



06

Employees: clarity and professional development

06/01

clarity

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

**WORKPLACE
ENVIRONMENT SURVEYS**

77%

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

06/02

compensation

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

PERSONNEL COSTS 2004

4,411

million euros

06/03

professional development

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

HOURS OF TRAINING

8,910,182

06/04

exemplary conduct

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

**LABOUR
RELATIONS AUDIT**

06/05

employee solidarity

Telefónica is proud of its employees' commitment to social action

ATAM

61,634

participating employees



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

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

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

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

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

01 CLARITY

a) Over 173,000 employees

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

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

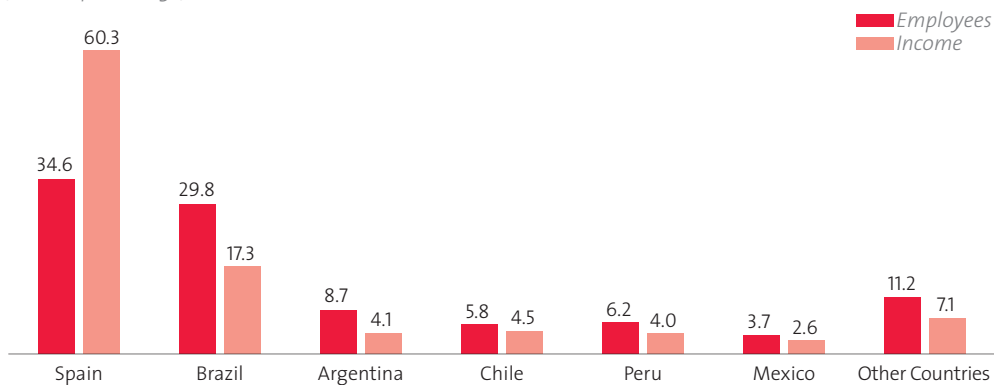
- Reorganization of the Data business line (Telefónica Empresas) which is integrated into Telefónica de España and Telefónica Latinoamérica.
- November 2004 saw the integration of the BellSouth companies into Telefónica Mòviles with more than 6,000 employees in Peru, Guatemala, Colombia, Uruguay, Venezuela,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

WORKFORCE AT DECEMBER 31 2004 (06-1)

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

WORKFORCE DISTRIBUTION COMPARED TO 2004 INCOME DISTRIBUTION (06-2)

(Data in percentage)



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

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

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

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

b) Workplace Environment

Workplace Environment Studies

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

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

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

Telefónica employees have indicated their satisfaction primarily with:

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

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

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

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

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

Workplace Environment Monitoring Group

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

CASE STUDY

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

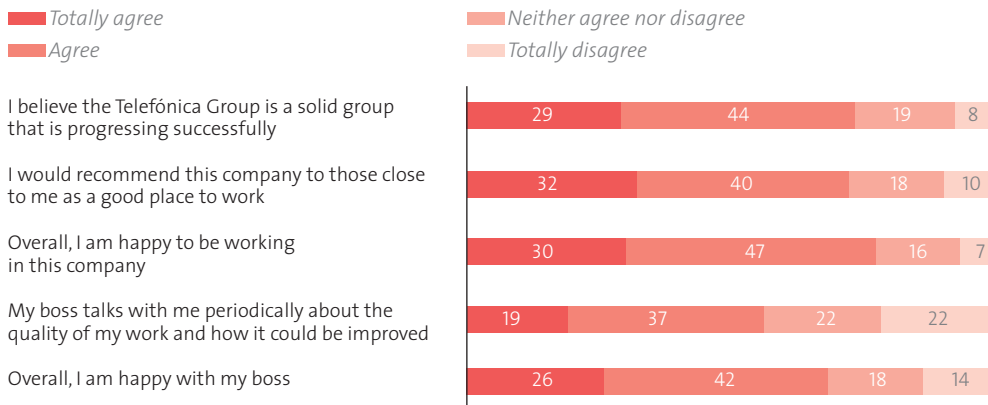
Young people and students are currently the groups that meet with greatest difficulty in accessing employment. Atento stands out for offering young people a first job that allows professionals to work with computers, generate customer contacts and understand how a big company works -- skills much appreciated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

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

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

RESULTS OF WORKPLACE ENVIRONMENT SURVEYS (06-4)

(Data in percentage)



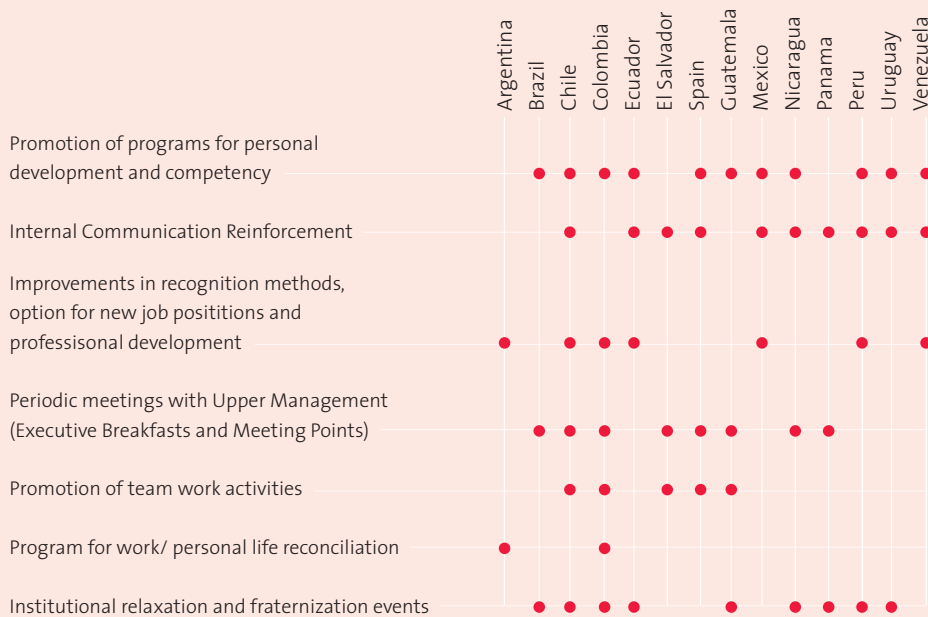
Environment at the principal Telefónica companies. Its mission is to analyze and share initiatives being introduced in the Telefónica Group and in other companies to improve the workplace environment and, specifically, to create a space for debate and innovation that helps us foster employee satisfaction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

c) Internal Communication

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

CASE STUDY

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



MAIN CHANNELS OF INTERNAL COMMUNICATION (06-6)

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

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

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

d) Motivation

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

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

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

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

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

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

CASE STUDY

CASCADED COMMUNICATIONS AT THE MANAGEMENT SUMMIT (06-7)

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

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

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

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

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

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

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

02 COMPENSATION

a) Compensation Policy

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

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

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

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

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

Fixed Compensation

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

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

2004 Personnel costs in the Telefónica Group

4,411
million Euros

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

Variable Compensation

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

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

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

b) Pension Plans

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

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

105,411
employees subject to
variable compensation

CASE STUDY

COMPENSATION SYSTEM AT ATENTO (06-9)

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

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

HEALTH PLANS FOR TELEFÓNICA EMPLOYEES (06-10)

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

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

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

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

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

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

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

c) Health Plans

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

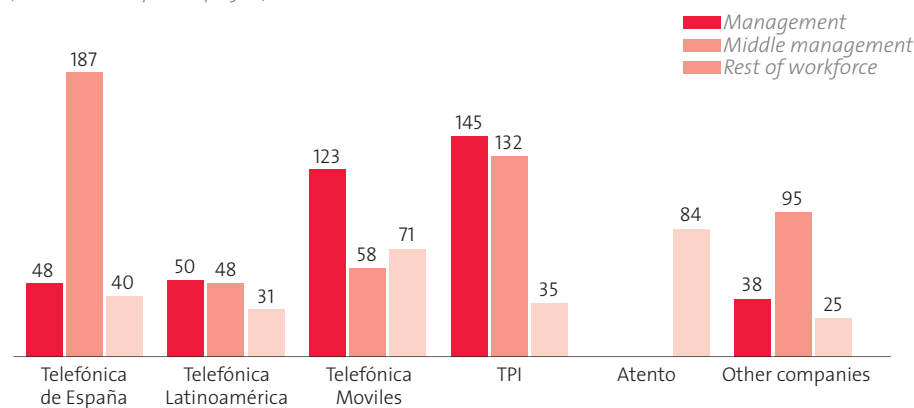
In Chile, the former health insurance system based on an internal institution has been changed and has now moved towards a private institution (ISAPRE) that competes in the market and provides more comprehensive health coverage.

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

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

d) Stock Option Plans

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

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

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

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

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

03 PROFESSIONAL DEVELOPMENT

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

a) Training

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

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

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

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

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

TRAINING HOURS PER BUSINESS LINE (06-12)

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

TELEFÓNICA GROUP SKILLS (06-13)

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

133,000

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

- *Start with Sales* is a transformation initiative involving all employees who joins the Telefónica de España staff, who are required to spend at least 6 weeks in the sales area. This activity aims to increase the customer orientation and commercial vision of everyone in the organization, thereby contributing to the company's transformation.
- *Virtual Classroom (Centra)*: It simulates a real class via computer, allowing real time interactivity between the trainer and students. This tool permits combining voice and image, sharing applications, working in groups, doing live surveys or evaluations, etc.
- *Mobile learning*: Allows student to take the class (totally or partially) via mobile devices integrated with the training platform.

Teletraining

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

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

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

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

- Move to train employees in new technologies via an exclusive offer of computer and broadband for its employees.

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

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

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

b) Skills Development

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

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

c) International Mobility

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

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

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

d) Idea Contests

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

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

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

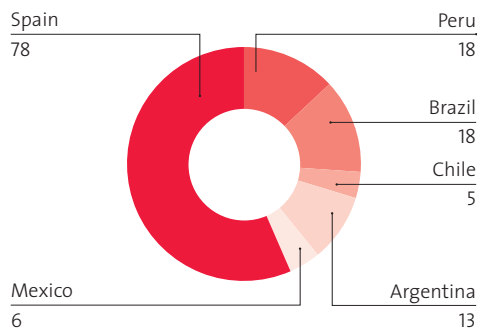
In Brazil, there was also an award for the third edition of the *Race of Champions*, designed to compensate initiatives related to all activities that contribute to improving business orientation towards the customer.

IDEA COMPETITIONS AT TELEFÓNICA GROUP (6-14)

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

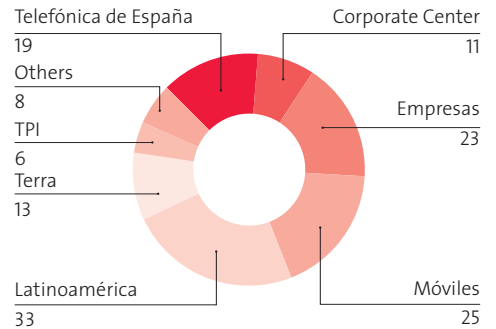
DISTRIBUTION OF JAPS - 2004 BY COUNTRY

(Data in number of professionals)



DISTRIBUTION OF JAPS - 2004 BY ACTIVITY LINES (06-16)

(Data in number of professionals)



CASE STUDY

PROGRAM FOR HIGH POTENTIAL YOUTH (JAP) (06-17)

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

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

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

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

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

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

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

CASE STUDY**OPPORTUNITIES FOR PROFESSIONAL CAREERS AT ATENTO (06-18)**

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

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

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

STAFF TURNOVER AT ATENTO (06-19)

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

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

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

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

e) Knowledge Management systems

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

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

04 EXEMPLARY CONDUCT

a) Human Rights

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

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

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

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

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

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



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

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

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

Principle 3 of the Global Compact.
Companies must defend freedom of association and effective recognition of collective bargaining

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

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

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

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

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

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

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

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

LABOR AUDIT AT THE TELEFÓNICA GROUP (06-21)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CASE STUDY**BRAZIL.- CHILD-FRIENDLY COMPANY (06-22)**

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

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

chance to develop, offering them a brighter future.

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

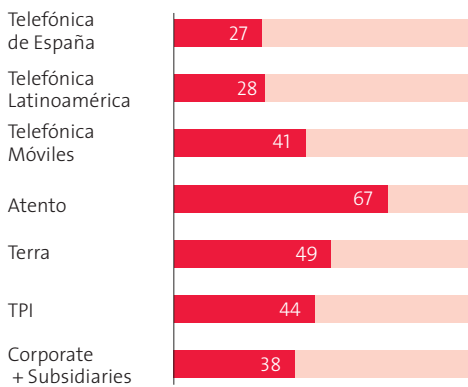
**Principle 6 of the Global Compact.
Elimination of all job-related discrimination**

Gender Equality

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

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

(% of Women on Staff)



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

Equality for the Disabled

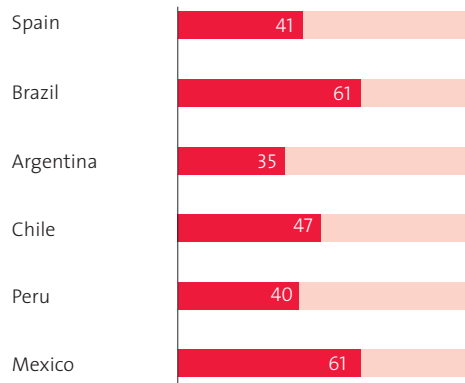
Telefónica's commitment to socio-labor integration of the disabled dates back to the creation of ATAM in 1973, at the initiative of workers and their labor union representatives. ATAM is an initiative described in the section on caring employees. Currently more than 1,000 professionals with disabilities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

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

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

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

(% of women on staff)

**Other Aspects**

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

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

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

b) Work / Family Life Balance

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

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

DISABLED EMPLOYEES (06-25)

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

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

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

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

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

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

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

Integration of the Disabled

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

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

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

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

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

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

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

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

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

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

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

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

Reduced Working-day

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

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

c) Health and Safety

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

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

Surveillance promotion and maintenance of occupational health

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

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

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

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

Labor risk prevention (LRP)

Prevention is fundamentally based on:

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

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

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

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

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

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

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

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

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

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

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

LABOR RISK PREVENTION INITIATIVES. SPAIN (06-32)

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

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

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

CHSC: Central Health and Safety Committee

HSC: Health and Safety Committee

PHSC: Provincial Health and Safety Committee

NUMBER OF EMPLOYEE ACCIDENTS (06-34)

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

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

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

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

Accident control

This is developed along two main lines:

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

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

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

CASE STUDY**HEALTH AND SAFETY MANAGEMENT (06-36)****Job Stress**

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

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

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

Action Policies in Electromagnetic Fields and Base Stations

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

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

Risk Prevention for Jobs at Heights

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

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

Initiatives on Smokeless Policy

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

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

Work Gym

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

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

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

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

05 EMPLOYEE SOLIDARITY

a) Corporate Volunteers

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

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

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

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

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

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

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

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

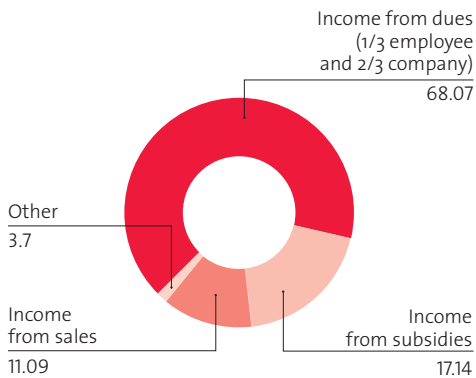
This project, one in which more than 2,500 employees participate, is also supported by the Telefónica Foundation, which makes matching monthly donations to those collected by its employees.

CASE STUDY

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

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

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

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

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

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

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

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

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

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

More than
3,600
beneficiaries

Annual service to
400
persons at its
own centers

Over
3,000
visits seen by
its medical team

15,245
payments for individual
economic assistance

Approximately
250
disabled persons work
in its special
employment centers