

Employees: Clarity and professional development

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Description of the workforce

Generation of employment

Workplace environment

Internal communication

Involvement of employees

The management of personnel is one of the key values in the new Telefónica culture. Thus, within the five strategic axes of the transformation process, an axis has been defined aimed at strengthening leadership and the commitment of professionals to Telefónica.



Description of the workforce

Telefónica closed the 2005 financial year with a physical workforce of 207,641 professionals, meaning an increase of 19% over the previous year. The most significant changes to affect the workforce during the financial year are the following:

- **Purchase or creation of new companies:** the workforce increased as a result of the creation of Edinet Europa and Edinet America and TPI Direct in the Directorio Group, the purchase of the company Azeler Automoción and Terra Business Travel and the creation of Terra Asociadas, and the purchase of Cesky Telecom and the creation of Sociedad de Cobros in Brazil by T Gestiona.
- **Closure of companies:** The businesses affected are Terra (Lycos Group, Terra Latam, One Travel and Caribe), Telefónica UK, T Gestiona Mexico, Lola Films and T. Short in Contenidos .
- **Change in the workforce:** due to an increase in the workforce of Atento and an increase in the average workforce for Bell South operators in the mobiles business.
- **Continuity of the Employee redundancy plan in Telefónica de España,** approved by the Department of Employment of the Employment and Social Affairs Ministry. The plan is governed by voluntary principles and those of non discrimination, affecting 15,000 employees. During 2005, a total of 1,945 employees had requested access, added to the 7,906 requests for separation accumulated up to 2004.

The outsourced workforce of Telefónica in Spain was estimated at 33,000 persons at December 2005, 25,000 of them corresponding to Telefónica de España and the rest to Telefónica Móviles España. This data was estimated according to the contractual volume of services to third parties.

The main characteristics of the Telefónica Group workforce throughout the world are as follows:

- 85.4% of the equivalent workforce has a fixed or indefinite contract (86% in 2004). The remaining amount is distributed among employees with temporary contracts (13.6%) and interns (0.9%)
- The employee hierarchy rate stands at 4.3% (4.2% in 2004). This indicator is the percentage which represents senior management, administration and middle managers over the total staff.
- The distribution of the Telefónica workforce by functions, without taking into account the Atento workforce, indicates that 37.2% is engaged in sales functions (33.2% in 2004), 48.3% to production functions and 14.4% to support functions. Of note is the increase in the sales workforce for the second year running.
- 47% of the workforce of the Telefónica is made up of women (48% in 2004), in particular Atento, with 66% of the workforce made up of women, and Contenidos with just 7%.
- The average employee seniority for the Telefónica workforce is 7.3 years (8 years in 2004), the average age being 32.7 years.

Physical workforce of the telefónica group¹

by country	2003	2004	2005
Spain	58,189	59,978	60,405
Europe	-	4,322	14,326
Czech Rep.	-	-	10,051
Netherlands	-	3,789	3,789
Germany	-	533	480
Luxemburg	-	3	3
Switzerland	-	3	3
Latin America	80,041	94,204	131,968
Argentina	14,100	15,177	18,856
Brazil	42,496	51,741	63,743
Chile	8,795	10,060	12,375
Peru	9,422	10,733	11,548
Mexico	5,228	6,493	8,506
Colombia	-	-	4,487
Venezuela	-	-	5,983
US	-	-	1,166
Uruguay	-	-	536
Ecuador	-	-	747
Panamá	-	-	601
Nicaragua	-	-	285
Central America	-	-	3,135
Morocco	-	1,075	942
Other countries	10,058	13,469	-
Telefónica	148,288	173,554	207,641

By business	2003	2004	2005
Fixed spain	38,464	36,425	35,053
Fixed latin america	25,762	25,905	28,856
Terra	2,229	1,584	-
Telefónica Móviles	13,093	19,797	22,739
Directories	2,787	2,876	2,942
Content. and Media	4,638	5,860	5,734
Atento	54,394	74,829	95,907
Cesky Telecom	-	-	10,051
Others	6,921	6,278	6,359
Telefónica	148,288	173,554	207,641

¹Physical workforce: number of employees who work in the company
Equivalent workforce: number of employees proportional to the number of hours

Characteristics of the Telefónica workforce

	Type of contract %			hierarchy %	Function %			Experience		Diversity Women
	Fixed	Temp	Interns		Sales	Operations	Support	Seniority	Average age	
Fixed - Spain	98.5	1.0	0.6	3.3	31.4	56.5	12.1	18.7	42.3	27.4
Fixed business -latam	95.9	2.0	2.0	6.5	33.9	53.5	12.6	13.5	39.7	28.3
Mobiles	96.9	1.1	2.0	10.5	56.2	25.6	18.1	5.0	30.0	40.5
Content and Media	98.3	1.6	0.1	5.4	12.0	72.8	15.2	3.5	38.7	7.7
Directories	91.8	5.9	2.3	7.9	73.7	11.4	14.9	8.3	38.5	43.9
Atento	71.4	28.5	0.1	1.4	0.2	98.5	1.3	1.5	27.1	66.3
T-Gestiona	94.2	1.1	4.7	7.4	1.0	93.6	5.4	8.3	25.8	26.2
Çesky Telekom	95.2	4.8	0.0	5.3	38.8	49.0	12.2	12.2	37.8	34.4
Others	84.1	6.9	8.9	18.0	9.9	52.4	37.7	4.9	28.9	47.2

Generation of employment

The companies of the Telefónica Group (excluding Atento) hired more than 10,000 employees during the 2005 financial year, of which 10% were from the Telefónica Group itself. In relation to redundancy, 50% was forced and another 50% voluntary.

Within this personnel rotation, there were more than 1,600 intra-group movements: employees which left one company and joined others within the Telefónica Group.

The Telefónica Group has launched numerous programs for the inclusion of young people into its workforce or the employment market in general.

- Telefónica de España and the Fundación SEPI, as part of the 2005 internship program, offered 52 internships to young people qualified in Professional Training in the specialities of Telecommunications systems and IT, Sales and Marketing Management, Administration and Finances and Administration of IT systems. This period of internships, over a long period of time, is integrated into employment creation processes associated with the Social Plan of the Employee redundancy plan, as it is predicted that in 2006, a large amount of those selected will join Telefónica. One of the aims of this incorporation is to boost customer attention centres in the Business and Professionals Segment.

Hiring and firing by business

	Hiring			Firing			Change of perimeter
	Total	External	Company	Total	Forced	voluntary	
Fixed Spain	934	725	209	2,710	2,000	710	-
Latam business	3,541	3,154	387	2,128	1,035	1,093	211
Telefónica móviles	3,427	3,231	196	3,410	1,361	2,049	886
Directories	788	633	155	710	248	462	-
Content and Media	226	225	1	212	81	131	152
Cesky business	44	44	0	179	0	179	10,186
T gestiona business	312	283	29	253	164	89	157
Others	807	757	50	671	162	509	95
Total Telefonica (excluding Atento)	10,079	9,052	1,027	10,273	5,051	5,222	13,203

External hiring: people who had no relationship with Telefónica

Company hiring: personnel who had a prior link with Telefónica (temporary, internships)

Forced redundancies equivalent to incented redundancies (firing, incented redundancies and application of Employee redundancy plans)

Joining and departure of companies equivalent to the impact of the change in perimeter of the workforce, with the significant impact of the acquisition of Cesky Telecom in this section.

- Telefónica de España has implemented a new Employment Creation process to incorporate people from outside the company as Diploma Level Sales persons. These new incorporations associated with the social plan of the ERF are framed within the Sales Motivation Model for the Meta:Cliente program.
- Telefónica CTC Chile and Fundación Telefónica Chile have developed a program of employment skills and the use of new technologies with the aim of contributing to the insertion of young people into the workplace, in conditions of equality of opportunity to create productive and quality jobs. The beneficiaries - men and women between 18 and 30 years old - will carry out their professional practice under the company's employment skills model or in different contracting companies. Training activities will be for approximately four to six months.
- The Telefónica Group in Argentina launched its First Program of Telefónica Internships For Argentinean Universities, whose aim is to encourage links between the academic and corporate sectors, supporting advanced students in degree courses, graduates commencing post graduate studies and professionals who, in the context of technical specialities, are specialising in Communications Law. The program has a budget of 1,300,000 pesos, and will benefit 72 students in the fourth year of their degree courses, 54 graduates starting their masters and 30 Legal professionals, all with technical orientations. It will take place from 2005 to 2007.

CASE STUDY

Contribution of Atento to generation of employment

In 2005, Atento Group, a company made up of people working in the service of people, again showed its capacity to generate employment. At the end of the financial year, the organisation had 96,000 employees, 28 percent more than in the previous year.

This ability to create jobs and thus continue the development of the company has been of great value in the 12 countries where the Group is present:

- Atento Brasil was recognised by the economic publication Exame as the third private company in the country in terms of employment generation;
- in Peru it was awarded the distinction as one of the 15 "Great Places to Work", with the best employment environment, and
- In Puerto Rico, the town of Caguas gave Atento several awards in this area: best employer, best newcomer and best company for hiring unemployed or displaced persons.

In other areas, Atento is characterised as being a company which offers equality of opportunity to groups which have traditionally had problems accessing the labour market.

- In 2005, Atento continued to hire young people in its workforce (the average age of the workforce standing at 27 years), encouraging their access to their first job.
- At the same time, aware of their responsibility as an employer, the organisation continued to develop various initiatives to employ disabled persons, of note the Atento Special Employment Centres in Spain.
- Finally, in 2005 Atento encouraged gender equality in the workplace. In fact, 66 percent of Atento employees were women.

Development of workplace environment surveys¹

Data in percentage

	2004	2005
	Overall Sat.	Overall Sat.
Management	73	78
Mid management	63	64
Employees	48	57

¹ Presented on the 29 standardised questions for 2004.

Workplace environment

In the period from November 2005 to February 2006, the second joint workplace environment survey in Telefónica was carried out. This year, as well as the 7 corporate indicators measured in 2004 (clarity of communication, leadership of Immediate Superiors, Confidence in Management, Professional Development, Customer orientation, Internal Collaboration and Perception of the Group), four additional questions were included (increasing the number from 29 to 33) to get a new indicator to measure innovation in Group companies.

66 people participated in the survey (19 more than in 2004) with a participation of 71% (10 points more than in 2004). For 2005, the aim of increasing the Global Satisfaction Index by 5% was set, which was exceeded, increasing by 7.11% (3.91 percentage points, going from 55% to 58.91%). If we consider the 4 values introduced in 2005 (reaching 33 questions), the resulting satisfaction value stands at 58%.

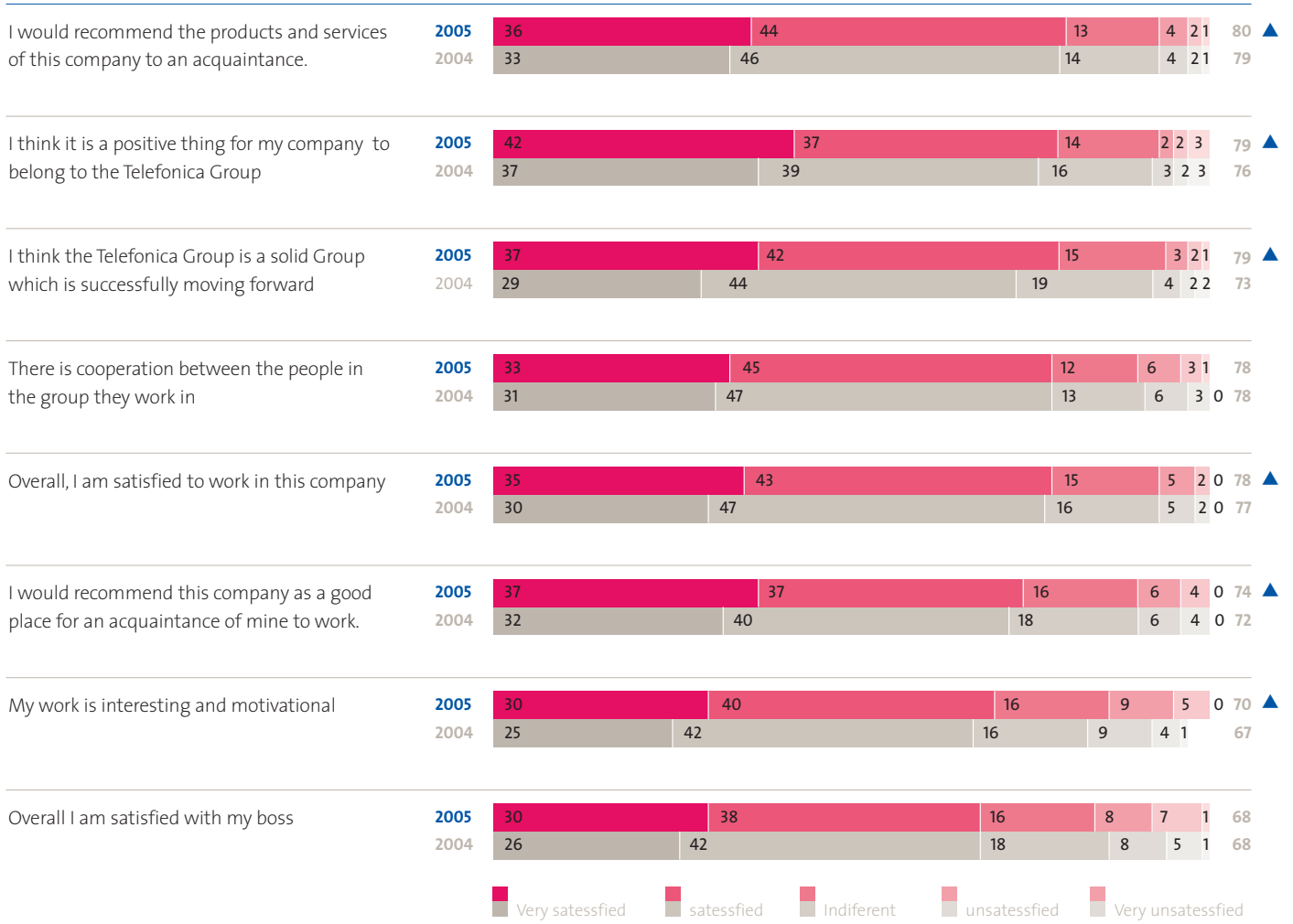
The most important improvement (average increase of 9 points) was seen in the area of perceptions of employees, especially in aspects relating to Clarity of Communication and Confidence in the Management. With this progress, the gap between perceptions of the management and the workforce has lessened. The improvement in management has been seen mainly in areas related to Internal Collaboration and Professional Development.

After the results were notified to all employees, in 2006 design commenced on action plans to improve the workplace environment. The priority lines of action on which the action plans for the improvement of the workplace environment were: Professional Development, Leadership, Innovation and Customer orientation. Our goal is to continue improving to make the objectives set in the strategic plan a reality, making Telefónica the best place to work.

Workplace environment observatory

During 2004 the workplace environment observatory was established, comprising workplace environment representatives from the main Telefónica companies. Its mission is to share and encourage workplace environment improvement initiatives in the Group and, definitively, provide a space for debate and innovation to help improve employee satisfaction and their motivation in terms of the project for the future of Telefónica. The workplace environment observatory started off in Spain and has been repeated in Argentina, Brazil, Chile and Peru.

Most positive questions in workplace environment survey



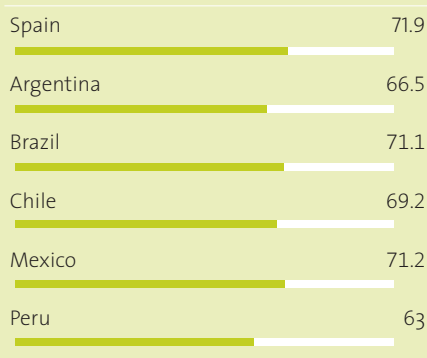
OPINIÓN

What does society think?

Studies on corporate reputation have included the WORK dimension as one of the seven factors making up a person's perception of the company. As a result, for Telefónica not only is it important to find out the opinion of its employees, but also of society. The better the perception of the quality of the workplace environment in Telefónica, the more opportunities human resources representatives will have of attracting the best professional talent for the company.

Results show Telefónica in Spain as the second ranking company in terms of workplace environment, unlike in Latin America, where good results in the workplace environment survey have not been reflected by society as a whole.

Results November - December 2005



Internal Communication



Telefónica's transformation strategy, "Accelerating to strengthen our leadership" developed during 2005, gave communication a key role in said process. In this context, the Internal Communication Master Plan established for 2005 the plan to give the Group a single dynamic which would integrate the requirements and specific needs of the over two hundred thousand employees of Telefónica.

The objective is to encourage their active participation in achieving the company's goals and strengthening its internal cohesion under the message "Accelerating to strengthen our leadership". To do this, specific communication campaigns in the master plan were carried out, also in coordination between the countries, as well as bringing current objectives existing in different business and countries into line with new joint objectives.

Against this backdrop, the action plan carried out in 2005 involved the implementation of numerous initiatives: the creation of teams and new communications dynamics, remodelling of tools and the creation of new channels, the implementation of new personal communication dynamics and the commencement of a communication training plan, both for management and professionals involved in this field.

One of the key initiatives of the plan was the establishment of an Advisory Board for internal country communications in Spain, Brazil, Mexico and Peru. The objectives of this Advisory Board are as follows:

- Coordinating all communication initiatives between business lines/countries and the corporation
- Make corporate policy consistent with internal communications practices in each country
- Design and propose to the Telefónica Group actions which meet the needs and/or specific requirements of each country, in an integrated manner.

In Spain specifically, at the end of 2005 "the Telefónica news" was established as an integrated communication dynamic for all Telefónica employees, with real time updating of information. It is aimed to progressively expand in all countries where Telefónica operates.

Another of the initiatives developed over the year was the launch of the trail version of the "Management Portal", a new channel for Group managers which is aimed at becoming the communication channel par excellence for management.

Notable advances have also been made, throughout 2005, to the new Intranet model, Unica, already in application in district C, with the aim of being progressively implemented in all countries where Telefónica is present. In relation to district C, communication actions were carried out around a "new space for a new way of working".

Employees involvement in the strategy

During the 2005 financial year, employees were involved in the transformation process of Telefónica, under the slogan “Accelerating to strengthen our leadership”. In this respect, both internal communications channels and presentations to directors were aimed at disseminating the five main axes of transformation which have been worked on since 2004. The process of aligning all messages under the slogan “Accelerating to strengthen our leadership” is significant; more specifically the “meta:cliente” program from Telefónica de España and “Customer Commitment” from Telefónica Internacional.

Additionally, during the 2005 financial year, of particular note is the dissemination among directors of the Telefónica Strategic Plan. This activity, lead from the President’s office in collaboration with the Communication department, involved the following aspects in 2005:

- Presentation of the Strategic Map in 34 Management Committees of Group companies, located in 7 countries and involving over 400 directors.
- Training courses for directors on the methodology of Strategic Maps, with over 300 participants in Spain (15 sessions) and 750 in Latin America (35 sessions).
- Cascade communication through specific communication materials, such as triptychs which summarise the Telefónica Strategic Map, its objectives and indicators.
- Publication on Intranet of the Strategic Map portal, which contains the latest news on its progress, with information on indicators.

After this presentation of the Strategic Map, the next step is communicating same to all middle management of the Telefónica Group.

Directors and middle management are the key to communicating strategy to the employees of a company. Communicating and involving employees in a strategy is a task that cannot be carried out with one way communication media, as professionals usually require responses to questions and a detailed explanation of different matters.

CASE STUDY

Sharing knowledge

e-MARCO: Portal for sharing knowledge and Practicing Community methodology, with an active community of Weblogs under way. This is a dynamic tool available to all companies and countries in the group and specialises in sharing internal and external knowledge through documents - currently 30,000 -, videos and weblogs on the Information Society, Expert Forums and Conferences, Sponsors, Regulation, Marketing and Advertising among others.





Compensation

Pension Plans

Health plans

Other benefits

Compensation

Personnel expenses in the Telefónica Group in 2005 totalled 5,045 million euros (4,346 million euros in 2004), representing around 13.3% on the Group's income in 2005 (14.4% in 2004). From this total, salary package expenses (fixed and variable salary + benefits + pension plans and commissions) came to 78%, 69.2% of which corresponded to fixed and variable salary and 4.3% to benefits. Additionally, Telefónica has incurred workforce restructuring costs of 611.20 million euros.

During 2005, both for fixed and variable salary, the Telefónica Group has drawn up a total pay packet framework common to all directors. This framework is aimed at achieving defined results and strategies, providing the necessary flexibility and transparency to maintain maximum internal equality and the maximum external competitiveness possible, with the aim of encouraging mobility, attraction, motivation and retention of management talent.

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:

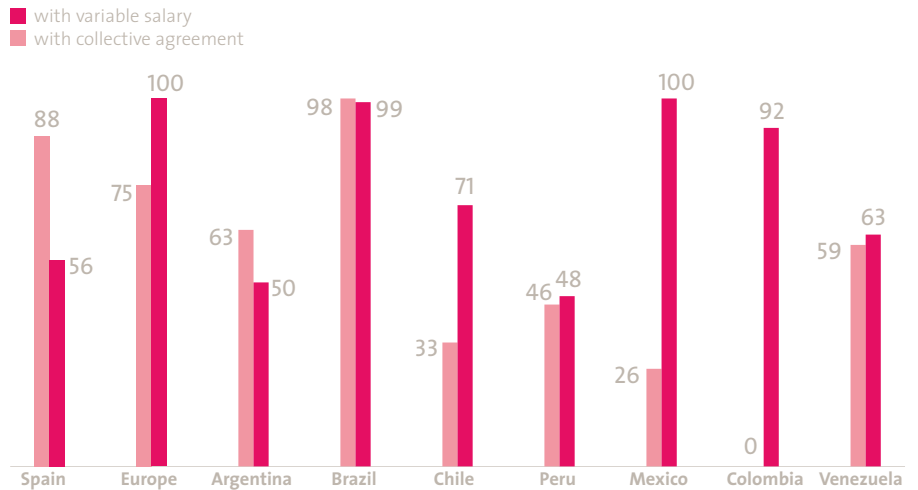
- Adaptation to the reality of each market and each Business Line.
- Consistency with the Telefónica Group's values.
- Focus on key persons according to their performance and contribution.
- Relevance of non-monetary compensation: social and in-kind benefits.

To define this compensation system, salary benchmarks have been established which allow comparisons with companies of similar scale and relevance. Said analysis was carried out by directors and middle management in Spain, Europe and Latin America.

For the general Telefónica workforce, compensation conditions for employees are described in the different collective agreements in force. At the close of 2005, over 142,700 employees in the Telefónica Group had their status regulated on the basis of collective agreements compared to 120,000 in 2004.

Percentage of employees with collective agreement and variable salary by country in 2005

Data in percentage



Variable salary

For years, the Telefónica Group has been working on designing and implementing variable compensation policies that reward effort and the fulfilment of its employees' objectives.

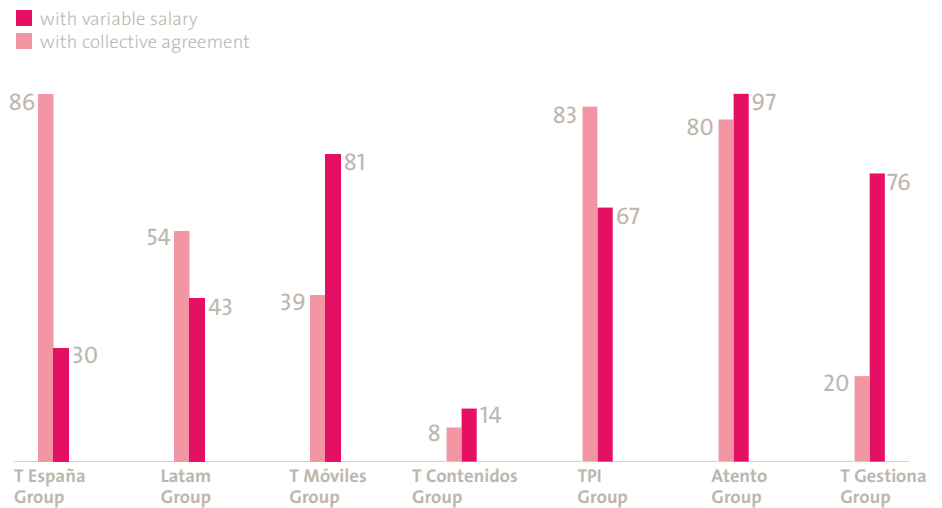
These policies seek, on the one hand, a greater commitment and involvement by employees with company objectives, and on the other, greater fairness in the compensation system. Variable compensation is designed to mobilize attainment of the Group's global objectives and to compensate in function of according to contribution to results based on achieving individual, company and Group objectives.

Variable salary 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).

Over 147,000 employees (105,000 in 2004) are covered by variable salary based on the fulfilment of individual, company and group targets.

Percentage of employees with collective agreement and variable salary by business line in 2005

Data in percentage



Health plans

The Telefónica Group offers private medical insurance to over 98,000 employees throughout the world. This includes 100% of Telefónica de España employees, 76% of the Telefónica Móviles Group, 62% of T-Gestiona, 48% of TPI and 40% of Telefónica Internacional. In relation to Atento, in Brazil, such plans are offered to over 25,000 employees, bringing the figure for the company to 31%.

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. Other employees, up to 40,000 throughout the country, have health plans in other private institutions.

In Argentina, over 6,800 employees of the Group have private health access, double the 2004 figure. 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. Currently over 2,100 employees participate in same.

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. The total number of employees having access to this type of service is more than 2,300.

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 35,000 employees throughout the country have access to health services of this type.

Pension plans

Employees of the Telefónica Group in Spain, Peru and Brazil participate in pension plans promoted by the Group, meaning costs for Telefónica of 94 million euros. In the rest of the countries, employees participate in public pension plans.

In Spain, 60% of employees of the Telefónica Group participate in Group pensions, managed by Fonditel. 84% of employees of the Telefónica de España Group are covered by plans, as are 91% of Telefónica Móviles España (there are no programs of this type either in TPI or Atento). On a monthly basis the company contributes 6.87% of gross salary of employees to the plan and each contributes 2.2% of same, except employees contributing after June 1992, whose percentage is 4.51%.

In Brazil, 83% of TeleSP employees and 65% of Telefónica Empresas have private pension plans to which employees make a personal contribution matched by the contribution of the company.

Almost all 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).

CASE STUDY

Fonditel

Pension plans for employees of the Telefónica Group in Spain are managed by Fonditel and in 2005 obtained annual profitability of 12.38% for the Employee Plan of Telefónica de España and up to 14.56% in the case of Fonditel B, which is the pensions fund which groups together pension plans for the other companies in the Telefónica Group. The volume of assets managed at the close of 2005 reached 4,528 million euros in the Employee plan of Telefónica de España and 209.5 million euros in Fonditel B.

Fonditel has continued to get public recognition at home and abroad due to its excellent results in pension fund management. Thus, for the fifth year running it was awarded the prestigious IPE prize (Investment & Pensions Europe) for Spain and reached the final three candidates for the overall European prize. Also, prizes awarded by Intereconomía-Morningstar gave two awards to plans managed by Fonditel: to the best manager of mixed fixed income. In terms of national ranking by profitability, individual plans managed by Fonditel continued for yet another year to get excellent results and reach the top positions in their categories for three and five years.

Additionally, employee funds for the Telefónica Group, with the knowledge of their respective Control Commissions, have strengthened their commitment to make investments in ethical, sustainable and responsible fund until reaching 1% of all assets managed. Specifically, at the close of 2005 the volume of investments of this type reached 48.1 million euros, meaning 1.01% of all equity in employee plans for the Telefónica Group. From this amount, 33.7 million euros were invested in socially responsible investments, 10 million euros in social housing developments and 4.44 million to a forestry development company.



Other benefits

All Telefónica employees have a package of social benefits which complements their salary package and which varies depending on the company. It is planned, during the 2006 financial year, to carry out a comparative analysis of the different social benefits existing for the management group, with the aim of collecting good practices and standardising the range of benefits, maintaining the necessary homogeneity necessary for different corporate realities.

Purchasing club for Telefónica employees in Spain

Telefónica de España employees may make online purchases of various products and services, with additional benefits compared to market price, through the purchasing club. The purchasing club highlights those offers related to Telefónica products and services, and which are in the telefonicaonline.com employee store, which can also be accessed directly.

The objective of this new channel is to encourage online business, providing employees with interesting offers. Also in this space, the customer will enjoy special attention provided directly by the service provider. Since this initiative was implemented, over 500 monthly transactions have been carried out, for the purchase of automobiles, technological goods, food and banking and property services

Additional benefits for employees of Telefónica Group¹

(Datos en unidades)

	N. of people who receive food tickets	N. of people who receive studies are financed
Spain	11,108	161
Europe	—	—
Latin América	24,491	613
Argentina	13,763	67
Brazil	9,808	108
Chile	98	296
Peru	—	13
Mexico	—	129
Colombia	86	—
Venezuela	736	—

¹Including Atento employees

Additional benefits for employees of Telefónica Móviles

	Argentina	Brazil	Chile	Colombia	Ecuador	El Salvador	España	Guatemala	Mexico	Nicaragua	Panamá	Peru	Uruguay	Venezuela
Private medical insurance	•	•	•		•	•	•	•		•	•	•	•	•
Life insurance	•	•	•	•	•	•	•	•		•	•	•	•	
Family help (children, college etc.)	•		•	•	•		•				•	•		•
Food tickets	•	•		•	•		•						•	•
Pension plans			•			•	•							
Financing of studies	•		•		•		•		•			•		
Stock option plans	•		•			•	•	•	•			•		



Training

Tele-training

Management of Skills

Professional Career

CASE STUDY

Training to improve sales focus

During 2005 Telefónica encouraged its workforce sales focus through several training programs:

- Directors' program: "Making the company customer focussed", already commenced in 2004 and attended by over 1,000 directors in all group business, this course was given in Spain, Argentina, Brazil, Chile, Peru and Mexico, with participants having the opportunity to take part in different training actions going in depth into the importance of making Telefónica an operator which creates solutions of value to its customers.
- Training schedule: "Commitment to our customers" was taken by over 5,000 middle managers from the Group in the main countries where it has a presence (Argentina, Brazil, Chile and Peru), and the program has contributed to improving the skills and know-how of participants to successfully fulfil their commitment to making the company more customer focussed.
- Actions aimed at all Group employees: all employees have access to specific courses to improve their sales skills through the training Portal.

The different businesses in the group have strengthened sales skills with specific actions. Of note are the Telefónica de España Sales Schools and programs associated with the program "Compromiso Cliente de Telefónica Latam" (Telefonica Latam customer commitment".

Training

In 2005, the Telefónica Group invested over 70 million euros in training its employees, an average of 380 euros per employee. Professionals in the Telefónica underwent over nine million hours of training in 2005, meaning an absolute increase of 5%

By business lines, for yet another year, Atento made notable efforts with over five and a half million hours training its employees. Considering the Telefónica Group without counting customer relations, absolute growth in training hours was around 15%.

Annual training hours per equivalent employee exceed 48, which breaks down into 33 hours per director, 58 for middle management and 48 for the rest of the workforce. The decline seen compared with the 60 hours for 2004 is due mainly to less intensive training in the Móviles and directorios business, added to the effect of specific training actions for mid management carried out by Telefónica de España in 2004. The number of individual students exceeds 650,000 (600,000 in 2004), meaning an average of more than three training actions for each employee.

Training of employees in Atento is so intensive due to the size of its workforce, its greater turnover of professionals compared with other companies in the Telefónica Group and the particular characteristics of the business it carries out. Atento employees receive both training in recording contacts with customers and related directly with customer service.

Considering the rest of the workforce (excluding Atento), the distribution of hours by function places training hours at 37 hours for employees carrying out sales functions, 38 for operative functions and 30 for support professionals.

Number Employees with personalised training plans¹

Spain	35,242
Latin America	7,441
Argentina	1,858
Brazil	1,576
Chile	N.D.
Peru	1,060
Mexico	153
Colombia	430
Venezuela	2,364
Rest of America	367
Total	43,050

¹ including Atento

In line with its ambition to be the biggest and best integrated telecom group in the world, Telefónica has set itself the challenge of offering the best future for all its professionals. Telefónica aims to start up the individualised training plan in the 2006 financial year.

Distribution of training hours by employee and business line

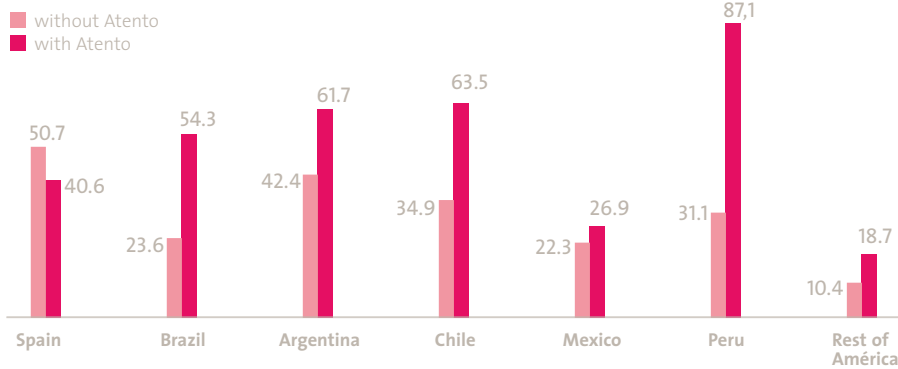
	2004			2005		
	Directors	Mid manag.	Rest workforce	Directors	Mid manag.	Rest workforce
Fixed spanish business	48	187	40	46	187	44
Fixed latam business	50	48	31	29	69	32
Mobiles business	123	58	71	54	38	39
Directories	145	132	35	27	67	30
T-Gestiona Group	-	-	-	21	57	31
Other companies	38	95	25	13	12	7
Negocio Atento	-	-	84	-	-	64

Training hours by business line

	2.003	2.004	2.005
Fixed spanish business	1,907,743	1,566,794	1,668,527
Fixed latam business	719,307	812,665	983,392
Mobile business	671,504	684,094	905,699
Directories	223,317	111,105	93,180
T-Gestiona Group	-	-	94,875
Other companies	390,344	168,072	98,246
Atento	2,457,017	5,567,453	5,505,098
Telefónica Group	6,369,232	8,910,183	9,349,017

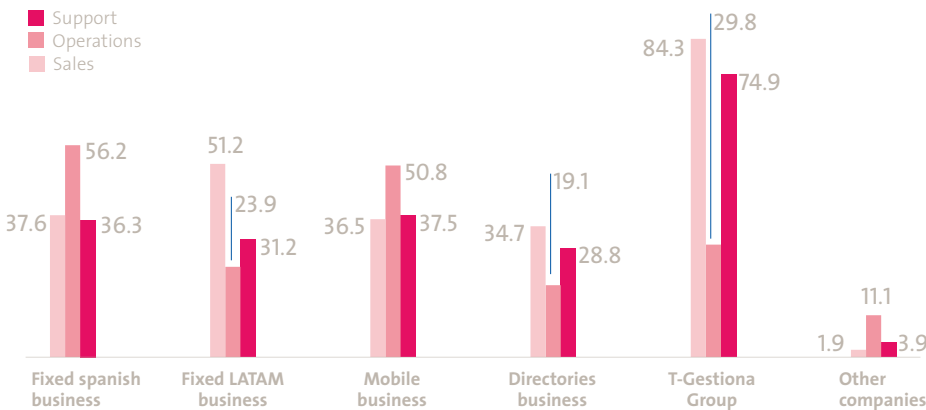
Distribution of training hours by employee and country 2005

Data in hours per employee



Training hours by employee and function 2005 (w/o Atento)

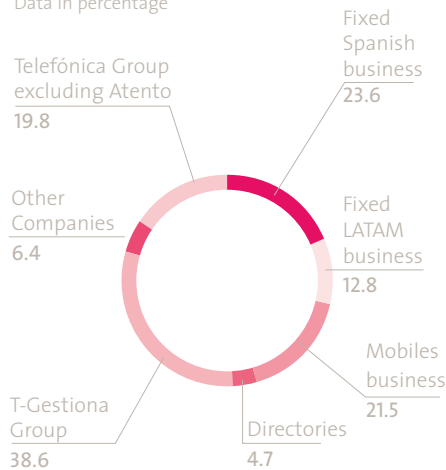
Data in hours per employee'



'Without Atento.

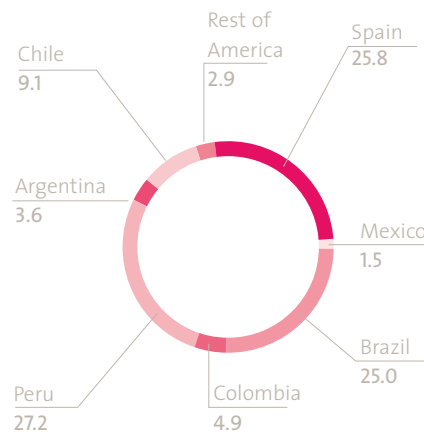
Online training by business line

Data in percentage



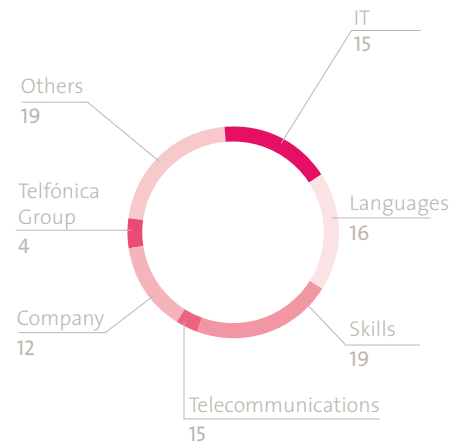
Online training by country

Data in percentage¹



Breakdown of online training hours by subject

Data in percentages



CASE STUDY

Mobile learning

Mobile learning is the next generation of online training, with access to content through mobile devices giving independence and immediacy to training. In said type of training, which is normally combined with standard online training, the structure of content should be modular, with reduced estimated study times per module (maximum of 10 minutes) so the student can access them without disrupting his normal activity.

Telefónica, through Educaterra, has been investing throughout 2005 in the development of a series of tools and applications based around the a+ service, which enable mobile access to training resources. There are currently 98 lessons with contents produced for "mobile learning". Typically, Telefónica Móviles España is leading the Group in this type of training.

Tele training

In 2005, professionals from the Telefónica Group (excluding Atento due to the specific characteristics of its training programs, carried out 20% of their training via online tools, particularly in T-Gestiona (where training comes to 38% of total training).

During 2005, the a+ service offered through Educaterra consolidated its visions of standardising the skills and abilities of employees, ensuring flexible access to training and acting as catalysts in knowledge sharing. The portal is available in two languages (Spanish and Portuguese) and is accessible from Spain, Argentina, Brazil, Chile, Peru and other countries in Latin America.

The results of activity in 2005 were as follows.

- The number of students registered with online training services exceeded 130,000, with a reduction of 14% compared to the figure of 150,000 the previous year.
- The number of hours used has declined by 38%, from 650,000 hours of connection in 2005 to 406,000 in 2004.
- The number of simultaneous training house through the virtual classroom (centra) reached 8,460: Said tool simulates a traditional class through the computer, enabling real time interactivity between the trainer and students. This tool makes it possible to combine voice and image, share applications, work in a group, carry out surveys or evaluations en vivo, etc.

Indicators of training use showed falls compared with 2004, which was unique in its very intensive use of online tools. This indicator has encouraged us to renew contents and more actively promote the portal, with the aim of increasing its use by Telefónica employees.

As a positive detail, it is important to highlight the fact that the percentage of training actions passed, compared with actions initiated, has increased from 60% in 2004 to 67% in 2005.

2005 saw investment in the development of 125 new content sets, including 371 modules, meaning an additional offer of 800 new training hours. Among the most notable projects are:

- Cisco technology training for Telefónica companies
- Individual training plans for para Telefónica de España
- Mixed training program (attendance - online) for management secretaries
- Giving up smoking program
- Engineering portal
- Portuguese for Spanish speakers
- Environmental management course developed by Telefónica de España and Telefónica Móviles España

Commitment to our customers

Working together with customers (internal and external), understanding and bringing forward to their needs, and offering them quality solutions with a high value added

Environment Integration

Understanding and participating in the social context (society, customers, companies, employees and shareholders), adapting adequately to new situations and encouraging change

Communication and transparent relations

Knowing how to use communication to create a positive environment

Collaboration

Actively cooperate to achieve common goals

Professional development

A commitment to the professional and personal development of others and yourself

Results contribution

Effectively managing resources and always seeking, with initiative, to improve the company's results

Management by skills

All lines in the Telefónica Group share a system of generic skills for all employees, strengthening the values of the group and acting as a basis for implementing strategy.

Skills are the markers which make it possible to know what the company expects from each employee, also acting as a personalised guide for professional development.

In 2005, all companies of the Telefónica Group participated in an evaluation process which involved, at least, self evaluation and the evaluation of representatives of the hierarchy. The results of this evaluation enabled identification of areas for improvement for each employee and the appropriate actions to be carried out each year.

During 2005, over 78,361 employees from the Telefónica Group were evaluated on the basis of their skills, meaning a consolidation of the model compared to the 68,677 in 2004 and the 35,758 in 2003.

Telefónica continues to make progress in management by skills, integrating this within different human resources management systems (selection, training, development), thanks to a corporate skills model which facilitates horizontal and vertical mobility between departments, units and countries, encouraging organisational development and improving the suitability of personal skills.

The development of skills will boost a process of cultural development towards a professional model of greater employability, facilitating efficiency, the vision of internal customers and trans-functional empathy.

All employees in the group have access to a training portal where there is a section on self-development of corporate skills where numerous actions can be found to increase skill levels

The human resources department is making progress in implementing a 360° evaluation model for group directors, which to date has been completed with the evaluation of management talent in 2005 and the 180° minimum feedback process. 360 ° evaluation involves the evaluation of a professional by his superiors, those reporting to him, and his peers, complementing the self-evaluation process. During the next financial year a range of corporate policies will be developed around this initiative.

Telefonica employees evaluated on the basis of their skills in 2005¹

Spain	38,857
Europe	10,007
Latin America	27,203
Argentina	6,711
Brasil	9,313
Chile	3,835
Peru	5,599
Mexico	1,615
Colombia	130
Rest of America	2,294
Total	78,361

¹Without Atento

The Telefónica Group is aware that its employees aspire to a professional career which will help them develop in terms of their functions and responsibilities. For this reason, the Group's Human Resources departments have developed various initiatives to encourage this objective.

Professional career



Career initiatives for directors

- Rotation of directors. Telefónica has established a framework for the rotation of directors, which is determined by a range of established criteria, among which are aspects related to the potential and development of persons, succession plans, previous experience and career in other companies, projects implemented, know-how, motivation.
 - Rotation of directors enables the transfer of good management practices between the different units of the company, offers opportunities for professional development to employees and helps share existing talent within the Group, in this way making it possible to reach management levels when management positions become vacant which are mainly to be filled internally.
 - During the 2005 financial year, 171 directors have rotated internally (12% of the total) and another 54 have left Telefonica (4% of the total)
- over 350 vacancies in the Group have been published. This tool is available for the publication of management and non management vacancies.
- Project interchange program between Telefónica de España and Telefónica Latinoamérica. The sales areas of both companies have encouraged a year long professional exchange program, with the twin objective of transferring good project management practices and developing professionals with a vision of an integrated telecom group. During 2005, 25 professionals participated in this initiative.
 - Participation in the Fundación Carolin scholarship program, in which 26 professionals from the Telefónica Group in Latin America have developed their professional activity in companies within the Telefónica Group in Spain at the same time as taking year long post graduate studies.
 - Establishment of Project Management professional career in Telefónica de España

Career initiatives for other employees

- General publication of all vacant positions on the Intranet. Through this initiative, Telefónica aims to inform all Group employees of the professional opportunities which exist in the different companies of the Group. This action is also aimed at encouraging clarity and transparency of procedures for filling vacancies and the transfer of talent within the group. The first phase of the project started in 2005, and since then

The end of 2004 saw the approval of the development of the expert career model towards a new project management professional career. The development of the previous model was aimed at adjusting the functions of the expert to the needs of the company, identifying the most suitable experts for each position, offering a more attractive professional outlook contributing to improving satisfaction and basically positioning this group in accordance with the company's main strategic lines. Project Management, Sales and Technical Advisor to Customers (ATC's) were integrated into a model for development and professional careers involving around 4,000 professionals in the company.

- More rigorous personnel selection procedures at Telefónica de España. Through the participation of a second hierarchical superior alongside the person responsible for the vacancy increases objectivity in the process of deciding on the most suitable candidate.
- Encouragement of rotation in internal selection processes. Telefónica de España rotates personnel between departments in 30% of internal selection processes and 44% of cases within the same department.

CASE STUDY

JAP (High potential youth) program

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

- Retaining and promoting loyalty in persons with talent from the outset of their professional careers.
- Speeding up their process of development within the organisation.
- Training agents who will promote change towards the new desired culture.
- Forming a pool of future managers for the Telefónica Group.

At the close of 2003 the selection process for the new Telefónica Group High Potential Youth Program began, which was completed in 2004 with the selection of 138 JAPs.

In 2005, JAPs carried out temporary rotations (3 to 6 months) during which they worked in other functional areas within the same company, other Group companies and, in some cases, other countries. This action has contributed to increasing their overall vision and knowledge of the Group.

In 2006 it is planned to carry out additional development actions, putting the final touches to the 2004-2006 session of the JAP Program.



Professionals and persons

Human rights

Freedom of association and collective bargaining

Work-life balance

Abolition of child labour

Equal opportunities

Health and safety

Workplace demands

Human Rights

For Telefonica the defence and promotion of human rights, beyond a mere obligation, is one of the values on which our human resource management is based.

Express commitment

Formally, this commitment by Telefonica to guarantee human rights includes:

- Telefonica Group code of ethics, which expressly refers to respect for human rights in relation to employees and providers
- Code of ethics agreed between Telefonica and the Union Internacional de Sindicatos (UNI) in 2001 and renewed annually. This code applies to the whole Telefonica Group and is inspired by the Global Compact and the Fundamental Agreements of the ILO. It includes joint recognition by both parties of the fundamental rights in the community and workplace, namely freedom to choose employment, absence of discrimination in the workplace, abolition of child labour, union freedom and the right to collective bargaining, minimum salaries, working hours, environment, workplace health and safety and improvement of community conditions through training actions, and stability of employment.
- United Nations Global Compact. Telefonica signed this declaration in

March 2002 and since then has reported, through different communication channels, on progress in implementing its 10 principles.

Supervision mechanisms

Telefonica supervises, checks and reports on compliance with human rights in all its activities through different mechanisms:

- Code of ethics office, which has different channels for consultation and complaint, and whose processes are verified by the internal audit department. This office is fully functioning within companies in the Telefonica Mviles Group and is aimed for establishment within the rest of the Group during the 2006 financial year. Among its functions are the drawing up of an annual report.
- Workplace audit, in companies themselves, considering relationships in first and second lines of contracts.
- Annual meeting with the Union Internacional de Sindicatos to review compliance with the UNI-Telefonica code.
- Report on progress in the Global Compact, drawn up annually and included in corporate responsibility reports and the Telefonica web site

The success of a company lies in its employees. Telefónica treat its employees as persons who join both professional and personal challenges. That why, Telefónica wants to become a company where its employees feel as persons.

The different departments of the Telefónica Group develop different initiatives aimed at guaranteeing human rights, equality of opportunity, work-life balance and maximum protection for health and safety.

Reporting lines

Compliance with and respect for human rights is the responsibility of each and every Telefonica employee. Functionally this is the responsibility of the human resources department with cooperation from the corporate responsibility department when it comes to detecting risks, promoting and encouraging improvement and coordinating the drafting of reports.

Both departments report every two months to the Commission set up by the Board of Directors in 2001 to directly supervise all matters relating to human resources and corporate reputation, including human rights (comprising four independent directors).

External collaboration

For Telefonica, the benchmark partner in human rights is the UN. Its different agencies have developed numerous specific collaborations and projects during 2005. In the specific area of human rights, the following are of note:

- The ongoing participation of Telefonica in working groups created on an ad hoc basis by international bodies such as the ILO, the International Employers' Organisation or the International Chamber of Commerce.
- Participation at the headquarters of the ILO in a special working session with John Ruggie, Special UN Representative for Human Rights, providing the process with internal documentation and comments.

- Presentation of the workplace audit carried out in the Telefonica Group as a case study in Global Compact workshops, based around points 1-3.
- Participation in HCRA, Human Rights Compliance Assessment, developed by the Danish Human Rights Institute, with the collaboration of 40 Human Rights experts.

Along the same lines as in 2004 (in the 23 most important companies in the Group), all companies audited have had to draw up an action plan to correct any workplace contingencies.

As a corrective measure on a corporate level, in February 2004 a joint audit and human resources instruction was approved with action criteria for the control of workplace risks in the contracting of works and services.

Below are the main actions guaranteeing respect for the principles contained in the Global Compact relating to Human Rights and the working environment (see chapters on environment and providers to complete the information).

CASE STUDY

Workplace audit in Telefonica

The object is to ensure compliance with applicable employment regulation of basic human resources policies and procedures, as well as knowing, evaluating and correcting any workplace contingencies.

In the first phase (04/05), 26 companies were audited in 6 countries. During 2005, workplace audits were carried out in T-Gestiona Spain, TSoluciones, T-Móviles de Venezuela, T-Móviles Colombia.

As a corrective measure on a corporate level, in February 2005 a joint audit and human resources instruction was approved with action criteria for the control of workplace risks in the contracting of works and services. The challenge for 2006 is to complete the third and final phase of the workplace audit in Telefonica.

This is an internal standard which includes:

- A list of pre-contractual requirements (approval of providers and contracts)
- List of the information to be provided at the beginning of the contract
- Obligations in terms of prevention of workplace risks for the principal and the contractor
- Obligations in terms of information to legal representatives of employees
- Measures to adopt during the validity of the contract
- Measures to adopt after the cancellation of the contract
- Supervision and control measures

Another of the corrective measures taken during 2005 was the obligation of training in human rights for employees of security companies working for Telefonica.

CASE STUDY

Social dialogue in the Internacional Arena

In relation to social dialogue in the international arena, it is worth mentioning that Telefónica and UNI (Union Network International) have agreed to meet annually so that Telefónica management can inform unions of general information about the most important Group topics which affect its position on the market, its future and priorities.

The meeting corresponding to 2005 was held in Mexico DF on 14 February 2006. Among the topics covered was an updated presentation on the Telefónica Group, its positioning in Latin America, with particular emphasis on the boost given, in 2005, to the process of internationalising Telefónica (Cesky telecom, alianza China Netcom and O2).

The final part of the presentation focused on the company's future strategy, especially the need to effectively involve all employees and for union leaders to play a leading role in reaching the objectives established.

Freedom of association and collective bargaining

Search for efficiency is the cornerstone on which Telefónica's labour 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.

Dialogue with unions

Social dialogue and collective bargaining are irreplaceable instruments for labour relations management and governance, as well as enabling collective bargaining to adapt to the changes occurring at the companies. Its sound functioning is clearly evidenced by the meetings held periodically between all parties.

Freedom of association

Freedom of association is an employee right at Telefónica, as shown by the more than 45,000 employees with labour union affiliation. By company, those with the largest number of affiliated personnel are Telefónica de España with 15,876, Telefónica Latinoamérica with 13,227 and Atento with 7,579. By country, particularly notable are Spain, with 16,246, Argentina with 12,275 and Chile with 3,957 affiliated employees.

Employee participation of employees of the Telefónica Group in the labour union elections rose to over 106,000 employees (95,000 in 2004), electing over 6,300 union representatives

Collective bargaining

Likewise, labour relations as a whole have been very satisfactory. At the end of 2005, over 142,700 employees of the Group had their conditions regulated on the basis of collective bargaining, compared with 120,000 in 2004. The breakdown of these details by country and business line is in the section on compensation.

Some of the achievements in this area merit special consideration:

Spain

Telefónica de España and workers' representative signed the extension of the 2003/05 collective agreement until 31 December 2007. The agreement to extend the collective agreement was adopted with 12 votes in favour by the company, the response of the Inter Centre Committee being very positive, with the votes in favour of CC.OO. (4 votes), U.G.T. (4 votes) and U.T.S. (1 votes), STC (1 vote) and votes against from CGT (1 vote) and AST (1 vote).

The company is committed to maintaining the acquisitive power of workers of Telefónica de España, S.A.U, so at the end of each year, the difference is reviewed if the real CPI is higher than the predicted CPI.

Both parties, sharing their concern about the rise in absenteeism and in order to reduce absentee rates during 2006 and 2007, have agreed that within the Interpretation and Supervision Committee, absenteeism rates for the last two years will be evaluated, so that an extra day's holiday will be awarded as long as a decline in the aforementioned rate compared with the previous year is observed. In Telefónica de España, the number of hours for labour disputes fell to 3,724 in 2005, showing a downwards trend compared with the 15,794 in 2004 or 54,500 in 2003.

The management of tgestiona España and the Works Committee (with the advice of union members represented in same, CC OO and UGT) have signed the first collective agreement for tgestiona, for the 2005-2007 period. The collective agreement was signed by the works committee of tgestiona and the company management.

This fulfils one of the main objectives suggested in negotiations: standardising the working conditions of the whole workforce, especially in terms of professional categories, basic salary conditions, right to contributions, social benefits and working hours. The aforementioned conditions differed depending on the existence of applicable employment regulations (those for tgestiona and TPTI), as well as prior hiring conditions in different Group companies.

The collective agreement includes a range of material and content from a perspective of renewal and even innovation, and which hope to achieve an overall improvement both in the areas of productivity of the company and life and work conditions of the professionals which render their services in same. Thus it included measures seeking to make working hours more flexible and compatible with improvements in the quality of life of workers, bringing about improvements to customer service and the company's productive processes. Along these same lines, new rights were incorporated aiming for a better work-life or guaranteeing, strengthening, the principles of equality of opportunity.

The number of hours of labour dispute in Atento España stood at 7,902 hours in 2005, a tenth of the 75,918 in 2004, the year in which the third collective agreement for the sector was reached.

Latin America

During 2005, social dialogue was significantly improved throughout the region. Almost all matters raised were resolved, significantly reducing controversies, disagreements and litigations. Likewise the matters which were subject to negotiation in all companies have expanded both in quality and quantity.

Possibly related to the above is the significant improvement in working environment surveys for the region among T. Latam companies.

CASE STUDY

Evolution of the Employee redundancy plan of Telefónica de España

Agreement on the Social Plan in the Employment redundancy plan of Telefónica de España (E.R.E.) for the period 2003-2007.

The program is based on voluntary redundancies, affecting a maximum of 15,000 workers, and with a commitment to replace up to 10% of positions. This plan enables Telefónica de España to reduce the number of employees, maintaining its competitiveness.

The plan is non discriminatory, voluntary and applies to all employees of the company. At 31 December 2005 a total of 1,945 employees had asked to join the scheme, added to the 7,906 requests for departure.

Chile.

It is important to emphasize that collective bargaining was carried out in line with the law, respecting the times established and without resorting to strike action. Among these negotiations, of note are

- Telefónica CTC Chile S.A. with Grupo Negociador (60 persons)
- Telefónica Mundo S.A. with Sintelfi (33 persons)
- Telefónica Mundo with Sindicato OITT (78 persons)
- Globus 120 S.A. with Sindicato OITT (9 persons)
- Telefónica CTC Chile S.A. with Sindicato OITT (92 persons)

There was also negotiation of complementary health insurance with all unions, affecting around 438 persons.

Peru

2005 saw satisfactory conclusions to collective negotiations pending with the Federación de Trabajadores and the Sindicato de Empleados, signing the respective collective agreements for a period of 3 years. Bearing in mind the fact that the previous year a collective agreement was signed with the Sindicato Unitario de Trabajadores for the same period, the signing of these agreements will define employment benefits for the whole workforce up to 2006.

May saw the signing of an agreement for reconversion of manpower with the Sindicato Unitario, which is the majority organisation, and in which it was agreed to support the Dr. Speedy project. The aim of this project is to train company technicians in integrated solutions for broadband customers.

Argentina

In Telefónica de Argentina it is important to indicate that the number of hours lost to labour disputes fell to 69,715, from the 170,000 hours in 2004. At the same time, in relation to unions in Argentina, the following notable agreements were reached:

- Salary agreement Jan 06 - Mar 07 (Foesisitra - Foetra/Fatel)
- Reduction of potential liabilities for claims for equal payment for equal work (Foesisitra-Fatel)
- Reduction of working hours as of 1/3/06 (Foesisitra-Foetra/Fatel)
- Creation of category 6 (Foesisitra-Foetra/Fatel)
- Art. 15 incorporating the basic salary (Foesisitra-Foetra/Fatel)
- Salary advance up to mid March 06, when the holding of a new CCT will be discussed alongside the definitive salary agreement (Fopstta/Upjet)

Brazil

The most significant facts in 2005 in relation to unions were the following:

- January '05: Renewal of the Agreement with Sintetel relating to the the Conciliation Committee, whose aim is to settle disputes with workers and management.
- April '05: External and internal network companies negotiated a collective agreement.
- Negotiation of regional CIPA (Internal Commission for the Prevention of Accidents) and POE (Emergency Operation Program) by Telefónica/SP together with unions and the Employment Ministry.
- September 05: Negotiation with Sintetel in relation to the Assist exclusion in the Collective Employment Agreement for Telefónica/SP and negotiation of a new agreement up to May 06.

It is also worth noting that TELESP and T-Empresas negotiated together with SINTETEL (Telecom union) and SEESP (Engineering union) the collective employment agreement for 2005/2006.

CASE STUDY

Work-life balance in Telefónica Móviles España

The last collective agreement of Telefónica Móviles España (2004-2006) contained new measures to improve work-life balance of employees to complement those already in force, such as flexible working hours, child assistance, better paternity leave, etc. Among the new measures are:

- School help, extending child assistance to children between 6 and 12 (30 euros a month for each child)
- Special leave of absence (2-4 years) to look after children or family members, with the position in the company being held
- Addition of paternity leave for hospitalisation and for time spent in hospital during caesarean birth. In this case, paternity leave is 5 days.
- No minimum limit to the reduction of working hours, improving the provisions in the Workers Statute (minimum 1/3 reduction).

Work-life balance

Working hours

The number of hours worked by employees is regulated by collective agreements, which affect over 120,000 employees, different in each country and business line in accordance with the requirements of the business and legislation in each country. The collective bargaining policy of the Telefónica Group expressly includes the limitation of extraordinary hours.

Work-life balance

The collective bargaining policy for companies in the Telefónica Group identifies the needs to manage working time, the duration and distribution of working hour, making them compatible with personal and family life.

In December 2005, 14,026 employees of Telefónica companies (10,263 in 2004) rendered their services under a regime of reduced working hours. Employees claimed: sickness (25%), maternity (9.8%) or studies (11%). Part time contracts were not considered, although these make up a high proportion of the Atento workforce.

The number of employees receiving family assistance stands at more than 27,943 employees, particularly in Spain (18,868), Argentina (2,694), Chile (3,201) and Peru (1,818)

The duration of maternity leave accords in each country with legislation in force, ranking between 12 weeks in some countries and 18 in others.

Duration of maternity leave

(weeks)	
Telefónica de España Group	16
Telefónica Latinoamérica	
Telefónica de Argentina	12
TeleSP (Brazil)	17
Telefónica CTC Chile	18
Telefónica del Perú	12
Telefónica Móviles	
Spain	16
Argentina	12
Chile	18
Central America	12
Colombia	12
Mexico	12
Panama	13
Peru	12
Venezuela	18
Atento	
Spain	16
Argentina	12
Brazil	17
Central America	12
Colombia	12
Chile	18
Morocco	14
Mexico	6
Peru	12
Venezuela	18

Mobile working

For Telefónica, mobile working is more and more important, one further step in its strategy of technological, cultural and organisational change. In this way, Telefónica aims for factors such as trust, responsibility, commitment and innovation allied with efficient management of working time targets and greater autonomy in the organisation of activities to be determinant factors in the new way of working and the consequent change in managers and employees. To achieve this, employees have been provided with different types of spaces and technological media, in such a way that their activity does not have to be carried out solely in the office or work station, in the traditional way. With the implementation of this new way of working, Telefónica aims to increase its employees' motivation, help them to find the right balance between their personal and professional life, while improving productivity at the same time.

To encourage this new way of working, in July 2005 a Corporate Policy on Mobile Working was approved. Mobile working enables professional activity to be carried out without the physical presence of the worker at the work station for a significant part of the working day/week. The aforementioned policy defined the process for establishment of this policy and sets targets for the 2005-2008 period.

In the first half of 2005, several Telefónica companies setup "pilot" schemes based on the policies and guidelines established in the mobility policy, which will be evaluated during 2006. Among the most notable experiences in this area were those of Telefónica de España, which since 2002 has been running a tele-working scheme called eWready! in which over 750 persons have participated outside the agreement and 200 from within it.

Other companies which have implemented tele-working include TeleSP (126 employees), Publiguías (36 employees), TPI España (185 employees), I+D (80 employees), Telefónica Móviles España (32 employees).

Employees taking part in this program have commented on its flexibility, the opportunity to improve work-life balance and the savings made in travelling time.

Number of hours worked

Telefónica de España Group	1,658
Telefónica Latinoamérica	
Telefónica de Argentina	1,920
Telesp (Brazil)	1,948
Telefónica CTC Chile	2,025
Telefónica del Perú	2,145
Telefónica Móviles	
Spain	1,766
Argentina	1,967
Chile	2,142
Central América	1,761
Colombia	2,280
Mexico	-
Panama	2,288
Peru	2,304
Venezuela	2,040
Atento	
Spain	1,511
Argentina	1,950
Brazil	2,160
Central América	1,761
Colombia	1,977
Chile	2,496
Morocco	2,304
Mexico	1,560
Peru	1,792
Venezuela	2,184

CASE STUDY

Brazil.- Empresa amiga da criança

In Brazil, four companies in the Telefónica group were granted the “Empresa Amiga de los Niños” certificate by the Fundación Abrinq por los Derechos de los Niños y los Adolescentes (working for the rights of children and adolescents).

TeleSP, Telefónica Empresas, Telefónica Assist and T-Gestiona have complied with the ten commitments, summarised below:

1. Rejection of child labour
2. Respecting young employees
3. Inclusion of contractual clauses for providers requiring the rejection of child labour and allowing termination of the contractual relationship in the event of non compliance.
4. Offering nurse services for children of employees.
5. Ensuring that employees register all children under 18 in school and encouraging school attendance.
6. Providing pregnant employees with pre-partum training
7. Encouraging breast feeding, establishing conditions where employees can breast feed their children (under six months).
8. Raising awareness among employees to register employees who have recently given birth.
9. Social investment aimed at benefiting children and adolescents.
10. Contributing to the Fund for the Rights of Children and Adolescents with an amount equivalent to 1% of the company's income tax

Abolition of Child labour

Telefónica has a zero tolerance policy when it comes to child labour in all countries in which it operates, A policy which extends to its supply chain through the contractual requirement for strict compliance with the laws of each country.

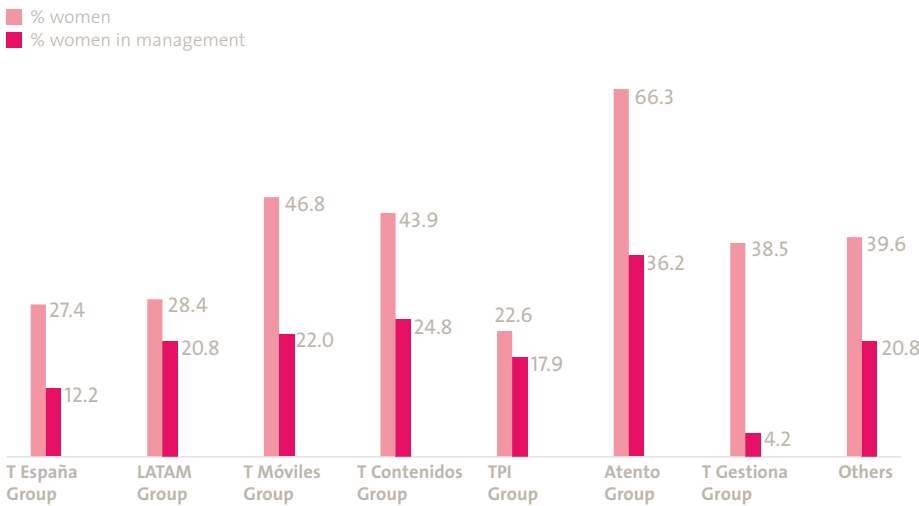
In 2004 the Telefónica Group carried out a workplace audit with an external consultant in 23 companies of the Group, located in six different countries and representing 86.4% of the Telefónica Group. Child labour was not among the risks detected and leading to corrective measures. In the general contract award conditions of Telefónica, respect for employment legislation is expressly included, as well as in the Group's Code of Ethics and the Code signed up to by Telefónica and the Unión Internacional de Sindicatos.

Additionally, four companies of the Group in Brazil were granted the “Empresa Amiga de los Niños” certificate.

Proniño is the social initiative of the Fundación Telefónica, which seeks to help Latin American child workers go to school, in this way contributing to the eradication of child labour in the area and giving these children the opportunity for development to allow them a better future. This initiative, described in the chapter on Society, is developed jointly by Telefónica Móviles subsidiaries and NGOs, currently offering scholarships to over 11,000 children. Funds are used to pay registration fees, school material, uniforms, transport and food. The Proniño program also holds workshops with families and educators, medical checks and cultural and sporting activities.

Distribution of employees in the Telefónica Group by gender and business line 2005

Data in percentage:



Equality of Opportunities

Equal opportunities are, for Telefónica, one of the transversal values which governs its relationship with stakeholders. Thus, it is expressly included in the Telefónica Code of Ethics, Principles of Customer Relationships, agreement signed with worker representatives, the Advanced Purchasing System Manual (providers) and many other regulatory documents issued by the Telefónica Group.

Telefónica actively manages equality of opportunity for disabled persons within the framework of its “Telefónica Accesible” program. The company does not have an active policy of encouraging women to join the Telefónica Group and their internal promotion. Likewise, there is no program for measuring the percentages of diversity by ethnic origin, as this is not included in employee records, as any question in this respect could be deemed discriminatory. It is significant that no incidents of this nature have been reported in the Group.

In Telefónica we consider that each new hiring and promotion must be assessed on personal and professional merits, without recourse to quotas. For this reason we feel the application of a policy of non discrimination will enable a balance to be struck over the years in terms of gender and ethnicity to bring Telefónica into line with the society in which it does business.

Gender equality

On average 49.3% of the workforce of the Telefónica Group is made up of women, an increase compared to the 48% for the 2004 financial year. By business line, of particular note is the high level of integration in Atento, with a female workforce of 67%, with lowest numbers being found in the fixed telephone companies. Without considering the effect of Atento, the percentage of women in the company is 33%.

In terms of management levels, there are over 1,700 women in superior and mid management positions in the company, representing 21.8% of the total. Companies with the greatest percentage of women at these levels are the Atento Group, Telefónica Contenidos and Telefónica Móviles. The lower proportion of women in fixed telephone companies is reflected in the proportion of women at management levels in Telefónica de España (10.6%).

CASE STUDY

Equal opportunities prize

The Telefónica I+D centre in Boecillo, recognised as a company sensitive to equality of opportunities by Valladolid Council. This recognition rewards the Valladolid company with the best work-life balance.

Distribution of employees by gender and country

	With Atento		Without Atento	
	%men	%women	%men	%women
Spain	56.3	43.7	68.6	31.4
Europe	65.6	34.4	65.6	34.4
Latin América	46.5	53.5	65.3	34.7
Argentina	60.2	39.8	68.5	31.5
Brazil	38.0	62.0	65.3	34.7
Chile	50.2	49.9	64.4	35.6
Peru	58.7	41.3	67.5	32.5
Mexico	54.6	45.4	68.5	31.5
Colombia	48.1	51.9	53.3	46.7
Venezuela	46.0	54.0	49.9	50.2
Rest of América	53.7	46.3	58.3	41.7
Rest of world	51.5	48.5	-	-
Total	50.7	49.3	66.5	33.5

Distribution of disabled employees in the Telefónica Group

Spain	556
Europe	152
Latin America	356
Argentina	14
Brazil	315
Chile	12
Peru	5
Mexico	3
Colombia	2
Venezuela	5
Rest of America	15
Total	1,079

Companies with the largest disabled workforce

	2004	2005
Telefónica de España Group	150	166
TeleSP Group	363	209
Telefónica Móviles España	28	28
Atento España	248	345
Atento Brasil	137	95
Other companies	58	236
Total	984	1,079

CASE STUDY

Special Job Centres in Atento

In 2004, three SIAA (Integral Help and Assistance Services) Special Job Centres were put into operation.

The three Centres, located in “Comunidad de 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.

As part of the SIAA project in 2004, Atento Spain signed an agreement with the Adecco Foundation for Integration into the Labour Market with a view to choosing people with disabilities for our Special Employment Centres 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 Centre in Cáceres in the next few months.

Equality for the disabled

Telefónica's commitment to the social and employment integration of disabled people goes back to 1973, when at the initiatives of the workers and their representatives the ATAM was created, an initiative described in the section on caring employees.

Currently, around 1,079 disabled professionals work in the Telefónica Group, 0.54% of the global workforce. The number of employees is 9.6% higher than in 2004, despite Brazilian regulations raising the bar for the consideration of a person as disabled, meaning that figures for Brazil are on face value lower than those for the previous year.

Despite this positive trend in the integration of disabled people into the Telefónica Group, the company knows that there is much to do to achieve full integration. For this reason, as part of its integrated plan for support of disabled persons (Telefónica Accesible), the company is developing a range of measures aimed at helping the integration of disabled persons into the workforce:

- Corporate policy of maximum rigour in compliance with the LISMI (Disabled persons' Labour Integration Act) in Spain through direct hiring.
- Policy of strengthening the policy of hiring products and services through special employment centres.
- Channelling all offers and vacancies to the ATAM Labour Integration Service.

- Development of training agreements to qualify disabled persons in Brazil, where the labour market does not meet the demands for qualified personnel in companies.
- Monitoring and internal audit of all the above measures

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 Labour Integration Act) and other legislative developments. In addition to ATAM's Labour Integration Service (SILA), ATAM also has several special employment centres staffed entirely by the disabled, operating in three sectors of activity: industrial laundry, electronic component assembly and telemarketing.

Health checks in the prevention service in Spain

Activity	Number of checks
Diagnostic checks	142,156
Health campaigns	36,860
Health consultations	65,447
Vaccination	8,651
Health examinations	36,666

Prevention of risks for health

Activity	Number of checks
Technical activity	5,314
Technical reports and studies	1,373
Fire prevention	1,043
Risk evaluations	323
Evaluation of psychological and social risks	20

Health and Safety

Commitment to employees of the Telefónica Group in matters of health and safety.

The commitment that the Human Resources Department has made to all employees of the Telefónica Group in the promotion of health is structured in Spain around the Common Workplace Risk Prevention Service along lines of action aimed at maintaining and increasing prevention of workplace risks in all our companies.

Prevention of workplace risks inherent

in daily work, with the aim of eliminating or at least minimising them with the adoption of corrective measures, collective and/or individual, preventing them from affecting workers.

- Risks and workplace re-evaluation, including psychosocial issues, as well as workplace evaluation, base stations and new workplace evaluation.
- Fire prevention - including a particular focus on emergency simulations, as well as frequent informative talks for employees as well as the preparation of action plans for emergency situations and reports on the compliance of buildings with current legislation.
- Technical advice for the business lines of the different companies and in particular relationships with public authorities.

Workplace Health

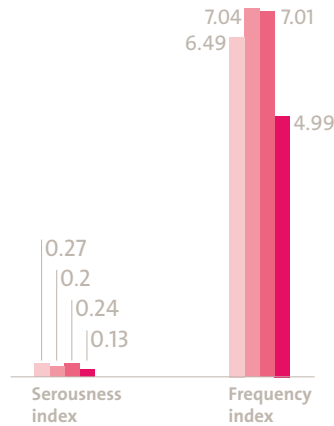
The maintenance and promotion of workers' health is central to the daily work of basic health units that the Common Workplace Risk Prevention Service runs in each province and is achieved via the following actions:

- Medical health checks making it possible to check changes in the health of workers to ensure at all times the medical APTITUDE of each of them.
- Preventative health campaigns to improve health faced with common illnesses. Acting in the prevention of the most frequent infections through vaccination campaigns.
- Health assistance for workplace accidents. Health workers in the Common Risk Prevention Service provider, in their capacity of self insurers for accidents, the health assistance necessary for all accidents, both in the workplace and when workers of Telefónica de España and Telefónica S.A. are travelling

Workplace accident rates in Spain

Data in percentages

2002 2003 2004 2005



Workplace accidents

Research and assessment of workplace accidents and frequency and seriousness indices have allowed us to increase corrective measures with the aim of reducing not only the number of accidents but also the harm caused to workers, a target we have been meeting each year, as can be seen by comparing annual indices, such as those from the Communications Sector published by the National Institute for Health and Safety in the Workplace.

Health and Safety Committees

Among the model agreed with the Social Representative, a total of 84 Health and Safety Committees have been set up in companies within the Telefónica Group. These are peer committees, comprised in equal numbers by worker and company representatives. All committees receive technical advice from the Common Prevention Service.

As well as in Spain, there are Health and Safety Committees in Argentina, Chile and Peru.

Coordination of business activities

With the aim of spreading our prevention policies to external collaborators and promoting health with the aim of reducing accident rates, Inspection and Supervision Audits were carried out, as well as Coordination meetings with the technical support of the Common Workplace Risk Prevention Service. Although not in the direct ambit of this service, it should be emphasised that as a complement to the commitment undertaken by the Corporate Human Resources Division to all workers, companies in the Telefónica Group have taken out private health insurance to complement the public health system, contributing to improving and speeding up diagnosis and cure of pathological processes.

Good preventative practices in Spain

A commitment to prevention of workplace risks

Telefónica de España's management to comply with Law 31/1995 on the Prevention of Workplace Risks takes shape on an organisational level in the operation of a range of bodies framed, in turn, within a specific organisation which seeks to develop a system of prevention which facilitates the planning, setting up and monitoring of said system, and above all its integration into all hierarchical levels of the company.

The main planks of the system

Workplace Risk Prevention Committee

Made up of representatives of the Management Committee whose skills have a special impact, direct or indirect, on the prevention of workplace risks. It is presided over by the Human Resources Director and meets every six months or whenever deemed appropriate, and among its functions are:

- Approving and analysing the preventative policy in Telefónica de España.
- Drawing up the Prevention Plan
- Incorporating preventative criteria into management.
- Approving the Annual Preventative Plan of Telefónica de España.

Workplace Risk Prevention Commission

Comprises workplace risk prevention representatives from those units at greatest risk. It is presided over by the Director of the Labour Relations and Employment Division. It meets every six months and its functions revolve around the effective development of policies, objectives and strategies approved by the Board of Directors

Health and Safety Committees

These are peer social representation bodies which monitor the actions of the company in terms of prevention of workplace risk. In Telefónica de España there are 51 committees (1 for each province, plus a central committee). The Chairman of the Central Health and Safety Committee is also the Coordinator of the Prevention Committee, thus closing the circle that interconnects the whole system.

Management of the Common Workplace Risk Prevention Service

This unit coordinates the Prevention System and also holds the secretariat of the Workplace Risk Prevention Commission. Its main function is to identify and assess workplace risks implicit in all work and activities carried out in the company

Coordination of business activities in Telefónica de España

To comply with RD 171/2004 of 30 January, which develops article 24 of law 31/1995 of 8 November on Prevention of Workplace Risks, in matters of coordination of business activities, Telefónica de España, as principal employer, carries out activities to ensure compliance in relation to employees of collaborators, and by way of coordination holds regular meetings with the representatives of same.

Monitoring external providers

With the aim of ensuring compliance with regulation on matters of workplace risk prevention by external providers, supervision is carried out during execution of work, involving specific periodic inspections carried out "in situ" to ensure the level of compliance with prevention regulations by said companies. These actions are carried out jointly with the interlocutor representing the external provider and representatives from the Contract Management Division and the Common Workplace Risk Prevention Service of Telefónica de España.

The action carried out and the deficiencies observed are summarised in a document drawn up for this effect.

The detection of inadequate actions may constitute an infraction which, depending on the scope and gravity of same in terms of the physical integrity or health of workers, may be classified as a minor, serious or very serious infraction and may lead to a range of penalties being applied to the external provider

Coordination meetings with providers

As a complement to such supervision activities, Telefónica de España has set up, as a means of coordination, a system of regular meetings between companies with the presence of the Common Workplace Risk Prevention Service. These reunions enable compliance with three of the measures established as "coordination measures" in article 11 of the aforementioned royal Decree: the holding of periodic meetings between competing companies, the passing on of instructions and the joint establishment of specific preventative measures or action protocols which might affect collaborators. Meetings discuss the following topics:

- Review and analysis of the results of the supervision inspections carried out.
- Analysis of accident rates recorded in this period.
- Prevention instructions, specific measures and coordination, actions to apply.
- Relevant facts envisaged.

Emphasis will be placed on the most serious events and considerations dealt with in said meetings and the corresponding document will be drawn up.

All the above is to promote prevention in external providers.

Evaluation and control of psychological and social factors in the Telefónica call centre

Risks deriving from exposure to damaging psychological and social factors are a constant source of concern, analysis and control in companies within the Telefónica Group, more so in the future given that, according to experts, factors such as mental load, time pressures etc. and the pathologies associated with same - depression, anxiety, stress and even muscular and bone disorders will be the illnesses of the XXI century not only in the workplace but in all areas of human activity.

As in other fields of workplace risk prevention, Telefónica has been a pioneer in the identification, evaluation and proposal of measures to correct psychological and social risks, as since the beginning of the century, 2001, said factors have been evaluated.

Specifically, during 2005 twenty psychological and social risk evaluations were carried out in Telefónica de España and Atento Teleservicios España, companies whose common denominator is that they have the largest workforce in the Telefónica group and part of their activity is focused on call centres. As an example of a series of actions, it is in Telefónica de España where the most evaluations and re-evaluations of this type have been carried out, reporting on results and proposals for improvement to both Health and Safety Committees and The Commercial Committee, which in the final instance must determine the most appropriate actions, as most preventative actions to implement are related to aspects of workplace organisation.

Stop smoking awareness campaign

Telefónica, through the Common Workplace Risk Prevention Service, has developed a stop smoking campaign, anticipating the entry into force of the Law regulating the Sale, Supply, Consumption and Advertising of Tobacco (Draft Law 121/000036) which will begin the prohibition of smoking in all workplaces. This campaign, available on the health and safety channel, offers guidance and advice in quitting: a course through a+, called "quit smoking" which is given by health personnel to help you give up; a mail box dealt with by the Common Workplace Risk Prevention Service where you can ask any queries you have with respect to this process, and which will be answered in a personalised and anonymous way, always via e-mail. There will also be information on how to get a medical appointment at clinics of the Common Workplace Risk Prevention Service, as the campaign is of national scope.

Work at height in Telefónica Móviles España and Telefónica de España

Maintenance personal in radio facilities and infrastructure personnel who in Telefónica Móviles España and Telefónica de España carry out work on towers and antennae will attend course on safety and safety practices at height.

The objective of training is for personnel involved to know how to handle personal protective equipment for work on towers, analyse risks of falling from a height from towers and high workplaces, master the principles of vertical movement when working on towers in the framework of individual protection, knowing the requirements for collective protection, confirming knowledge of safety matters for work at height in general.

These workers will carry out health checks at the beginning of their work and subsequently, annually and on a mandatory basis, in relation to the specific risks of work at height.

Determining each year medical aptitude for work at height is one of the most effective preventative actions to reduce workplace accidents.

Work with Biological Risks

Telefónica de España has defined a specific protocol on biological risks to protect its workers from infections, particularly from HIV. Health workers in the Common Workplace Risk Prevention Service are offered blood tests and examinations when they start their work and whenever there is a risk of HIV, HCV or HBV infections, as well as Hepatitis B vaccinations.

Likewise, there is a procedure in place in the case of a specific accident by health workers:

This includes protocols for the actions to carry out, considering both general and specific actions depending on the immunological status of the victim in terms of HBV and HIV as well as the source of the exposure.

Good Preventative Practices in Latin America

Argentina

Anti tobacco: Smoke free offices were launched, with expert talks on the matter.

Risk audit in all offices of the company. This considers improvements to processes, analyses of work stations, signposting of escape routes, etc.

Emergency and evacuation plans. These are carried out twice a year in CABA buildings, and once a year in others. This includes simulated evacuations, the make up of emergency crews, training of emergency coordinators.

Training in workplace risks.

Aimed at workers with greatest exposure to risk such as: working at height/ evacuation of buildings/ fire fighting/ electrical risk/ first aid/ safety in fuel stores/ use of personal protection equipment/ defensive actions/ risks on public highways etc.

Provision of personal protective equipment. This is protective equipment for workers in fuel stores or workers travelling around sites or carrying out work at height, or subject to a certain risk. Among the most common personal protective devices are: helmet, safety boots, gloves, dielectric gloves, lumbar support, harnesses for work at height, masks, ear defenders etc.

Brazil

The companies have a Joint Occupational Health and Safety Commission - CIPA).

In 2005 Atento Brazil carried out AIDS prevention campaigns. For one week during carnival, and also on World AIDS Day in December, Atento distributed leaflets with guidelines as well as condoms to employees.

Colombia

Work at height workshop for technical vice presidency personnel.

Medical examinations for executives.
Provision of protective equipment.
'Active pauses' program in different company divisions.

Health and Safety Week with anti-stress workshops, talks on medical care and checks for employees. Cardio-vascular risk campaign.

Flu vaccine day.

Sports medicine program, sight, hearing and voice conservation program, ergonomics program, updated risk outlook in all company headquarters.

Unification of industrial health and safety procedures on a national level.

Maintenance of fire fighting systems (FM200, hydraulic extinguishers).

Meetings of Occupational Health Peer Committee

Chile

ATENTO takes part in a program called "Empresa Competitiva 2.0" run by the Mutual de Seguridad (Chilean social security body for workplace accidents and occupational illness).

This program involves a range of activities during the year with goals to be reached as part of the same program. The PEC program has been approved by the management and has been registered with the Mutual de Seguridad. It is aimed at contributing to the improvements of member companies of the C.Ch.C Mutual de Seguridad, seeking to provide real protection for the physical integrity and health of workers.

Module 10 of the program deals with control of epidemiological illnesses. The program has received excellent ratings, with 97% compliance.

CTC and Móviles prepare an annual program pursuant to law 16744 and the employment code establishing objectives signed up to and in line with Chilean laws and the recommendations of the ILO. The program includes activities to be carried out, the persons responsible, the chronogram of visits and a special section on risk prevention management involving training, medical examinations, emergency plans, internal regulations, peer committee, telecommunications projects, environment.

Ecuador

Evacuation simulations were carried out in each building to update emergency plans.

Updating the safety committee and representatives by floor in the event of emergency.

Training of management in personal safety matters.

Implementation of a national flu vaccination program with the participation of family members.

Work focussed on providing information to

employees in health matters, in all matters relating to prevention of illness. Medical examinations carried out, laboratory tests and eyesight checks for 88% of employees nationally.

Summer sports programs launched so employees can participate in various disciplines.

Training of floor safety representatives in matters related to first aid.

Bi-annual contribution to the national blood donation program.

El Salvador-Guatemala

Workplace health and prevention courses. Evacuation volunteers program, evacuation simulations, first aid workshops, corporate anti-smoking program, currently implementation of ISO 14,000 certification processes, volunteer program for reconstruction of schools. Social contribution program (Proniño).

Panama

Together with the Health Ministry, a campaign of vaccination against tetanus and rubella for around 350 employees.

Health fair held, where around 300 persons benefited from medical and dental services such as: vaccination, blood pressure, weight and height, nutritional evaluation, massage, glucose, blood examinations, dental and optometry evaluation.

Peru

The company responsible for providing health and safety services to companies in the Telefónica Group in Peru is T-Gestiona. In 2005 25 simulations were carried out in different Telefónica premises in Peru. Once a year, evacuation simulations are carried

out with the participation of all personnel nationally. All premises have safety signage and certification from INDECI (Civil Defence Institute). They also have health and safety committees in all company divisions.

There is a chronogram of preventative and corrective maintenance for all safety teams in different company premises to ensure they function correctly.

Venezuela

In 2005, the Workplace Health and Safety Division focussed its efforts on:

Installation of signage (escape routes, electrical risk, fire extinguishers, among others)

Improvement of the fire detection and alarm system (migration to systems with intelligent devices - Radionic system).

Installation of extinguishers.

In health and prevention matters

- Vaccination days for prevention of illness
- Breast Cancer prevention day (September)
- HIV prevention day (December)
- Cholesterol/ Triglycerides / Glycaemia / Anaemia/ Obesity prevention days (July and September)
- Design and implementation of drug prevention program
- Design of primary health care service at Torre 42 Telefónica, S.A. 06

Employment claims

Despite the efforts made by the company to resolve claims brought by its employees, there are currently 3,247 claims brought by employees against the company (2,191 claims in 2004).

The two procedures opened in relation to alleged mobbing cases resulted in clear rulings in favour of Telefónica de España and Telefónica Móviles España.

Employment claims received (2005 total)

	Number of claims	% of workforce
Fixed Spain	306	0.9
Fixed Latin America	713	2.5
Telefónica Móviles	105	0.5
Directories	117	4.0
Content and Media	4	0.2
Atento	1,495	1.9
T gestiona	196	9.9
Others	2	0.9



Telefónica Volunteers, Notable facts in 2005.

Argentina	723 employees from the 18 business units and Group companies signed up 243 projects carried out during the year 2000 in the whole country.
Brazil	285 employees participated in the 'Incentivo Niño - Medida Legal' program. 12 Telefónica volunteer projects in the 11 Annual Project Competition.
Chile	Around 500 Group employees participated directly in the program. 240 social actions to celebrate 125 years of Telefónica in Chile.
Spain	Around 840 voluntary workers from different Group companies have signed up, and 3000 collaborating in different joint campaigns and initiatives. 11 large voluntary projects. 10,000 hours a year on average dedicated to said activities.
Mexico	366 employees participating in 16 different social programs.
Peru	150 employees participating in the program.
Venezuela	300 employees participating in 13 different social projects. 8 large volunteer programs.

Telefónica Volunteering

The Telefónica Group corporate volunteer program goes back to the year 2000 when a common network of Group employees was set up in Argentina. Said network has been established in other companies where Telefónica has a presence (Venezuela in 2002, Chile and Spain in 2003 and finally in Brazil, Mexico and Peru in 2005).

The Telefónica Group corporate volunteer program is a trans-national initiative open to active, pre-retirement and retired employees, as well as family members if they wish. Managed by Fundación Telefónica, its objective is to encourage and strengthen social actions, offering its members the necessary resources to meet its objectives and have a positive effect on society.

2005 saw a significant boost for the program. From a strategic viewpoint, this has become one of the corporate areas which are fundamental to the social action of the Telefónica Group. The objectives set for the 2006 financial year are as follows:

- Physical and online training for volunteers so they can suggest and undertake their own joint initiatives.
- Local committees as a driver of the program: Local volunteer committees are groups of employees, active or retired, who want to support specific social causes in cooperation with local not for profit organisations.
- Development of projects implemented at the initiative of volunteers themselves.

Of note among actions developed by Telefónica volunteers are:

- Educational programs: children, young people, adults with limited resources, immigrants, the elderly etc.
- Solidarity vacations: exchanges between volunteers participating in the different countries where Fundación has a presence.
- Participation in events held by social organisations: competitions and different sporting activities for disabled people, and sporadic initiatives aimed at children or the elderly.
- Support for the Proniño program: eradication of child labour in Latin America.
- Solidarity campaigns: collection of economic donations, articles and material such as clothes, foodstuffs and other goods.
- Volunteer for a Day: find out more about the work of an experienced volunteer in a not for profit organisation.
- Elderly companionship program:
- 'Teleoperador@s Solidari@s': joint campaigns and telethons in which the Telefónica Group participates .
- Projects for the recovery and support of the environment:

ATAM

ATAM was formed 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' labour representatives. In 1974 the institution was included in Telefónica's collective bargaining agreement, becoming one of the first examples in Spain of the creation of a legal entity between a company and its workers. The Bylaws of the Association establish its own governing bodies and operational mechanisms.

ATAM's governing bodies are comprised of company and labour 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 willing and voluntary contributions of some 61,000 employees from 22 Telefónica Group companies. The workers contribute 2 per thousand of their fixed wages and the companies double this contribution.

During 2005 the total number of assistance actions subsidised by ATM was more than 2000, its own centres dealt with over 400 disabled persons, its clinical team dealt with over 3000 consultations and its Special Employment Centres employed 250 disabled persons.

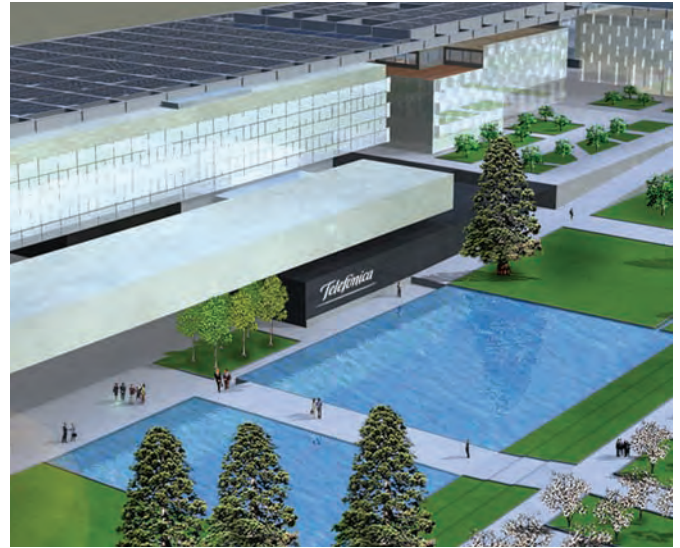
ATAM is currently one of the most solid and palpable initiatives of the Telefónica Group in corporate responsibility matters and the principal reference for Group companies in matters related to disabilities, as an expert and integrated association in that sector. Details of its activity can be found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

During 2005, Telefónica implemented a policy to encourage the employment of disabled people through the Telefónica accessible program, available on www.telefonica/accesible. Framed within this project, ATAM is the interlocutor between Telefónica and the disability sector. Through the Employment Integration Service (SILA), ATAM provides technical assistance to companies of the Group in Spain with the aim of increasing employment rates of disabled persons in Telefónica.



District C





CASE STUDY

District C: a new space for a new way of working

The campus covers an area of 200,000 square metres and will house around 14,000 professionals from the different companies of the Telefónica Group, who will be arriving between autumn 2006 and summer of 2007. It is located in the new neighbourhood of Las Tablas, to the north of the city of Madrid, bordering Alcobendas.

It is located at the confluence of three important highways: the M-40, the A-1 motorway and the M-603 from Fuencarral Alcobendas. As of April 2007 it will have a station on line 10 of the Metro, referred to as "District C".

An open space and a commitment to the environment

District C was designed as a space open to the city and its neighbours, a space to share with our customers and our partners.

The campus lacks barriers; it is integrated into its surroundings and will be a show case for an innovative, open, transparent and close Telefónica.

Telefónica's commitment to the environment means that District C was designed along the lines of "sustainable architecture", facilitating the reduction of CO₂ waste, the optimisation of climatic conditions and a more efficient use of resources.

Landscaping also plays an important role. The different shrubs and trees, together with waterfalls and a lake have been designed to improve humidity and freshness.

A significant commitment has also been made to a paper free office and the reduction and adequate treatment of waste.

The architecture and technology has been designed to facilitate a new way of working which will be characterised by more horizontal relationships, greater mobility, flexibility, team work and management by targets.

Directors and managers work alongside their teams and have access to a wide range of space designed to facilitate communication and collaboration.

The technological resources assigned to work stations are defined not according to the hierarchical position but rather professional profiles. Thus, mobile workers use advanced work stations, laptops and fixed-mobile connectivity making it possible to work in different locations both within and outside of the campus. Personnel having a traditional or basic profile have flat screens and a conventional computer, although integrated into shared use multiple function systems which substitute printers, scanners and faxes.

Technology and a new way of managing personnel have made it possible to implement the concept of "mobile working", with more efficient time management as well as a better work-life balance.

District C, a project for innovation and a factor for change.

District C exemplifies the new working culture at Telefónica.

Spaces, technologies and new ways of working are the three main levers for innovation and transformation, which are encouraged through policies and processes, progress being measured through the corresponding indicators and targets.

- Different types of work stations and spaces better suited to different needs. Key: the advanced workstations.
- Connectivity which favours mobility and flexibility and enables work from any location and in a range of situations.
- New leadership meaning progress in management by targets and performance; towards greater autonomy in time and activity management.

In summary, spaces and technologies to encourage talent, creativity and innovation, development, motivation and balance, generating efficiency and productivity.

Crédits

Departments that collaborated in the preparation of the report

Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
05 Shareholders	Shareholders' Office / Investor Relations / Secretariat General
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 / Fundación Telefónica / ATAM / Fonditel
07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

