proximity

Launch of new products targeted at low-income segments

Increase in the number of people benefiting from Telefónica Foundation projects

Development of new activities in the *Integral Accessible Telefónica Plan*

Environment  
respect and  
protection

Definition of *Minimum Environmental Requirements* in the Telefónica Group

Availability of information on the environmental impact of the Group companies

Development of environmentally-friendly products and services

Suppliers  
equal  
opportunities and  
mutual benefit

Increased volume of purchases handled through electronic platforms

SME Training Plan (Argentina)

Application of corporate responsibility criteria to supplier selection

Media  
information and  
transparency

Telefónica in the Internet Framework Plan (1st Stage)

Increase in the number of media mentions

Actions to enhance a more personalised service to the media



## REPORT ON AGREED-UPON PROCEDURES FOR THE EXTERNAL VERIFICATION OF THE INDICATORS OF THE TELEFÓNICA, S.A.'S 2004 CORPORATE RESPONSIBILITY ANNUAL REPORT

To Telefónica S.A. Management:

We have performed the procedures agreed upon with you, which are listed below, regarding the indicators of the *Telefónica, S.A.'s 2004 Corporate Responsibility Annual Report*. The preparation of this report is the sole responsibility of the General Corporate Communications Management at Telefónica, S.A.

Our work was conducted in accordance with the *Global Reporting Initiative (GRI) 2002 Sustainability Reporting Guidelines*, the *2003 GRI Telecommunications Sector Supplement (Pilot Version 1.0)*, and the generally accepted professional standards in Spain relating to agreed-upon procedures.

The procedures performed were as follows:

- Meetings with employees of the Telefónica Group to gather the information required for the external verification.
- Review of the minutes of the committees involved in the *Corporate Responsibility Annual Report* and of other significant documentation or communications used in the preparation of this report.
- Checking that the content of *Telefónica, S.A.'s 2004 Corporate Responsibility Annual Report* does not contradict any relevant information contained in *Telefónica, S.A.'s 2004 Annual Report*, *Telefónica Móviles, S.A.'s 2004 Corporate Responsibility Annual Report* and *Telefónica Publicidad e Información, S.A.'s 2004 Corporate Responsibility Annual Report*.
- Analysis of the adaptation of the contents and structure of the *Corporate Responsibility Annual Report* to that indicated in the GRI standard.
- Verification, by means of sample-based tests, of the calculation of the quantitative performance indicators included in the *Corporate Responsibility Annual Report* and/or of the adequate compilation thereof based on the data supplied by the Telefónica Group companies' information sources.
- Verification of the qualitative aspects of the indicators included in the *Corporate Responsibility Annual Report*.

The review of the indicators focused solely on those relating to 2004 included by Telefónica, S.A. in its *Corporate Responsibility Annual Report*.

Tables 2 and 3 attached to this report include a list of the 98 indicators analyzed and a description of the type of verification performed. As indicated in Exhibit 1, the verifications were defined as partial when they were performed only on Group data in Spain or in particular countries or when they related to a specific aspect or to one specific line of business.

As a result of the application of the procedures described above, the following matters were disclosed:

- The structure and contents of *Telefónica, S.A.'s 2004 Corporate Responsibility Annual Report* comply with the principles and guidelines of the GRI standard. However, due to the particular features of the Company's activities and/or the systems available for obtaining information, it was occasionally necessary to adapt the GRI indicators accordingly.
- Generally speaking, when information was not available for all the countries or for all the activities carried on by the Company or Group companies, this was indicated in the section of the report describing the related indicator.

The scope of the agreed-upon procedures applied was limited to the verification of the indicators for 2004, not of *Telefónica, S.A.'s 2004 Corporate Responsibility Annual Report* taken as a whole. Had additional or different procedures been applied, other matters might have been identified, of which we would have informed you.

Madrid, May 12, 2005

DELOITTE



Helena Redondo



#### EXHIBIT 1: TYPE OF VERIFICATION PROCESS PERFORMED

The type of verification performed for each of the indicators is detailed in Tables 2 and 3 using the following symbols:

<b>CA</b>	Conformity with the data included in the audited 2004 financial statements of the Telefónica Group.
<b>FT</b>	Checking the information furnished with the audited 2004 financial statements of Fundación Telefónica in Spain.
<b>AT</b>	Checking the information furnished with the audited 2004 financial statements of the Telefónica Association for Aid to the Disabled (ATAM).
<b>DM</b>	Verification, for a sample, of the approval of sponsors and their payment.
<b>CC</b>	Verification of the adequate compilation of the data generated by the Telefónica Group companies' reporting systems.
<b>QI</b>	Checking the qualitative aspects based on information supplied by Telefónica Group companies.
<b>PS</b>	Verification of the existence of the policies, systems and procedures described.
<b>CE</b>	Checking the calculations performed following the methodology used by the Telefónica Group.
<b>FP</b>	Checking the data against non-Group public sources of information.
<b>GC</b>	Checking the information furnished against that published by Telefónica S.A. in its Corporate Governance Report.
<b>MV</b>	Checking the data against the information furnished by Telefónica S.A. to the securities markets.
<b>PM</b>	Verification of the Telefónica Group's adhesion to the Global Compact.
<b>AI</b>	Conformity with the express statement by the Deputy General Management of Corporate Controllershship, Inspection and Internal Audit.
<b>AJ</b>	Checking information against the express statements by the legal services of Telefónica Group companies.

#### SYMBOLS USED TO EXPRESS THE SCOPE OF THE VERIFICATION

<input checked="" type="checkbox"/>	Verification of the information included in the Corporate Responsibility Annual Report relating to the indicator.
✓(E)	Partial verification, only for Spain.
✓(P)	Partial verification, only for the countries referred to in the Corporate Responsibility Annual Report.
✓(L)	Partial verification, only for the lines of business referred to in the Corporate Responsibility Annual Report.
✓(A)	Partial verification, only for certain of the aspects addressed in the Corporate Responsibility Annual Report.
<b>ND</b>	Indicator that applies to the Telefónica Group's activities but for which no information is available or has not been reported.
<b>NA</b>	Indicator that is not applicable to the Telefónica Group companies' activities.

#### SYMBOLS USED TO INDICATE THE SCOPE OF THE INFORMATION VERIFIED.

<b>G</b>	Telefónica Group	<b>TdE</b>	Telefónica de España
<b>TMV</b>	Telefónica Móviles	<b>TID</b>	Telefónica Investigación y Desarrollo
<b>TPI</b>	Telefónica Publicidad e Información - TPI	<b>ATE</b>	Atento
<b>TSP</b>	Telefónica Sao Paulo - TeleSP	<b>CTC</b>	Telefónica CTC Chile
<b>TAR</b>	Telefónica Argentina	<b>TGE</b>	T-Gestiona
<b>FT</b>	Fundación Telefónica	<b>ATA</b>	ATAM (Asociación de Telefónica para el Apoyo a las Personas con Discapacidad)
<b>TER</b>	Tema		

TABLE 1: GRI REPORT CONTENT			
TF 03*	GRI SECTIONS	CONTENTS ACCORDING TO GRI GUIDELINES	PAGES
<b>1. VISION AND STRATEGY</b>			
•	1.1	Vision and strategy regarding the contribution to sustainable development	4-5, 8-10, 21-25, 30-37
•	1.2	Statement from the CEO describing key elements of the Corporate Responsibility Annual Report	4-5
<b>2. PROFILE</b>			
<b>ORGANIZATIONAL PROFILE</b>			
•	2.1	Name of reporting organization	1
•	2.2	Major products and/or services, including brands	7-13, 25-29
•	2.3	Operational structure of the organization	8, 11
•	2.4	Major divisions, operating companies, subsidiaries and joint ventures	8, 11
•	2.5	Countries in which the organization's operations are located	11
•	2.6	Nature of ownership; legal form	15-19
•	2.7	Nature of markets served	11, 118-120
•	2.8	Scale of the reporting organization	7, 12-13
•	2.9	List of stakeholders, key attributes of each, and relationship to the reporting organization	2-3, 22, 27
<b>SCOPE OF CORPORATE RESPONSIBILITY ANNUAL REPORT</b>			
•	2.10	Contact person(s) for the Corporate Responsibility Annual Report	208
•	2.11	Reporting period	1, 206
•	2.12	Date of the most recent previous report	34, 206
•	2.13	Boundaries of the report (countries, services, etc.)	206
•	2.14	Significant changes in the company and its environment	7-10
•	2.15	Basis for reporting on subsidiaries, joint ventures, etc.	206
•	2.16	Re-statements of information provided in earlier reports	206
<b>PROFILE OF CORPORATE RESPONSIBILITY ANNUAL REPORT</b>			
•	2.17	Decisions not to apply GRI principles or protocols in the preparation of the report	198-199
•	2.18	Criteria used in any accounting for social costs and benefits	ND
•	2.19	Significant changes from previous years in measurement methods	206
•	2.20	Policies and practices to provide assurance about the accuracy and reliability of the information	198, 199, 206
•	2.21	Means to provide independent assurance for the report	198, 199
•	2.22	Means by which additional information can be obtained	206-208
<b>3. GOVERNANCE STRUCTURE AND MANAGEMENT SYSTEMS</b>			
<b>STRUCTURE AND GOVERNANCE</b>			
•	3.1	Governance structure and major committees under the Board of Directors	14-18
•	3.2	Percentage of the board of directors that are independent directors	18
•	3.3	Expertise needed by board members to guide the organization's strategies in environmental and social issues	30-37
•	3.4	Board-level processes for overseeing economic, environmental and social risks and opportunities	30
•	3.5	Linkage between executive compensation and achievement of financial and non-financial goals	14-18
•	3.6	Structure and individuals responsible for oversight and audit of economic, environmental and social policies	18, 34, 202-203
•	3.7	Mission and value statements, codes of conduct or principles	23-25
•	3.8	Mechanisms for shareholders to provide recommendations	78-80
<b>STAKEHOLDER ENGAGEMENT</b>			
•	3.9	Basis for identification of stakeholders	2-3, 22, 27
•	3.10	Approaches to stakeholder consultation	31, 35, 62-68, 79-80, 87-89
•	3.11	Information generated by stakeholder consultations	31, 35, 62-68, 79-80, 87-89
•	3.12	Use of information resulting from stakeholder engagements	2-3, 22-25
<b>OVERARCHING POLICIES AND MANAGING SYSTEMS</b>			
•	3.13	Application of the precautionary principle	30-181
•	3.14	Externally developed voluntary charters and other initiatives to which the organization subscribes	31-37
•	3.15	Memberships in national/international associations	31-37
•	3.16	Management of upstream and downstream impacts	189-191
•	3.17	Organization's approach to managing indirect economic, environmental and social impacts	4-5, 120-145, 183
•	3.18	Major decisions during the reporting period regarding the location of operations	118-121
•	3.19	Programs and procedures pertaining to economic, environmental and social performance	35-37
•	3.20	Certification of economic, environmental and social management systems	59, 164, 166
<b>4. CONTENT INDEX</b>			
•	4.1	Table identifying location of the report content, by section and indicator	200-204

\* TF 03: Indicating the content included in the 2003 Corporate Responsibility Annual Report of Telefónica, S.A.

TABLE 2: GRI INDICATORS

TF 03	TYPE IND.	GRI	DESCRIPTION OF INDICATOR	PAGES OF REPORT	SCOPE	SCOPE OF VERIFICATION	VERIFICATION PROCEDURE
<b>ECONOMIC PERFORMANCE INDICATORS</b>							
<b>CUSTOMERS</b>							
•	C	EC-01	Net sales	12,119	G	☑	CA
•	C	EC-02	Geographic breakdown of markets	11,120	G	☑	CA
<b>SUPPLIERS</b>							
•	C	EC-03	Cost of all goods, materials and services purchased	183	G	☑	CA
	C	EC-04	Percentage of contracts that were paid in accordance with agreed terms	186	TdE, TMV	✓(E)	AI
•	C	EC-11	Supplier breakdown by organization and country	182	G	☑	CC
<b>EMPLOYEES</b>							
•	C	EC-05	Total payroll and benefits (including wages, pension, other benefits, and redundancy payments)	92	G	☑	CA
<b>PROVIDERS OF CAPITAL</b>							
•	C	EC-06	Distributions to providers of capital broken down by, interest on debt and borrowings, and dividends	13, 81, 83, 194, 195	G	☑	CA
•	C	EC-07	Increase/decrease in retained earnings at end of period	12	G	☑	CA
<b>PUBLIC SECTOR</b>							
•	C	EC-08	Total sum of taxes of all types paid	194, 195	G	☑	CC
•	C	EC-09	Subsidies received broken down by country or region	43	TID	✓(A)(i)	CC, FP
•	C	EC-10	Donations to community, civil society, and other groups broken down in terms of cash and in-kind donations per type of group	141, 194, 195	G	✓(E)	DM, FT, AT
	Q	EC-12	Non-core business infrastructure development	115, 144-149	FT, ATA	☑	CC, FP
<b>INDIRECT ECONOMIC IMPACTS</b>							
	Q	EC-13	The organization's indirect economic impacts, identifying major externalities associated with the reporting organization's products and services	43, 194, 195	G	☑	CE
<b>ENVIRONMENTAL PERFORMANCE INDICATORS</b>							
<b>RAW MATERIALS</b>							
•	C	EN-01	Total materials use, by type	172	TdE, TMV, TID, TPI, TGE	☑	CC (2)
•	C	EN-02	%raw materials used that are wastes from external sources	173	TMV	✓(E)	CC (2)
<b>ENERGY</b>							
•	C	EN-03	Direct energy use	169, 171, 172	G	☑	CC
•	C	EN-04	Indirect energy use	171	G	☑	CE
	Q	EN-17	Initiatives to use renewable energy sources and to increase energy efficiency	169	TMV	☑	CC
	C	EN-18	Energy consumption footprint	ND			
	C	EN-19	Other indirect energy use and implications	ND			
<b>WATER</b>							
•	C	EN-05	Total water use	172	G	☑	CE
	Q	EN-20	Water sources and ecosystems significantly affected by use of water	NA			
	C	EN-21	Annual withdrawals of ground and surface water	NA			
	C	EN-22	Total recycling and reuse of water	NA			
<b>BIODIVERSITY</b>							
	C	EN-06	Location and size of land in biodiversity-rich habitats	167	TMV	✓(E)	CC
•	Q	EN-07	Description of the major impacts on biodiversity	169	TMV	☑	QI
	C	EN-23	Total amount of land for production activities or extractive use	NA			
	C	EN-24	Amount of impermeable surface as a percentage of land purchased	NA			
	Q	EN-25	Impacts of activities on protected and sensitive areas	167	TMV	☑	PS
	Q	EN-26	Changes to natural habitats and percentage of habitat restored	ND			
	Q	EN-27	Objectives and programs for restoring native ecosystems and species	ND			
	C	EN-28	Number of IUCN Red List species with habitats in areas affected by operations	NA			
	Q	EN-29	Business units operating in protected or sensitive areas	167	G	✓(E)	PS
<b>EMISSIONS, EFFLUENTS, AND WASTE</b>							
•	C	EN-08	Greenhouse gas emissions	177	G	☑	CE
	Q	EN-09	Use and emissions of ozone-depleting substances	176	G	☑	QI
	C	EN-10	NOx, SOx, and other significant air emissions	177	G	☑	CE
•	C	EN-11	Total amount of waste by type and destination	174, 175	TMV, TdE, TSP, TID	☑	CC

Legend: Deloitte Letter (page 199)

\* TF03: Highlighting the indicators that are detailed in the 2003 Corporate Responsibility Annual Report of Telefónica, S.A.

\*\* Type of indicator - C: Quantitative Indicator Q: Qualitative Indicator

(1) Only the data on subsidies granted by the EU to *Telefónica Investigación y Desarrollo* have been checked

(2) Paper format only

TF 03	TYPE IND.	GRI	DESCRIPTION OF INDICATOR	PAGES OF REPORT	SCOPE	SCOPE OF VERIFICATION	VERIFICATION PROCEDURE
	Q	EN-12	Significant discharges to water by type	163	TdE	✓(L)	QI
	C	EN-13	Significant spills of chemicals, oils, and fuels	NA			
	C	EN-30	Other relevant indirect greenhouse gas emissions	176	G	✓(A)	CE
	C	EN-31	Production and transport of hazardous waste	174, 175	TMV, TdE, TID, TSP	✓(L)	CC
	Q	EN-32	Ecosystems/habitats affected by discharges of water and runoff	NA			
<b>SUPPLIERS</b>							
•	Q	EN-33	Performance of suppliers relative to environmental components	166, 185	G	☑	PS
<b>PRODUCTS AND SERVICES</b>							
•	Q	EN-14	Significant environmental impacts of products and services	161, 179	G	☑	QI
•	C	EN-15	Percentage of products that is reclaimable at the end of the useful life	ND			
<b>COMPLIANCE</b>							
	Q	EN-16	Incidents of and fines for non-compliance with applicable international conventions and local regulations	162	G	✓(E)	AJ
<b>TRANSPORT</b>							
•	Q	EN-34	Significant environmental impacts of transportation used for logistical purposes	171, 172	TdE, TMV, CTC, TAR	☑	CC
<b>OVERALL</b>							
	C	EN-35	Total environmental expenditures by type	ND			
<b>SOCIAL PERFORMANCE INDICATORS</b>							
<b>LABOR PRACTICES</b>							
<b>EMPLOYMENT</b>							
•	C	LA-01	Breakdown of workforce, where possible, by region/country, status employment type (full time/part time), and by employment contract	86	G	☑	CC
•	C	LA-02	Net employment creation and average turnover by country	86, 87	G	☑	CC
	Q	LA-12	Employee benefits beyond those legally mandated	107, 109	G	☑	QI
<b>LABOR / MANAGEMENT RELATIONS</b>							
•	C	LA-03	% of employees represented by independent trade union organizations	103	G	☑	CC
•	Q	LA-04	Policy and procedures involving information, consultation, and negotiation with employees over changes in operations	89-91	G	☑	PS
	Q	LA-13	Provision for formal worker representation in decision-making or management	ND			
<b>HEALTH AND SAFETY</b>							
•	Q	LA-05	Practices on recording and notification of occupational accidents and diseases	108, 110	G	✓(E)	PS
•	Q	LA-06	Description of joint health and safety committees comprising management and worker representatives	109, 110	G	☑	PS
•	C	LA-07	Injury, lost day, and absentee rates	110	G	✓(A) (3)	CC
	Q	LA-08	Policies or programs (for the workplace and beyond) on HIV/AIDS	113, 147	G	☑	PS, FP
	Q	LA-14	Evidence of compliance with the ILO Guidelines for Occupational Health Management Systems	109-110	G	☑	PS
	Q	LA-15	Description of formal agreements with trade unions or other employee representatives covering health and safety at work	110	G	☑	PS
<b>TRAINING AND EDUCATION</b>							
•	C	LA-09	Average hours of training per year per employee	13, 95	G	☑	CC
	Q	LA-16	Description of programs to support the continued employability of employees and to manage career endings	88, 93, 94, 97, 98, 101	G	☑	QI
	Q	LA-17	Policies for skills management or for lifelong learning	95, 96, 100	G	☑	PS
<b>DIVERSITY AND OPPORTUNITY</b>							
•	Q	LA-10	Description of equal opportunity policies or programs	31, 100, 105	G	☑	PM, QI
•	C	LA-11	Composition of senior management (diversity)	105	G	☑	CC
<b>HUMAN RIGHTS</b>							
<b>STRATEGY AND MANAGEMENT</b>							
•	Q	HR-01	Description of policies, guidelines, corporate structure, and procedures to deal with human rights relevant to operations	100, 31	G	☑	PM
•	Q	HR-02	Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers	31, 100, 185	G	☑	PM, FP
•	Q	HR-03	Policies and procedures to evaluate human rights performance within the supply chain and contractors	31, 100, 185	G	☑	PS

Legend: Deloitte Letter (page 199)

(3) Only data on accidents have been reported and verified

TF 03	TYPE IND.	GRI	DESCRIPTION OF INDICATOR	PAGES OF REPORT	SCOPE	SCOPE OF VERIFICATION	VERIFICATION PROCEDURE
	Q	HR-08	Employee training on practices concerning human rights	ND			
<b>NON-DISCRIMINATION</b>							
•	Q	HR-04	Global policy and procedures/programs preventing all forms of discrimination in operations	131-140, 150-152, 183	G	☑	PS
<b>FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>							
•	Q	HR-05	Freedom of association policy and extent to which it is applied	31, 100-103	G	☑	PM, PS
<b>CHILD LABOR</b>							
•	Q	HR-06	Description of policy excluding child labor	31, 100, 103, 104	G	☑	PM, PS, FP
<b>FORCED AND COMPULSORY LABOR</b>							
•	Q	HR-07	Description of policy to prevent forced and compulsory labor	31, 100, 103	G	☑	PM
<b>OTHER MATTERS IN RELATION TO HUMAN RIGHTS</b>							
	Q	HR-09	Appeal practices, including human rights issues	ND			
	Q	HR-10	Non-retaliation policy and confidential employee grievance system	ND			
	Q	HR-11	Human rights training for security personnel	101	G	✓ (E)	QI
	Q	HR-12	Description of policies, guidelines, and procedures to address the needs of indigenous people	131-140	G	☑	QI
	Q	HR-13	Description of jointly managed community grievance mechanisms/authority	ND			
	C	HR-14	Share of operating revenues from the area of operations that are redistributed to local communities	194, 195	G	☑	CE
<b>SOCIETY</b>							
<b>COMMUNITY</b>							
•	Q	SO-01	Description of policies to manage impacts on communities	75	G	☑	PS
•	Q	SO-04	Awards received relevant to social, ethical, and environmental performance	23-25	G	☑	FP
<b>BRIBERY AND CORRUPTION</b>							
•	Q	SO-02	Description of the policy, management systems, and compliance mechanisms for addressing bribery and corruption	183	G	✓ (A) (4)	PS
<b>POLITICAL CONTRIBUTIONS</b>							
•	Q	SO-03	Policy and compliance mechanisms for managing political lobbying and contributions	206	G	✓ (A) (5)	PS
	C	SO-05	Amount of money paid to political parties and institutions	ND			
<b>COMPETITION AND PRICING</b>							
•	Q	SO-06	Court decisions regarding cases pertaining to monopoly regulations	68, 70	G	☑	MV
•	Q	SO-07	Policy and compliance mechanisms for preventing anti-competitive behavior	68	G	☑	QI
<b>PRODUCT RESPONSIBILITY</b>							
<b>CONSUMER HEALTH AND SAFETY</b>							
•	Q	PR-01	Description of policy for preserving customer health and safety during use of products and services	70-75, 177-179	G	☑	PS, FP, CC
	Q	PR-04	Number and type of instances of non-compliance with regulations concerning customer health and safety, including penalties and fine	177, 179	TMV	☑	PS
	C	PR-05	Number of complaints upheld by official regulatory bodies relating to the health and safety of products and services	70	G	☑	MV
	Q	PR-06	Voluntary code compliance, product labels or awards received with respect to social and/or environmental responsibility	66, 67	G	☑	QI
<b>PRODUCTS AND SERVICES</b>							
•	Q	PR-02	Policies related to product information and labeling	66-69, 74, 75	G	☑	QI, FP
	C	PR-07	Instances of non-compliance with regulations concerning product information and labeling, including any penalties or fines assessed for these breaches	68, 70	G	☑	MV
	Q	PR-08	Policy, management systems and mechanisms related to customer satisfaction, including results of surveys measuring customer satisfaction	50-54	G	☑	PS, QI
<b>RESPECT FOR PRIVACY</b>							
•	Q	PR-03	Policy and compliance mechanisms for consumer privacy	70-74	G	☑	PS, QI
	C	PR-11	Number of substantiated complaints regarding breaches of consumer privacy	71	G	☑	AJ
<b>ADVERTISING</b>							
	Q	PR-09	Policies and compliance mechanisms for adherence to standards and voluntary codes related to advertising	66, 67	G	✓ (P)	FP, PS
	C	PR-10	Number and types of breaches of advertising and marketing regulations	70	G	☑	MV

(4) The policies described refer exclusively to the acquisition of products and services

(5) Only the Payments Rule of the corporate control standards has been verified



TABLE 3: GRI TELECOMMUNICATIONS SECTOR-SPECIFIC INDICATORS							
TF 03	TYPE IND.	GRI	DESCRIPTION OF INDICATOR	PAGES OF REPORT	SCOPE	SCOPE OF VERIFICATION	VERIFICATION PROCEDURE
<b>INTERNAL OPERATIONS</b>							
<b>INVESTMENT</b>							
•	C	IO-01	Investment in telecommunication network infrastructure by country/region	118,121	G	☑	CA
•	C	IO-02	Net costs under the Universal Service Obligation	131	G	☑	CC
<b>HEALTH AND SAFETY</b>							
•	Q	IO-03	Practices to ensure health and safety of personnel involved in the installation and maintenance of masts, base stations, laying cables and other outside plant	111	G	☑	PS
•	Q	IO-04	Compliance with ICNIRP standards on exposure to radiofrequency emissions from handsets	178	TMV	☑	FP
•	Q	IO-05	Compliance with ICNIRP guidelines on exposure to radiofrequency emissions from base stations	177-179	TMV,TSP	☑	QI,PS
•	Q	IO-06	Policies and practices with respect to Specific Absorption Rate (SAR) of handsets	178	TMV	☑	FP
<b>INFRASTRUCTURE</b>							
•	Q	IO-07	Description of policies and practices on the siting of masts including stakeholder consultation, site sharing, and initiatives to reduce visual impacts	167-169	TMV	✓(A) (1)	PS,QI
•	C	IO-08	Number and percentage of shared sites and sites on existing structures	ND			
<b>PROVIDING SERVICES</b>							
<b>ACCESS TO TELECOMMUNICATION SERVICES: BRIDGING THE DIGITAL DIVIDE</b>							
•	Q	PA-01	Policies to enable the deployment of telecommunications infrastructure and access to products and services in remote and low population density areas	131-134	G	☑	PS
•	Q	PA-02	Policies and practices to overcome barriers for access to services including: language, culture, lack of education, income, disabilities, and age	134,139,150-152	G	☑	PS,FP
•	Q	PA-03	Policies and practices to ensure availability and reliability of telecommunications products and services and quantify, where possible, for specific time periods and locations of down time.	56-58	G	☑	PS,QI
•	C	PA-04	Quantify the level of availability of telecommunications services in areas where the organization operates	11,133,135	G	☑	CC
•	C	PA-05	Types of telecommunication services provided to and used by low income sectors of the population	134	G	☑	QI
•	Q	PA-06	Programs to provide and maintain telecommunication services in emergency situations	130	G	☑	PS
<b>ACCESS TO CONTENT</b>							
•	Q	PA-07	Policies to manage human rights issues relating to access and use of telecommunications	72-73	G	☑	PS
<b>CUSTOMER RELATIONS</b>							
•	Q	PA-08	Policies and practices to publicly communicate on EMF related issues	75	G	☑	FP
	C	PA-09	Total amount invested in research activities in electromagnetic field and health	ND			
•	Q	PA-10	Initiatives to ensure clarity of charges and tariffs	67-69	G	✓(A) (2)	FP
•	Q	PA-11	Initiatives to inform customers about responsible, efficient, cost effective, and environmentally preferable use of products	173-174	TMV	☑	FP,PS
<b>TECHNOLOGY APPLICATIONS</b>							
<b>RESOURCE EFFICIENCY</b>							
•	Q	TA-01	Example of the resource efficiency of telecommunication services	179	G	☑	PS
•	Q	TA-02	Telecommunication services with the potential to replace physical objects	179	G	☑	PS
•	C	TA-03	Measures of changes of customer use of the telecommunication services listed above	179	TID	☑	PS
	Q	TA-04	Estimates of the rebound effect of customer use of products and services, and lessons learned for future development	ND			
•	Q	TA-05	Practices relating to intellectual property rights and open source technologies	74	TMV,TER	✓(E) (3)	FP

Legend: Deloitte Letter (page 199)

\* TF03: Highlighting the indicators that are detailed in the 2003 Corporate Responsibility Annual Report of Telefónica, S.A.

\*\* Type of indicator - C: Quantitative Indicator Q: Qualitative Indicator

(1) No information is provided on stakeholder consultations relating to the aspects required by the indicator

(2) Information is only provided on billing initiatives

(3) No information is provided on open source technologies



## UNITED NATIONS GLOBAL COMPACT COMMUNICATION ON PROGRESS CHART

Telefónica signed the Global Compact Principles in 2002. Since then, the Company has reported each year on its commitment to uphold this initiative, on the application of its 10 Principles, as well as providing an assessment of the results obtained in the policies applied to ensure its fulfilment.

In 2004, the United Nations Global Compact Office published what are known as the Integrity Measures. These Measures endeavour to preserve the credibility of the initiative and its signatory companies. Thus, companies that have subscribed the 10 Principles of the Global Compact are asked to publish a "Communication on Progress", that is, to report to their stakeholders on progress in implementing the aforementioned Principles in their business strategies through their Annual Reports, websites or other media.

The Communications on Progress should include the following three elements:

- A statement of continued support for the Global Compact in the opening letter, statement or message from the Chief Executive Officer, Chairman or other senior executive.

### Letter from the Chairman

- A description of practical actions that participants have taken to implement the Global Compact principles during the previous fiscal year.
- A measurement of outcomes or expected outcomes using, as much as possible, indicators or metrics such as those developed by the Global Reporting Initiative.

TABLE 4: COMMUNICATION ON PROGRESS - UNITED NATIONS GLOBAL COMPACT

GC PRINCIPLE	INDICATOR / GRI (*)	CHAPTER / SECTION	PROGRESS IN 2004
Human Rights Principles 1-2	HR1, HR2, HR3, HR4	06 Employees <ul style="list-style-type: none"> <li>• 06.04 Exemplary Conduct</li> </ul> 07 Society <ul style="list-style-type: none"> <li>• 07.05 Driving equality</li> <li>• 07.03 Driving digital inclusion</li> </ul> 09 Suppliers <ul style="list-style-type: none"> <li>• 09.02 Objectivity, transparency and equal opportunities</li> <li>• 09.04 Sustainable Development of Society</li> </ul>	<ul style="list-style-type: none"> <li>• Labour Audit</li> <li>• Actions to ensure equal opportunities</li> <li>• Integral Plan for the disabled <i>Accessible Telefónica</i></li> <li>• Training of SME suppliers (Argentina)</li> <li>• More services addressed at lower-income segments</li> <li>• New responsibility criteria applied in hiring conditions</li> </ul>
Workplace and Labour Rights Principles 3-6	HR5, HR6, HR7, LA3, LA4, LA10, LA11	06 Employees <ul style="list-style-type: none"> <li>• 06.01 Clarity</li> </ul> 06 Empleados <ul style="list-style-type: none"> <li>• 06.04 Exemplary Conduct</li> </ul>	<ul style="list-style-type: none"> <li>• average of 48% of women in the workforce</li> <li>• 22,3% women in senior and middle management positions</li> <li>• Labour audit</li> </ul>
Environment Principles 7-9	EN1, EN2, EN3, EN4, EN5, EN6, EN7, EN8, EN9, EN10, EN11, EN12, EN13, EN14, EN15, EN16, EN17 1.1- Governance Structure and Management Systems 3.13- Vision and Strategy	08 Environment	<ul style="list-style-type: none"> <li>• Minimum Environmental Requirements</li> <li>• 27 reporting companies (5 en 2003)</li> </ul>
Anti-corruption Principle 10	SO2	02. Intangible Assets <ul style="list-style-type: none"> <li>• 02.03 Corporate Responsibility</li> </ul>	<ul style="list-style-type: none"> <li>• Telefónica Móviles Code of Ethics</li> </ul>



# Some details on the 2004 Telefónica Corporate Responsibility Report

This document contains the commitments, actions and data of the Telefónica Group as a whole during 2004 in relation to its commitments to responsible Corporate Governance, efficient management of its intangible assets and its relations with customers, shareholders, employees, society, the environment, suppliers and the media.

As in previous editions, the 2004 Corporate Responsibility Report is based on the GRI (Global Reporting Initiative), through its general Guidelines as well as the Telecommunications Sector Supplement. It also aims to respond to all the information needs of the Socially Responsible Investment community.

The report includes information on all the main indicators in the Annual Report, except for the SO-03, which refers to policies and procedures for payments to political parties. Telefónica's Payment Regulations (NCC-002), of mandatory application throughout the entire Group, prohibit this type of payment and clearly define acceptable purpose of such payments as well as the formalities that must be complied with. None of the data in the Audit and Inspection reports drawn up in the different areas of the Group shows the existence of any such payment to political parties, bribes or whatsoever type of payment to persons or companies that act as intermediaries in payments to political parties or candidates.

The scope of consolidation in this report is substantially wider than that of previous financial years, due to the consolidation of data reporting and managing processes. The 2004 Report includes information regarding the responsible conduct of the fixed and mobile telephony operators controlled by Telefónica. Moreover, the information is extended in those cases where the conduct of other subsidiaries is deemed relevant. This is the case of Telefónica I+D in the information on innovation, Atento with respect to employees, the Telefónica Foundation regarding society and T-gestiona in relation to the environment.

Telefónica's Corporate Responsibility Reporting Scheme was reinforced during the 2004 financial year by the following circumstances:

- Collation by an external, independent verifier has contributed to guaranteeing greater accuracy in the information furnished.
- Consolidation of the reports on business lines in other listed Group companies, such as Telefónica Móviles, Terra and TPI.
- Extension of the methodology for preparing the local reports to Brazil, Argentina, Chile and Peru, confirming Telefónica's commitment to the development of corporate responsibility in those countries.
- The use of a corporate responsibility Integrated Information System, which has allowed consolidation of the work done in corporate responsibility by Group companies globally, locally and by business lines.
- Maintenance of a database containing all the news that relates Telefónica to its stakeholders from the viewpoint of commitment and responsibility.

This report, along with the complementary communications of the Telefónica Group on matters of corporate responsibility may be consulted online through the specialised section at the following website [www.telefonica.es/responsabilidadcorporativa](http://www.telefonica.es/responsabilidadcorporativa).

## Legal Disclaimer

The information published on this page was obtained from internal Telefónica Group sources, and thus must be considered for purely informative purposes. The data mentioned may be affected by subsequent events or evolutionary effects, which therefore may alter the content.

Verification by Deloitte & Touche of the GRI indicators included on this page is included on the preceding pages.

## CASE STUDY

## SURVEY OF PUBLIC OPINION ON THE 2003 ANNUAL REPORT ON CORPORATE RESPONSIBILITY (11-1)

### Specifications

The 2003 Annual Report on CR was sent to a total of 200 national and international specialists from institutions, companies and NGO's, including consultants, academics and socially responsible investors selected for their expert knowledge. A survey was attached to encourage them to offer suggestions, if they so desired. Of the total, 75% responded, indicating their relationship to the Telefónica Group (more than one profile may be applied).

### PARTICIPANT PROFILE

*(Data in percentage)*

Customer	60
Company	33
Shareholder	20
Public Administration	20
Member of NGO	20
Employee	13
Institutional Investor	13
Supplier	13
Media	13
Responsible Investor	7

### Main Conclusions

The overall evaluation of the experts who made suggestions was highly positive in general. The most highly valued aspects (7.1 out of 10) refer to the focus of the report (coherency, length, content, clarity) while those referring to the Group (trust, commitments, driver of development and response to stakeholders) were the least valued (6.1 out of 10).

Data (interest and credibility) and the structure of the report (topics and clarity) were situated between these two results.

### AVERAGE DEGREE OF AGREEMENT

*(Conversion scale 1-10)*

The Report	6.7
The data	6.6
The focus	7.1
The Group	6.3

### Lines of improvement

Despite the favourable nature of the assessments received, experts have recommended the following lines of improvement:

- Consolidate the data for all the Group activities
- Indicate the criteria for selection of suppliers
- Greater inter-annual comparison of data to better perceive its evolution
- Independent verification of the data included in the report.

The majority of these suggestions have been included in the present report. The presence of open questions on the survey to encourage qualitative comments, the majority of which were very valuable, has allowed us to go beyond the merely statistical nature of the report and thus pave the way for future improvements.

## CORPORATE DEPARTMENTS THAT COLLABORATED WITH THE PREPARATION OF THE DATA

Chapter	Areas Involved
01 Corporate Governance	Secretariat General
02 Intangible Assets	Human Resources/ Communication (Brand, Reputation and Corporate Social Responsibility) / Industrial Relations (Sponsorships, Forums and Conferences, Corporate Relations)
03 Innovation	Technology and Knowledge Management / Telefónica I+D / Organization and Information Systems
04 Customers	Corporate Marketing / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Secretariat General / Communication (Online Communication, Advertising, Media) / Data Security
05 Shareholders	Shareholders' Office / Investor Relations
06 Employees	Corporate Human Resources / Human Resources departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Communication health and Safety / Telefónica Foundation / ATAM
07 Society	Marketing of main business lines (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles, Atento) / Institutional Relations / Regulation / Investor Relations / Finance (Consolidation, Capital Markets) / Management Planning and Control / Corporate Reputation and Social Responsibility / Telefónica Foundation / ATAM
08 The Environment	Internal Audit/ Corporate Reputation and Social Responsibility / Environmental departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Audit
10 Media	Communication
11 You come first	Finance (Consolidation, Capital Markets) / Management Planning and Control
Coordination / Information System	Reputation, Brand and Corporate Social Responsibility (D.G. of Corporate Communications)

**Telefonica, S.A.**

Corporate Responsibility Annual Report 2004

This annual report is available on the Telefónica web site on the internet: [www.telefonica.es](http://www.telefonica.es)

Shareholders may also request copies of this report from the **Shareholders' Office** on the toll free telephone 900 111 004 (in Spain), or by electronic mail at: [accion.telefonica@telefonica.es](mailto:accion.telefonica@telefonica.es)

The information required by the laws in force is also available to shareholders and the public at large.

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Directorate General of Corporate Communication of Telefónica, S.A.  
Subdirector General of Reputation, Brand and Corporate Social Responsibility

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