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Telefonica



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Safe harbour

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Purchasing: An efficiency lever for the Telefónica Group

Key messages

Purchasing is one of the key levers for the Telefónica Group to increase efficiency

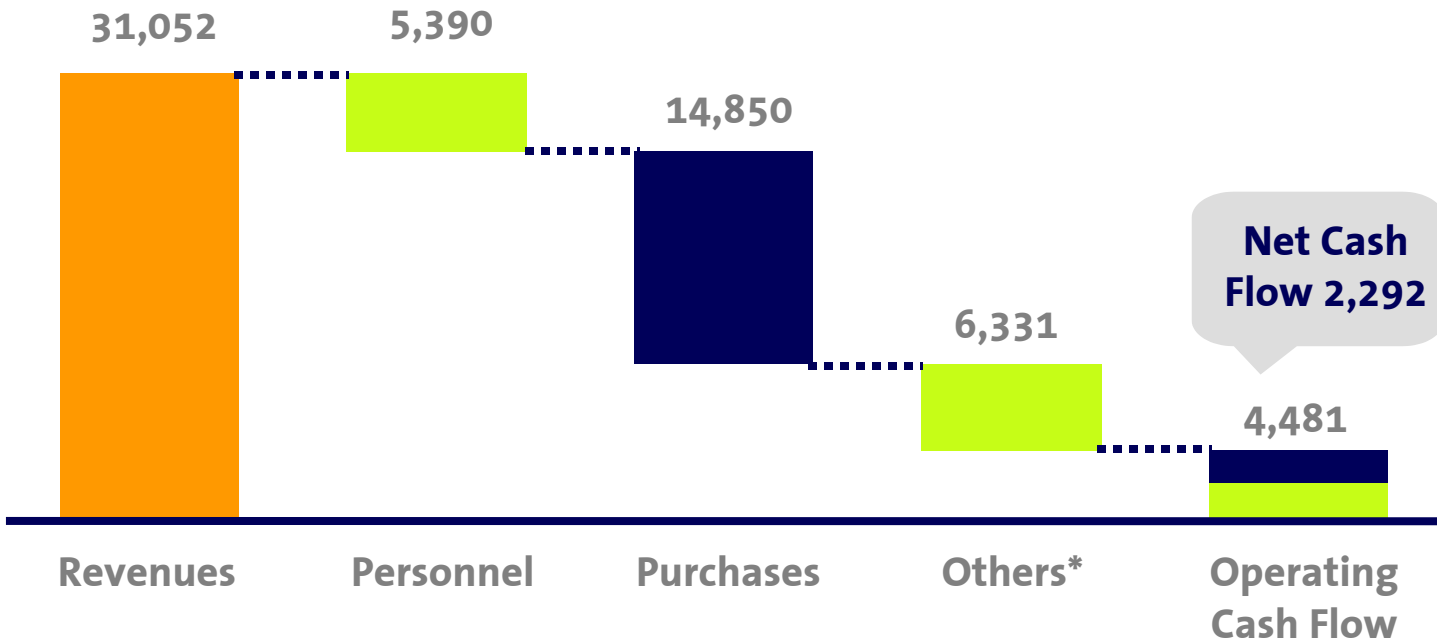
Telefónica has implemented a Group integrated management model: the Advanced Purchasing System (APS)

APS was launched in 1998. Today it's consolidated almost in the whole Telefónica Group

In addition to the significant savings derived, there is still room for improvement in APS implementation

Purchasing is at the heart of Telefónica's efficiency effort

Year 2001. Million euros



High potential impact: 1% in purchasing costs reduction translates into a 6% improvement in net cash flow

* Basically interconnection fees, audiovisual contents, legal and financial products and services

We have developed a Group integrated management model...

Key principles

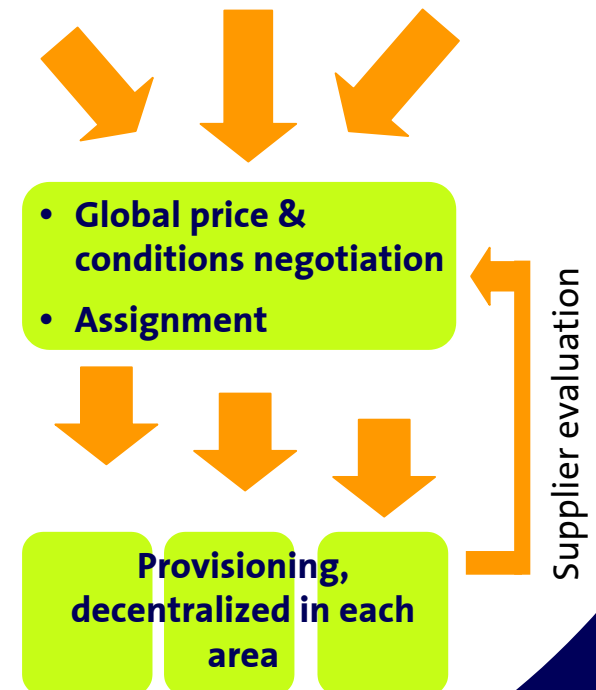
- Aggregate all group purchases by category
- Professionalize and develop specialized “purchasers”
- Balance centralization synergies & execution flexibility

To radically change the buying concept:

From multiple buyers in all areas and companies



To a single global purchaser

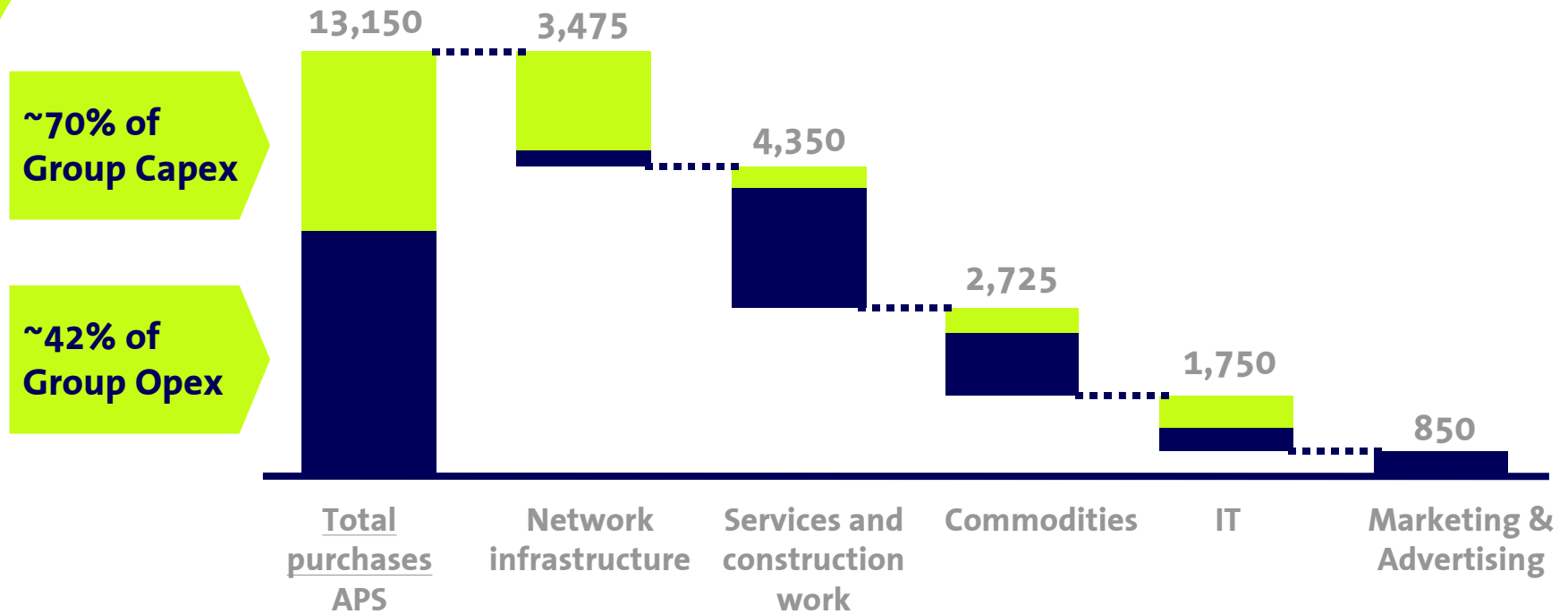


The Advanced Purchasing System (APS)



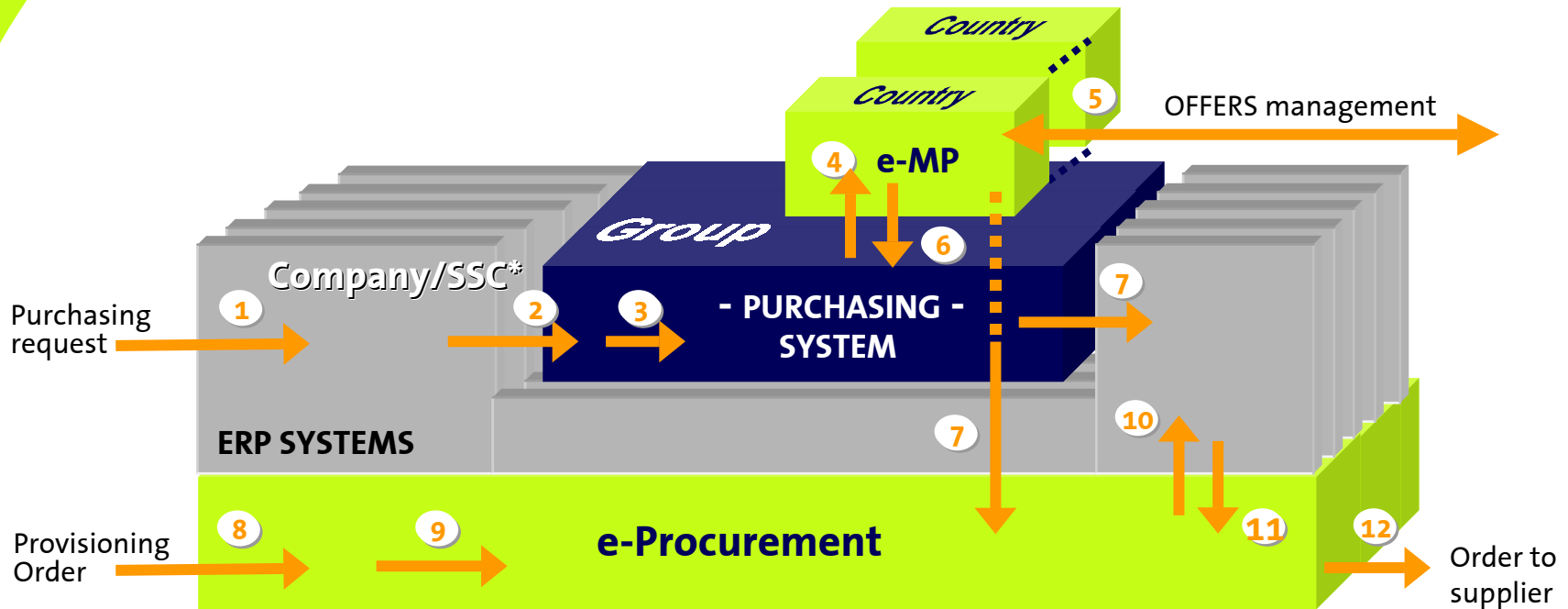
... which supports purchasing for a wide range of products and services*

Total APS purchases, year 2001. Million euros



APS is supporting more than 85% of Telefónica's total purchasing

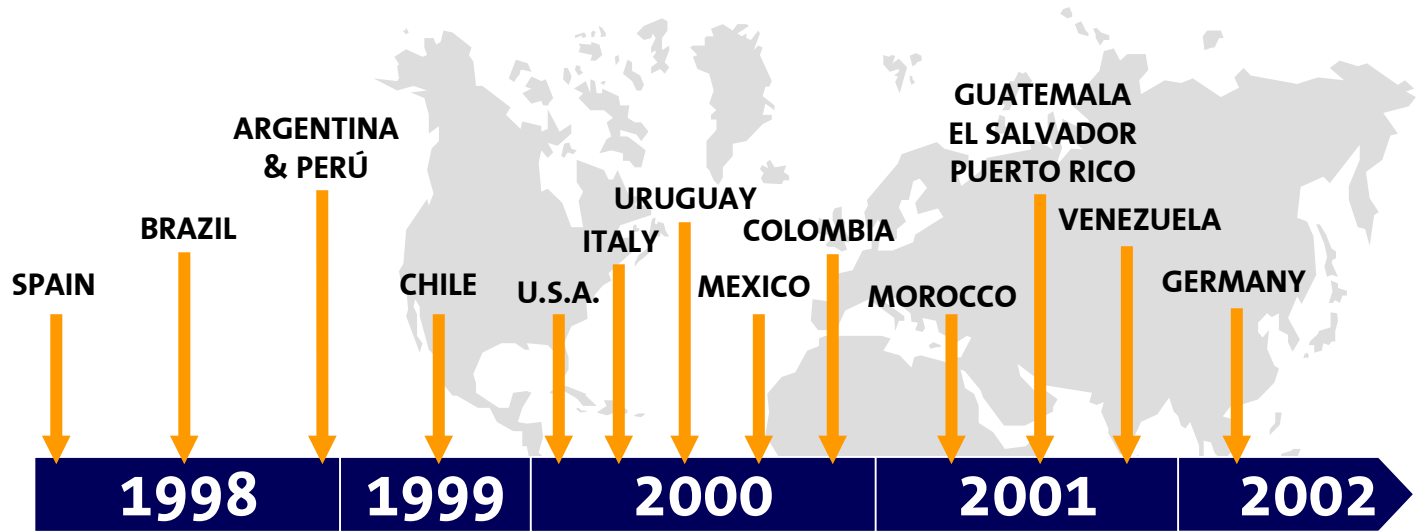
... and has been built over an integrated system to optimize capabilities



- E-Marketplace will support up to 40% of common purchases managing offers and allowing an on-line bidding system
- E-Procurement will support up to 20% of products and services purchases which are able to be included in a catalog

Launched in 1998, APS has been extended to most of the Group companies...

Integration of Companies (by Country)



Number of Companies



- Gradual introduction of Group companies
 - Gain credibility
 - Manage complexity
- Quick incorporation of new companies

... and has shown a significant impact since then

Consolidating the system...

- **A solid internal platform of capabilities**
- **A competitive suppliers base:**
 - **Helping them to identify and reduce inefficiencies**
 - **Achieving medium and long term agreements**
 - **Implementing a quality standardization system**
- **An exhaustive control system**
 - **Linking budget and purchases**
 - **Identifying and pursuing saving opportunities**
- **Aligned technologies through standard specifications**

... to achieve strong savings:

- **15%-25% in 1st year of integration for each Company**
- **More than 5% in following years**

But there is still room for improvement in APS implementation

Width, increasing APS coverage

Roll-out APS to consolidate the remaining 10-15% of volume

Agreements with new partners to increase purchasing volume and take advantage of synergies

Depth, developing APS key elements

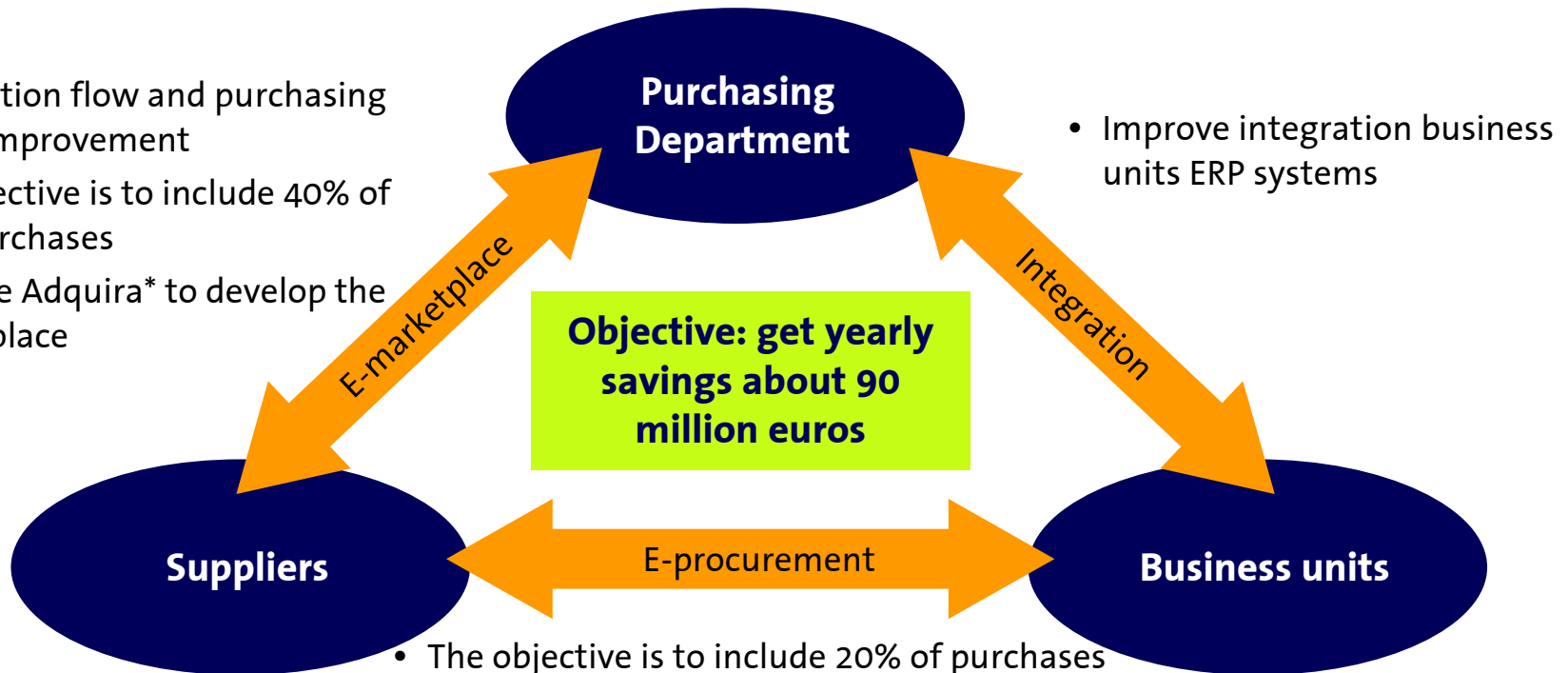
Develop APS tools and processes

Intensify the use of e-technologies

Reduce inventories and fixed assets via standardization

In 2002 we will focus APS development on three axes: first, intensify the use of e-technologies...

- Information flow and purchasing agility improvement
- The objective is to include 40% of total purchases
- Leverage Adqira* to develop the marketplace



- Improve integration business units ERP systems

- The objective is to include 20% of purchases in 2003 (all products and services which are able to be included in a Catalog)
- From this catalog, SBUs will be able to make orders, selecting items previously negotiated by APS
- Allows internal workload reduction

* Adqira is a BBVA, Iberia, Repsol-YPF and Telefónica marketplace partnership.

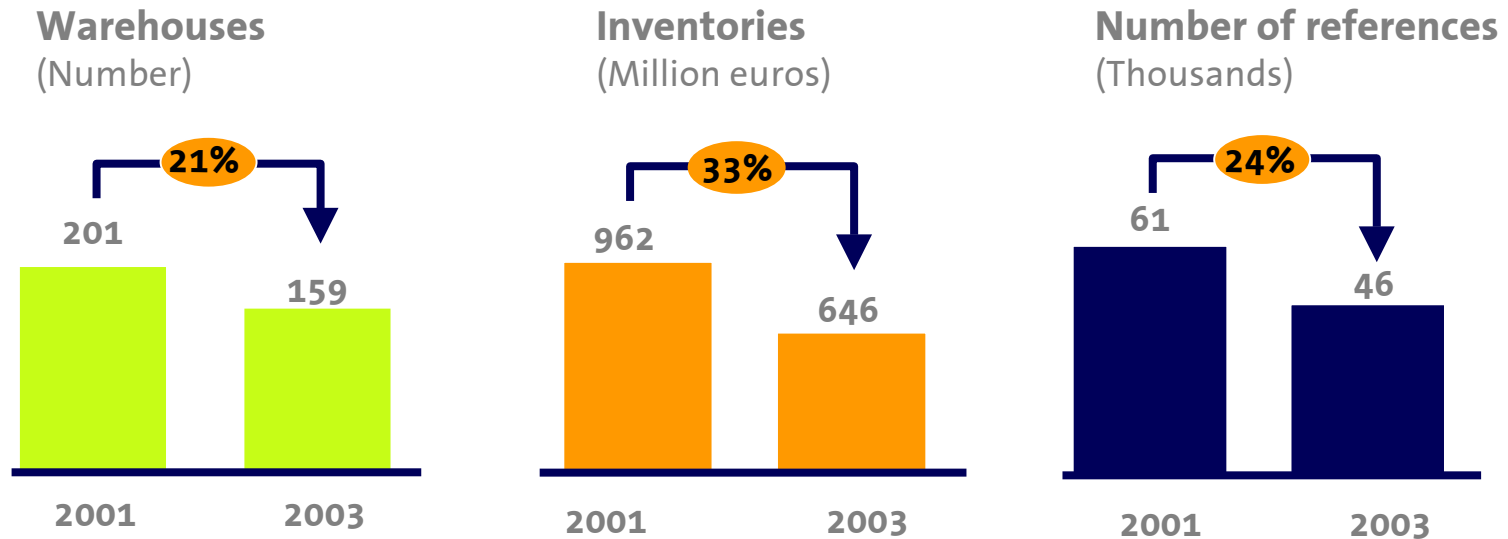
... second, develop APS tools and processes ...

- Knowledge management systems
- Strengthening of advanced purchasing tools usage
- Efficiency improvement



- Supplier development plan:
 - Implement continuous improvement processes
 - “Telefónica’s Suppliers Club”
- Process reengineering for Companies and outsourcing
 - suppliers relation in the fixed telephone network
- Supplier management by SLA’s
 - Responsibility is on the supplier’s side. Motivation for improvement
 - Setting terms using benchmarking

... and third, work with suppliers and logistic areas to reduce inventories and fixed assets



The objective is to achieve with this lever a global savings of NPV 210 million euros

In summary:

- **Telefónica has already implemented a single purchasing process which is**
 - **one of the key structuring drivers for the Group**
 - **A solid contributor to efficiency improvement**

- **We have a commitment to continuously improving purchasing by the introduction of new technologies and the development of new tools and processes in APS**

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