

The development, optimization and integration of our human resource team into the corporate goals, is one of Telefónica's prime strategic objectives.

In line with this policy, half-way through the year, the 1989-1990 wage agreement was signed. The pact is valid for two years and includes some important agreements on different issues.

By 1989 year-end, Telefónica had an active workforce of 71,155 employees, 66,056 of whom were permanent and 5,099 temporary. This represents a staff increase of 7.7% over 1988, which will help us to respond more effectively to demand and upgrade service qua-

lity. In absolute terms, net growth was 1,930 permanent staff and 3,163 temporary staff. 55.4% of the new permanent employees are university degree holders. This represents a significant improvement in workforce qualification levels, which is vital in order to face the challenge of new technologies and growing competition.

Great progress was also made last year in training operations. Over 5,000 employees received initial training and promotion courses and over 38,000 took part in refresher courses. In addition, 2,012 temporary employees also attended training seminars.

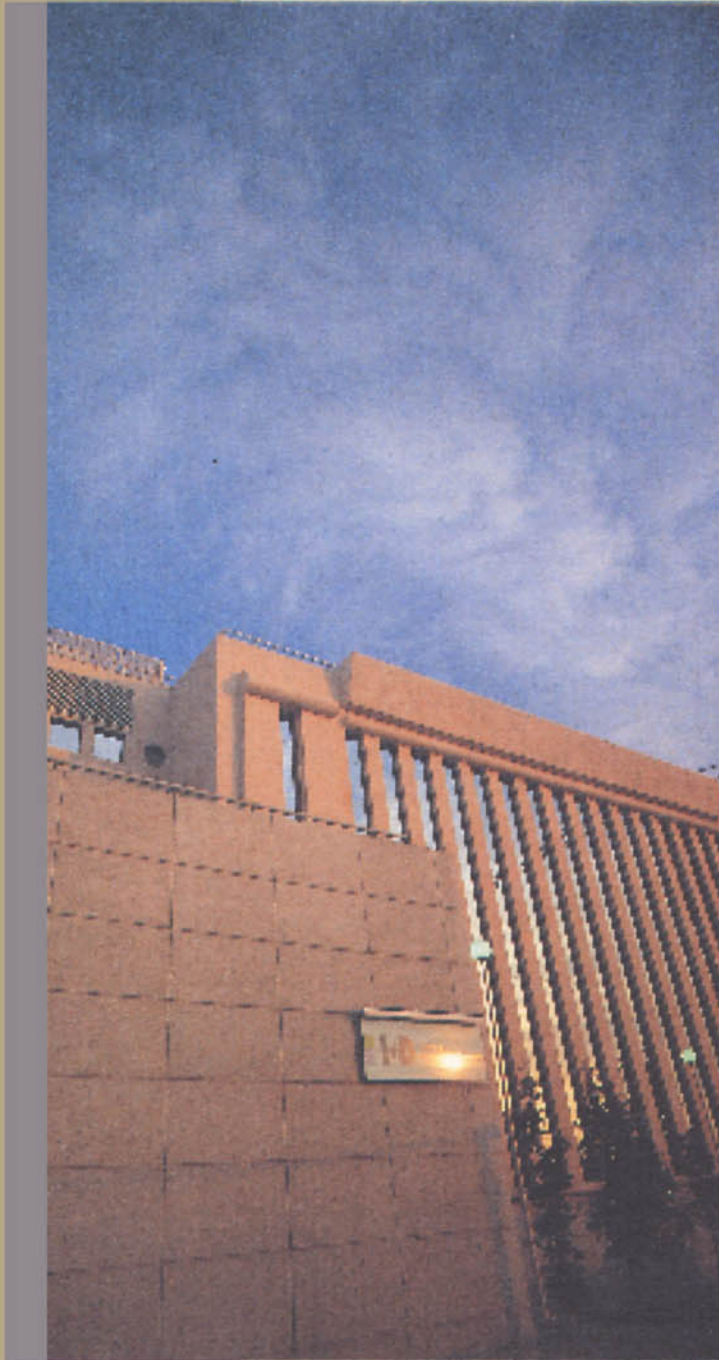
Human resources development

In 1989, the Telefónica Group companies followed the pattern set in previous years and continued to strengthen their market positions in the different fields of activity. Sales grew by 48.4% and the return on shareholders' equity stood at 23%.

To consolidate Telefónica's competitive edge in the face of the globalization of telecommunications and to complement the company's core network business by a presence in high-growth, strategic areas of the market, in 1989, Telefónica invested in a number of ventures, among them:

- * The acquisition, via our affiliate, Telefónica International, S.A. (TISA), of 10% of the Chilean Telecommunications Company ENTEL, which provides international and trunk services in the said country.
- * A 25% holding in the Hispasat project, dedicated to operating satellite communications systems. This Company has recently been commissioned to exploit the Spanish Hispasat 1 satellite. The Hispasat system, which will be operative in 1992, will have two satellites in orbit and a third ground satellite in reserve. With nationwide coverage, it will enable us to

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meet various communications requirements, such as connections with the Canary Islands, business networks and VSAT networks. It will also facilitate a prompt response to special events and will be an efficient tool for restoring traffic in cases of emergency.

Also during last year, we started negotiations in order to finalize investment agreements in a number of other projects, among them:

- * 10% holding option in Mercury Personal Communications Network Ltd.. In December of last year, this consortium obtained one of the three operating licenses for the Personal Mobile Telephone service in the United Kingdom.

- * A holding in the Chilean Company, CTC, which supplies local telephone services in Chile. This operation was completed in April, 1990.

- * The creation of a computer software company, subject to the agreements signed with the Ministry of Industry and Energy. Telefónica will contribute to this venture the software activities developed by its affiliate ENTEL, while the INI (National Institute of Industry) will offer those of ERIA.

International Relations

Throughout the year, Telefónica continued to cooperate with other public network operators. Agreements were reached with TELEVERKET of Sweden and PTT TELECOM