

05

Employees: clarity and professional development



01	A large human group	<ul style="list-style-type: none"> • Characteristics of the workforce • Working conditions surveys • Internal communication channels • Good practice and recognition 	<p>WORLDWIDE WORKFORCE (CONSOLIDATED DATA)</p> <p>148,288</p>
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02	Compensation	<ul style="list-style-type: none"> • Compensation policy • Performance appraisal • Pension plans • Health plans 	<p>EMPLOYEE PERFORMANCE APPRAISALS</p> <p>110,000</p>
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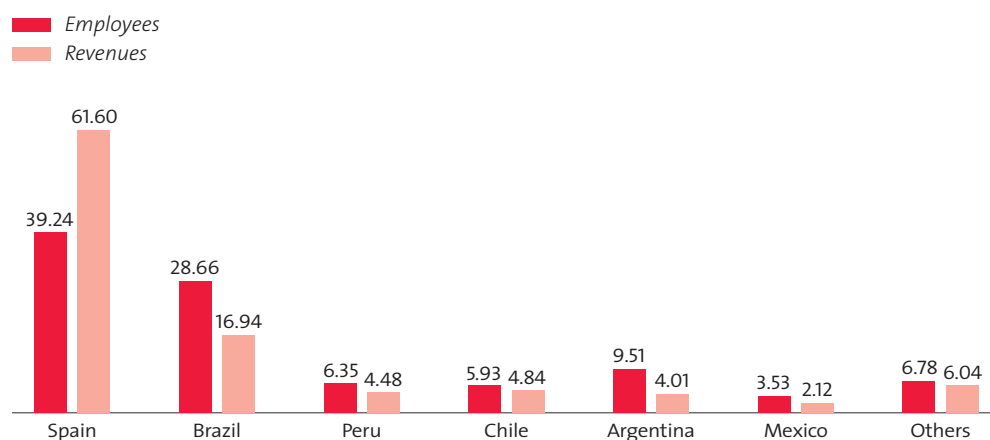
03	Professional development	<ul style="list-style-type: none"> • Training • Development skills • Talent management • International mobility 	<p>HOURS OF TRAINING</p> <p>6.3 millions</p>
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04	Human Rights	<ul style="list-style-type: none"> • Labour relations • Zero tolerance • Non discrimination • Health and Safety 	<p>EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS</p> <p>106,593</p>
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05	Employee solidarity	<ul style="list-style-type: none"> • Corporate volunteerism • Other initiatives by employees • Telefónica Association for Aid to the disabled (ATAM) 	<p>COLLABORATING WITH ATAM</p> <p>62,854 employees</p>
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DISTRIBUTION OF REVENUE AND WORKFORCE BY COUNTRIES

(Data in percentages)



CONSOLIDATED PHYSICAL WORKFORCE BY COUNTRIES (31ST DECEMBER)

	2002	2003
Spain	64,444	58,189
Rest of Europe	3,551	3,186
Total Europe	67,995	61,375
Brazil	41,381	42,496
Argentina	13,843	14,100
Chile	8,006	8,795
Peru	8,826	9,422
Mexico	4,630	5,228
Rest of America	5,248	5,898
Total America	81,934	85,939
Rest of countries	2,916	974
Total	152,845	148,288

CONSOLIDATED PHYSICAL WORKFORCE BUSINESS LINE (31ST DECEMBER)

	2002	2003
Telefónica de España	42,162	36,577
Telefónica Latinoamérica	25,673	23,141
Telefónica Móviles	13,694	13,093
Atento	49,432	54,394
Telefónica Data	4,664	5,012
Terra	2,455	2,229
TPI	2,752	2,787
Admira / Content	5,574	4,638
Other companies	6,439	6,417
Total	152,845	148,288

01 AN IMPORTANT HUMAN GROUP

a) More than 148,000 employees

The Telefónica Group has more than 148,000 employees (consolidated figure at December 2003) distributed mainly between the Americas (57% of the workforce) and Europe (41%). By countries, Spain and Brazil are key contributors, in view of the fact that together, they account for 67% of the employees. A comparative analysis of distribution of revenues compared with distribution of the employment created by the Telefónica Group by countries shows the company's commitment to development of its activity in all the countries in which it is present.

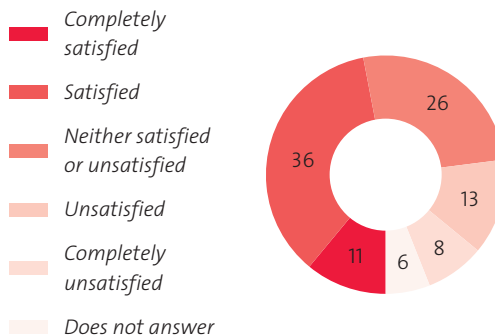
The business lines with the greatest number of employees are Atento, Telefónica de España and Telefónica Latinoamericana, the three of which account for 77% of the workforce.

In an analysis of the evolution of the workforce over time, the negotiations leading to the Redundancy Plans (ERE) of Telefónica de España during financial year 2003 are particularly significant. These plans were established as one of the necessary measures to address the company's situation, while ensuring a feasible future for all the employees, and at the same time, taking into account the competition, the company's own business transformation project, as well as the new trends developing in the telecommunications sector itself.

The principles of voluntary choice as well as universal and non-discriminatory application govern the measures articulated in the Social Plan agreed with the workers' representatives. The Redundancy Plans were approved by the Spanish Ministry of Labour and Social Affairs in the relevant administrative resolution of 29th July 2003. The ERE Social Plan was initially foreseen to affect 10,000 people up to the year 2005, although as a result of negotiation with the workers' representatives, an extension to 2007 is allowed, in which case it would affect

**ONLINE EMPLOYEE SATISFACTION SURVEY
BY TELEFÓNICA DE ESPAÑA**

(Data in percentages)



15,000 people, with a commitment to replace up to 10% of the jobs. In 2003, the number of employees who requested to take voluntary redundancy amounted to 5,384.

The upward trend of the workforce in the Americas is due to the increase in the personnel of Atento in the different countries.

The main characteristics of the workforce at the Telefónica Group worldwide are:

- 89.05% of the workforce has a permanent or indefinite contract, the remainder being distributed among employees on temporary contract (9.61%) and interns (1.34%).
- The degree of hierarchical organisation of the workforce is 4.75%, this being understood as the percentage represented by senior management and the middle management staff, out of the total workforce.
- Distribution of the Telefónica Group workforce by functions shows that 34.24% is assigned to production, 54.17% to commercial activities and 11.7% to support

duties. This calculation includes the customer care personnel under the commercial function.

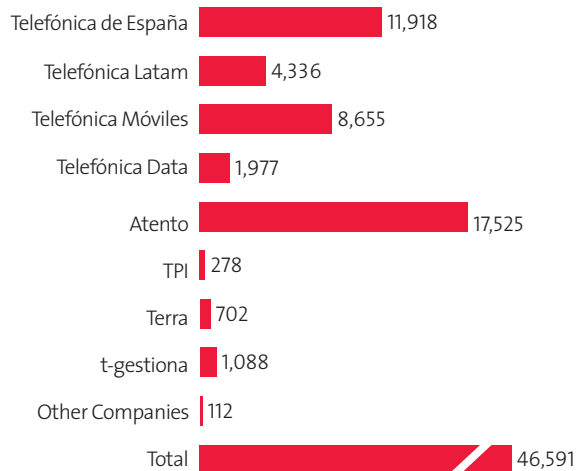
- The average seniority of the workforce ranges from 2 years at the Atento companies to 19 years at Telefónica de España or Telefónica de Argentina, the average seniority being estimated at 9.73 years. The average age of the workforce is approximately 36.

The evolution of the workforce, taking into account that this same distribution by functions is expected to prevail in the following financial year, shows a twofold, market-oriented trend: on the one hand the portion of the workforce assigned to commercial duties will increase, and on the other, the commercial culture will be strengthened among the rest of the functions.

b) Working conditions

Numerous studies are conducted within the Telefónica Group concerning working conditions, in order to encourage upward

NUMBER OF EMPLOYEES WHO PARTICIPATED IN THE SATISFACTION SURVEYS



RESULT OF THE EMPLOYEE SATISFACTION SURVEYS AT TELEFÓNICA LATINOAMÉRICA

(Data in percentages)

	Brazil	Argentina	Chile	Peru
Participation	74	81	75	92
	Brazil	Argentina	Chile	Peru
Management	66	65	68	61
Supervision	71	76	68	70
Satisfaction	66	69	62	65
Focus customer	57	61	56	51
Willingness to change	57	63	52	53
Communication	n.d.	63	74	61
Values	58	59	62	50
TOTAL	63	65	64	58

communication from the employees to the company, to detect needs and establish plans of action aimed at improving aspects that affect the employees' satisfaction at work. During 2003, more than 40,000 employees participated in these satisfaction surveys.

A first approximation to the results of the online opinion survey 2003 show that the employees of Telefónica de España have a positive vision, although with clarifications, of the situation of the company. There has been progress as to satisfaction with the job carried out, recognition and communication by the management of the strategic objectives of the company. However, the results point to a need for studying more closely such aspects as supervisor-collaborator relations, training and promotion.

The Telefónica de España transformation project (*mi.Telefonica.es*) has been implemented during 2003 with 39 new actions aimed at improving employee satisfaction, in addition to continuing development of those previously approved.

During 2003, the four operators of Telefónica Latinoamérica carried out similar surveys on working conditions, evaluating employee

opinion of such aspects as management, supervision, satisfaction, focus on the customer, willingness to change, communication, and values.

The companies in the Telefónica Móviles Group perform studies on working conditions in order to detect employee needs and thus be able to establish plans of action aimed at improving those aspects that affect labour satisfaction. Approximately 60% of the workforce participated in such surveys during 2003.

During 2003, all the companies forming t-gestiona unified their survey criteria, which resulted in administration of the same survey to all the companies. In Spain, 63% of the employees of t-gestiona participated in the working conditions survey, with a satisfaction level of 3.01 on a scale of 1 to 5 (5 being high satisfaction).

c) Internal communication

Telefónica provides different corporate communication systems for its employees, aimed at providing general information on a Group-wide scale as well as specific information compatible with the nature of each business or

RESULTS OF THE EMPLOYEE SATISFACTION SURVEYS AT TELEFÓNICA MÓVILES

(Data in percentages)

Company	% participation	% satisfaction
Telefónica Móviles España	61	55
Telefónica Unifón Argentina	70	72
Telefónica Móvil Chile	56	65
Telefónica Móviles Perú	85	63
Telefónica Móviles México	26	74
Telefónica Móviles Guatemala	76	76
Telefónica Móviles El Salvador	63	76
Meditel Morocco	88	79

country. Such systems are complemented by the work carried out at middle management level, which is considered a key factor in the communication process.

Internal communication channels

- *Televip*: since 1999 it has published a printed magazine for internal communication, with a print run of 150,000 copies per month. There are eight national editions of *Televip* (Argentina, Brazil, El Salvador, Spain, Guatemala, Mexico, Peru and Puerto Rico) with certain pages dedicated to specific groups (Telefónica de España, Móviles, Telefónica I+D, etc.)
- *InfoBuzón*: a daily electronic internal communication service of Telefónica, that published 3,763 news items in 2003. Every day, it is distributed to 70,000 employees through its different editions (*Infobuzón* in Argentina and Spain, *Diario Electrónico* in Chile or *Televip M@il* in Brazil).
- *Corporate Intranet*: accessible from the corporate network of the Telefónica Group, which was visited nearly seven million times in 2003.

Other internal communication channels

The Telefónica employee portal in Spain (eDomus) receives more than 21,000 visits daily and allows users access to management of internal processes related to the workers, reaching more than one and a half million workers in 2003. This portal is accessible to all employees of other companies in the Group.

In June 2003 the Telefónica Móviles Intranet was awarded Second Prize for Best Employee Portal in the First Employee Portal Prize organised by Instituto de Empresa, Inforpress and Capital Humano.

Another internal communication channels is the digital magazine *SOMOS Telefónica*

Móviles, which published 11 editions in 2003, in three versions: Spanish, Portuguese and French. Additionally, each one of the operators in the Telefónica Móviles group has its own internal communication mechanisms to keep its employees informed (*Encontro Vivo*, in Brasil; *Somos Gente Movistar*, in Chile; *MundoMóvil*, in Chile or *MoviNotas*, in Puerto Rico, for example).

As an example of direct communication, there is the Annual Meeting of Telefónica Data held in Spain with all the company employees, which was classified by the employees attending and surveyed with a grade of 7.3 out of 10.

Telefónica Latinoamérica has established regular quarterly meetings throughout the whole management chain with senior management, on objectives and results of the quarter. Those results are later reported to the entire workforce.

- In Argentina a new communication channel has been created, consisting of holding periodic meetings with the top 200 executive and managers on the challenges of management and levers for action.
- In Chile, extensive reform has been undertaken throughout the entire electronic communication system, setting up a new daily bulletin that contains all the relevant news for the workforce and some distinct communication tools for groups who do not have a computer at work. That task is complemented by the "Telephone Employee Care Service" (t-gestiona), that has answered an average 4,000 queries per month.
- In Peru, the communication dialogue platform began with what is known as "*The management committee replies*". It is an electronic forum in which all the employees may pose questions to the Management Committee on matters of interest by sending personally addressed e-mails.

**2003 total wages
and benefits to
Telefónica employees**

4,641
millions of euros

- Brazil set up an initiative called “*Agenda*”. Each month, the Management Committee at Telesp chose a matter it considered of interest to the company at large and this was debated at meetings attended by members of the workforce, was reported and debated by all the employees.

An example of participation has been the involvement of more than 8,000 employees in the survey to design the “*Communications City*” for Telefónica in Madrid, according to the co-operation proposal made by the Company.

d) Prizes that certify good employee management by Telefónica

During 2003, some companies in the Telefónica Group received recognition in different areas related to personnel management:

- t-gestiona Brasil received two awards in 2003:
 - “Company of the Future 2003,” due to its human resources policies and programmes;
 - “Premio Top RH 2003,” due to its social responsibility project, linked to the Federal Government Programme, to combat hunger (mobilisation and voluntary work among our employees).
- Telefónica Empresas Perú was the finalist company in the competition “Prize for Best Practice of Human Resources,” organised by the Peruvian-British Chamber of Commerce, with support from the Embassy of the United Kingdom and the Ministry of Employment. The variables taken into account were the innovative means to motivate and develop the personnel, internal communications, working conditions and recruiting and training.
- Telefónica Empresas Brasil received the Top RH 2003 Prize for its internal communications project “*Operation Smile: customer satisfaction is your satisfaction.*” That award is

granted annually to companies with an outstanding corporate vision and improved results due to adequate implementation of a management style.

- In the case of Vivo, that task obtained external recognition, as it was awarded the Top Human Resources prize for its internal *marketing* campaign, launched in order to make the employees identify with their company.

02 COMPENSATION

a) Compensation policy

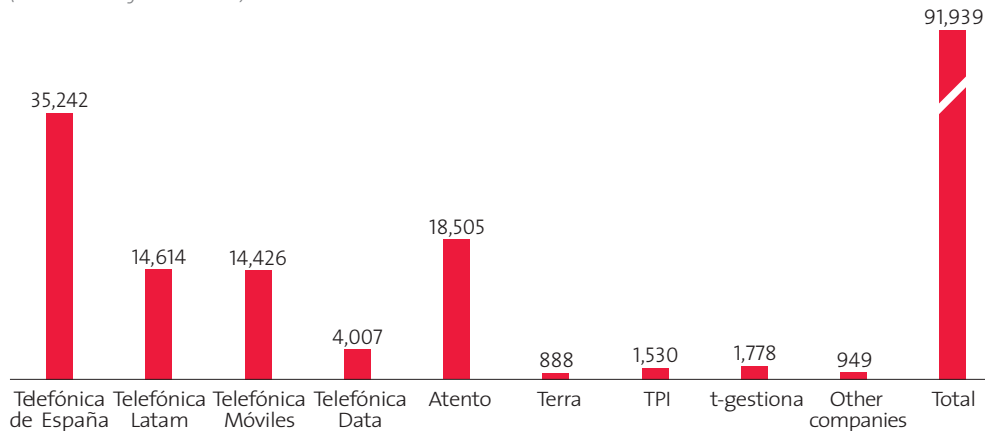
Telefónica seeks to motivate and obtain loyalty from its employees, offering them competitive, balanced compensation packages, based on consistent, simple and clear criteria. The aim of the Compensation Policy is to achieve efficient support for the organisation in order to fulfil its business objectives, reinforcing adequate conduct to guide employees toward that end.

The Telefónica Group compensation system establishes an integrated and flexible remuneration package, with the following key points:

- Management of the compensation processes: evaluation based on performance, communication.
- Adaptation to the reality of each market and each line of business.
- Consistency with the values of the Telefónica Group.
- Focus on key persons, according to their duties and contribution, fixed remuneration.
- Clear connection between results and rewards: variable remuneration combining short and long term incentives.

NUMBER OF EMPLOYEES WITH PRIVATE MEDICAL INSURANCE PROVIDED BY THE COMPANY

(Data in no. of individuals)



- Relevance of non-monetary remuneration: social benefits, benefits in kind, social provision programmes.

The personnel expenses of the Telefónica Group in 2003 came to a total of 4,641 million euros, which represented approximately 16% of Group revenues in 2003. Of those total expenses, the remuneration package (fixed remuneration + variable remuneration + profits + pension schemes + commissions) amount to 79%, with 71% in fixed and variable remuneration and 6% in profits.

b) Performance appraisal

The Telefónica Group has worked for years on design and implementation of variable compensation policies that reward effort and fulfilment of objectives by its employees. These policies seek greater commitment and involvement by the employees in the corporate objectives, and also greater equity in the remuneration systems. There are three factors that affect variable remuneration of each employee:

- Their individual performance.
- The general objectives of their company.
- The results of the Group.

109,964 employees (74% of the workforce of the Telefónica Group) were subject to performance assessment during 2003. In the case of 86,305 employees, that evaluation was linked to their variable remuneration.

c) Pension plans

The employees of the Telefónica Group in Spain and Brazil participate in pension plans organised by the Telefónica Group. In the rest of the countries, the employees participate in the different public pension systems there.

In December 2003, the Telefónica de España Pension Plan had 70,920 members, 53,294 of

whom were employees who, until December, had generated 10,421 provision orders in favour of the members and/or beneficiaries. That plan covers the contingencies of retirement, death of the member / beneficiary, incapacity in its different modes and major invalidity. The company makes a monthly contribution of 6.87% of the gross salary of the employees to the plan, and each member 2.2%, except for employees who joined after June, whose percentage is 4.51%. Moreover, for workers who decided not to adhere to the Pension Plan, it maintains a financial subsidy that is received until reaching the age of 65.

It also has a Collective Risk Insurance policy providing coverage for the contingencies of death and absolute invalidity due to illness or accident and partial invalidity due to accident for workers who have voluntarily requested to join.

The 27 employment schemes at the Telefónica Group, managed by Fonditel Pensiones, have been awarded the best Spanish employment schemes and were one of the runners up for European employment schemes (IPE prizes), receiving maximum recognition for the third consecutive year. This is a landmark that confirms the excellent results in profitability that Fonditel Pensiones is achieving with its management.

d) Health plans

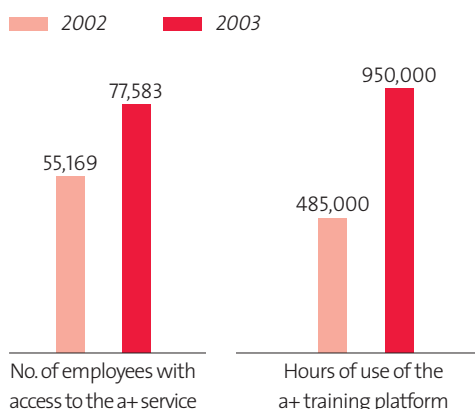
More than 87,000 employees of the Telefónica Group have private health insurance.

In Spain, voluntary collaboration in the health management of the Social Security General Regime provided by Telefónica de España and Telefónica S.A. through the collaborating company ceased during the first semester of 2003, by resolution issued by the Directorate General for Economic Organisation of the Social Security under the Ministry of Labour and Social Affairs. The Company Management and social partners reached a collective agreement by

109,964

employees assessed on performance in 2003

**EVOLUTION OF THE a+ TRAINING SYSTEM
AT TELEFÓNICA GROUP**
(Data in units)



which the company undertakes to formalise a contract with the company Grupo Seguros de Vida y Pensiones Antares S.A.

Telefónica de España and Telefónica S.A. subscribe insurance policies for their employees to replace the complementary health assistance to the Public Health System, to the extent and within the limits agreed for the groups affected:

- Group of employees in active service, spouses and children (up to the age of 21 years) who are registered as Social Security beneficiaries.
- Current group of those in early retirement and redundant.
- An alternative is provided for the group of the retired and beneficiaries, who also were entitled to the services of the collaborating company, allowing them to receive similar services.

In Chile, the old insurance system based an internal institution (ISAPRE TELEFONICA) was modified and in its place a private ISAPRE has been set up that competes on the market and grants more and better health coverage. Other initiatives of this kind carried out in Chile were training on what to do in the event of labour accidents, tasks to encourage exercise at work and meetings on prevention of breast cancer.

During 2003 in Peru, the whole workforce joined the new health insurance policy subscribed by the company at the end of 2002 providing access for all the workers to a more complete coverage in the event of illness or accident, attention for their children and an old age pension scheme.

e) Share option plans

At the end of 2003, Telefónica had set up a general single system of remuneration linked to the listed value of the Company shares, aimed at all the active workforce of Telefónica and

most of its Spanish and foreign subsidiaries, called the TIES Programme.

Similarly, the subsidiaries Telefónica Móviles, S.A., Telefónica Publicidad e Información, S.A. and Terra Networks, S.A. have also established their own remuneration systems linked to their respective listings. Finally, there is a Telefónica, S.A. share option plan intended for the employees of Endemol (EN-SOP Programme).

03 TRAINING AND PROFESSIONAL DEVELOPMENT

a) Training

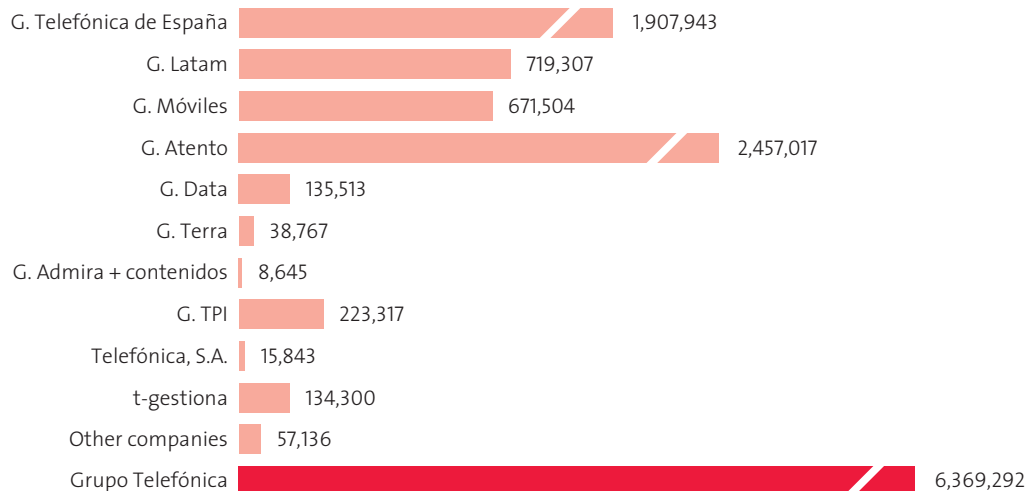
The Telefónica Group has a commitment to the professional development of its employees. For example, during 2003, numerous initiatives aimed at development of its employees were carried out at Telefónica de España:

- Creation of the Executive Training Committee and launch of the Comprehensive Training Plans, with excellent results: from 34 hours of training per employee in 2001, it went to 52 hours in 2003; from actions aimed at 70% of professionals in 2001, it went to 100% in 2003.
- 282 people have participated in different identification and talent programmes, such as the Mentor programme, 40 of whom have been promoted.
- Feedback and Coaching: 1,000 managers have received feedback from more than 5,000 collaborators.

The total number of hours of training by the Telefónica Group in 2003 exceeded six million. The Telefónica Group has maintained its commitment in recent years to tele-training as a learning methodology that, independently or combined with course attendance, has boosted the training objectives of the Group in general and of the lines in particular. The objectives of the Group in relation to e-learning are:

HOURS OF TRAINING ACCUMULATED IN 2003 AT THE TELEFÓNICA GROUP

(Data in hours)



- To unify the capabilities and skills of Telefónica employees, encouraging adequate Group culture for the strategy and business plans.
- To improve the effectiveness of Group employees through an ample training and quality offer, adding 380 content items during 2003 and including other new ones in Portuguese.
- To make access to training flexible, guaranteeing the availability of the content at any time and in any place. Availability of the service in 2003 was 99.99%.
- To act as a catalyst in the practice of sharing knowledge and making employees aware of their own development, providing them an open offer of content related to all of the different businesses.

- To increase the integrated use of the services of the Group related to new technologies, turning them into a technological reference for customers and society.

The a+ service is a management system for learning that is compatible with international tele-training standards, that allows both an open offer aimed at self-development, as well as training plans managed by the companies through guided, tutor controlled courses. In 2003, Educaterra assumed management of the online training of the Group and therefore of the a+ service. Throughout the year, more than 110,000 training actions were carried out (some of which are still in progress as they are long-term courses).

In Employee Training, in addition to the training experience acquired through e-learning, the new Collective Bargaining Agreement reached

PARTICIPATION EMPLOYEE IN "INNOVATION" INITIATIVES

(Data in units)

Subsidiaries	No. of ideas suggested	No. of ideas implemented
Telefónica de España	880	20
Telefónica Latinoamérica	227	87
Telefónica Móviles	391	28
Telefónica Data	361	146
Atento	185	125
TPI	60	3
Terra	0	0
t-gestiona	0	0
Other	23	12
TOTAL	2,127	421

with the workers' representatives for 2003-2005 has included a new knowledge model, that identifies the training profiles linked to the work posts defined. For example, more than 12,000 employees at Telefónica de España have received training in broadband, thus allowing development of their knowledge towards the new trends in the sector.

b) Skills development

All the business lines of the Telefónica Group have worked on the design of a new system of generic skills for all the employees that reinforce the values of the Group. The skills are guidelines for action that allow one to know what the company expects of each one of its employees, and are also a personalised guide to professional development for each one. To that end, all the employees participated in an assessment process that consisted of at least self-evaluation and valuation by their supervisors. The results of that evaluation allowed identification of areas of improvement for each employee and adequate actions to develop each year. More than 80,000 employees throughout the group have participated in this programme.

The programme of Youths with High Potential, reviewed in 2003, has the basic objective of identifying and developing, from the beginning of their career, the young professionals in the Telefónica Group with the greatest potential for future performance of managerial duties.

The new programme establishes a single, common methodology for all the companies in the Telefónica Group that allows us to identify, select and develop the 'YHPs' following the same guidelines worldwide. This year, 3,150 candidates from Argentina, Brazil, Chile, Colombia, El Salvador, Spain, Guatemala, Morocco, Mexico, Peru and Miami (U.S.A.), were eligible to join the programme. From these, the 947 most highly evaluated by their supervisors, on the basis of a profile adjustment of the reference skills, took an online test, after which the resulting 405 final candidates must personally attend a final

examination. That last test will lead to selection of the 200 YHPs finalists who will participate in the programme during 2004-2005.

c) Talent management

Recognition of employees' good ideas

The employees of the Telefónica Group participated in improvement initiatives with more than 2,000 ideas and initiatives, more than 400 of which were implemented (20%).

- Idealab! Is the Telefónica de España programme that encourages participation by its employees to improve in the different areas of the company, recognising the effort involved in innovating in the diverse processes. It has an Intranet channel, *Innova*, created to facilitate and encourage a permanent process of idea gathering. During 2003, 880 new ideas were proposed, 20 of which were rewarded and implemented.
- Patenta is the competition organised by Telefónica Móviles España to recognise and reward the most valuable ideas by its employees who contribute to improving quality, to increasing revenue and improving efficiency.
- In Argentina, the participation initiative called Pentathlon was implemented, through which numerous innovative ideas were received to improve operation of TASA.
- Prizes were also awarded in Brazil in the third edition of the Champions' Race, aimed at rewarding initiatives related to all the activities that contribute to improving the corporate customer orientation. Likewise, in 2003, it launched the fourth edition of the Champions' Race, this time to improve quality of life at work, in which nearly 32% of the workforce participated by proposing initiatives for integration of persons, harmony within the Group work and reduction of bureaucracy.

GLOBAL COMPACT PRINCIPLES ON HUMAN RIGHTS AND WORKING CONDITIONS

Human rights:

- 1 The companies must support and respect protection of human rights.
- 2 Ensure non complicity in breaches thereof.

Working conditions:

- 3 The companies must defend freedom of association and effective recognition of collective bargaining.
- 4 Elimination of all kinds of obligatory, forced labour.
- 5 Abolition of child labour.
- 6 Elimination of all discrimination in relation to employment.

Knowledge management systems

Sócrates and Prometeo are services that aim to facilitate, integrate and encourage the most relevant initiatives in knowledge management that exist at Telefónica Móviles España as well as in the Telefónica Group. Their objective is to encourage the practicing communities to share experience and information, so the organisation may know who does what, and to provide complementary mechanisms to the traditional learning and recognition systems.

d) International mobility

As a multi-domestic company, Telefónica has to make an effort to attract and motivate its employees to accept international assignments and, thus, contribute to achieving the global strategic objectives of the Group.

To do so, it has created the International Mobility Unit, belonging to T-gestiona España, to carry out the overall management of the personnel posted abroad, with the following main objectives:

- To conceptually and operatively establish a horizontal practice to be followed by all the companies in the Group.
- To follow a structured, transparent procedure in matters of candidate selection, talent identification, development and compensation.
- To obtain a single centralised operational procedure to attend to the needs of the expatriate.

Based on the t-gestiona companies in Argentina, Brasil, Chile, Peru, Central America and in co-ordination with Telefónica SA, this service is now provided to nearly 20 companies in the Group who have about 200 people posted at nearly forty companies located in Latin America, in Europe and Northern Africa.

04 GUARANTEED HUMAN RIGHTS

Telefónica has confirmed its commitment to the defence of Human Rights in all its activities through its adhesion to the United Nations Global Compact. Companies that adhere to the Global Compact undertake to fulfil nine principles, the first six of which refer to promotion of human rights and establishment of fair working conditions in all relations between the company and its employees.

Labour relations

The search for efficiency is the basis on which the labour strategy of Telefónica shall operate, so that social dialogue and negotiation become a key factor in our development as a Group.

Therefore, the company and the majority Trade Unions signed an agreement last 21st July 2003 in which they declare the value of social dialogue and collective negotiation as an irreplaceable instrument in management and governance of labour relations, as well as to achieve adaptability of collective negotiation to the progressive changes in companies. Various company Collective Agreements are applied to more than 100,000 employees of the Group.

In response to this mutual commitment, social dialogue has improved in all the countries and, overall, it has been a valuable contribution. Some of these achievements deserve special mention:

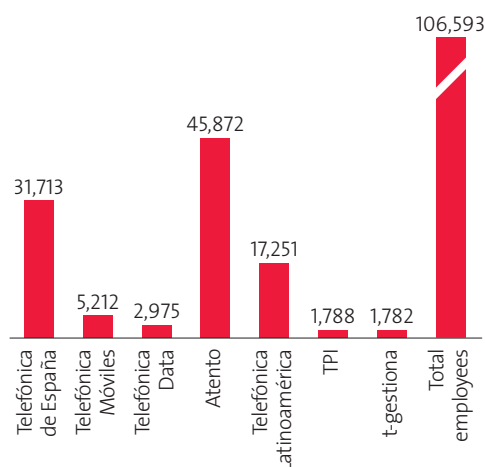
- Agreement on the Social Plan of the Redundancy Plans at Telefónica de España (E.R.E.) for the period 2003-2007, affecting a maximum of 15,000 workers and a commitment to replace up to 10% of the posts.
- In Argentina a salary recomposition has been negotiated with all the professions, representing 8% of the combined salary in 2004.

- An Agreement for 2004 was signed in Brazil in November for Telesp, Assist and T. Empresas with Sintetel, involving 7,700 employees represented.
- In Chile, 10 Collective Agreements were also signed at CTC Chile, T. Empresas, T. Equipos and T-Gestiona with 4 Trade Unions, involving about 2,000 people. T. Móviles already has its Trade Union agreement for 97% of its workforce.
- In order to show the reality of the country and the needs of the company, Peru has agreed to undergo a training and workshop process, in which the representatives of the Company and Trade Union leaders who will negotiate the next Agreement have participated jointly.

In relation to social dialogue in the international field, Telefónica and UNI (Union Network International) have undertaken to meet once a year in order for the management of Telefónica to inform the Trade Unions in general terms concerning the key

EMPLOYEES SUBJECT TO THE COMPANY COLLECTIVE BARGAINING AGREEMENTS

(Data in number of employees)



factors of the Group that affect its running, its position on the market, its future and priorities.

The relevant meeting in 2003 was held in Rio de Janeiro in November. Among the matters discussed, there was a presentation on the Telefónica Group, its position in Latin America, the dynamics of the telecommunications sector, the strategy for future development of the Company and labour relations at Telefónica. After the Company's presentation, an enlightening exchange of points of view between the parties took place.

Freedom of association is a right of Telefónica employees, as shown by the fact that more than 42,000 employees are members of a trade union. By companies: Telefónica de España with 18,016, Telefónica Latinoamérica 13,068 and Atento 11,326 employees, are those with the largest numbers of trade union members. Participation by employees of the Telefónica Group in the trade union elections amounted to more than 77,000 employees. The 2,584 trade union representatives chosen in these used more than 850,000 trade union hours during 2003.

The number of hours of labour conflict amounted to 79,000 in financial year 2003, Telefónica de España leading with 54,553 hours, the companies in the Atento Group with 9,720 and Telefónica de Argentina 5,000.

Elimination of overtime abuse

The Collective Bargaining Policy of the Telefónica Group in 2003 expressly includes limitation of overtime. Specifically in Peru, an awareness campaign has been carried out among all the managers in order to comply with the limits to the ordinary working day established in the collective agreements, gradually phasing out the incidence of abusive overtime.

NUMBER OF DISABLED EMPLOYEES

Company	No. of disabled employees
Telefónica de España	366
Telefónica Móviles España	28
Telefónica Data España	3
TPI España	6
Terra España	2
Telefónica, S.A.	1
Total	406

Child labour

Telefónica has consistently maintained a policy of zero tolerance with child labour in all the countries in which it is present, a policy that is extended throughout its supply chain through the contractual requirement of strict fulfilment of the laws of each country.

In Brazil, four companies in the Telefónica Group have obtained the Child Friendly Company certificate, in a programme that deals with the challenge of developing policies to protect childhood in social and labour terms. These companies are TeleSP, Telefónica Data, Assist and t-gestiona.

Non-discrimination**Gender e-quality**

An average of 45% of the workforce of the Telefónica Group is comprised of women, in percentages ranging from 32% in Argentina to 60% in Brasil. By lines of activity, Atento stands out with 67% of women in the company. As to the management levels, there are more than 1,250 women executives in the Company.

In Chile, Telefónica employees held a cultural event in the Company auditorium to celebrate the International Women's Day, which was attended by the Minister of the National Women's Service.

Integration of disabled persons

In relation to disabled persons, apart from the responsible action of each company, the Telefónica Group has an institution specialised in these matters to support all the companies in these fields. It is the Telefónica Association to Aid the Handicapped (ATAM). Among its missions, there is that of ensuring the highest possible levels of social integration for disabled persons through different means, including participation in the labour force.

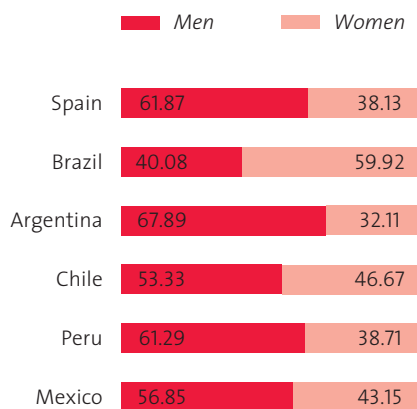
During 2003, ATAM held conferences at its headquarters on labour integration of the disabled, aimed at human resources managers at 23 companies in the Telefónica Group. The objectives of the meeting were:

- To facilitate exchange between companies in the group to allow opinions and concerns to be shared in relation to labour integration of disabled persons.
- To examine in greater depth the alternatives available for fulfilment of the current laws on the matter (LISMI) and to allow evaluation of the companies.
- To share an integrated management / collaboration system for labour integration with the companies in the group, to generate a synergy effect, with benefit for companies, their employees and the disabled.

ATAM offers the different companies the possibility of using any of the formulas considered in the LISMI and other legislative development. To that end, it provides two fundamental mechanisms: the labour integration service of ATAM (SILA) and the special employment centres.

GENDER DISTRIBUTION OF THE WORKFORCE. 2003

(Data in percentages)



Other types of discrimination

As to sexual equality and non-discrimination, the Collective Bargaining Agreement of Telefónica de España has included recognition of common law partnerships for the purposes of granting paid leave. Moreover, the agreement on representation of the workers has included concern in the Collective Agreement for defence 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.

In Chile, Atento has spent 3 years developing the Elderly Adult programme, through which this company provides work for senior citizens. The degree of satisfaction among the people who work on that programme encourages development of other such initiatives.

Work / family life balance

The 2003 collective bargaining policy for the Telefónica Group companies identifies the need to manage work time, the duration and distribution of the working day, even its annual calculation and flexible distribution. The use of flexi-time systems must have the main aim of balancing the need of the companies and that of the male and female workers, making their working life compatible with their personal and family life.

Telefónica and a group of known Spanish companies has signed an agreement between the Ministry of Labour and the '+Familia Foundation' to create a Family-Friendly Company Certificate. The aim of the certificate is to reward companies who facilitate the balance of work and family.

Telefónica Móviles España has worked on the launch in 2004 of a plan to balance personal and working life, in collaboration with 'Más Vida Red'. Its basic factors are the family advisor, free services aimed at solving day to day problems and low cost services.

Tele-work

Telefónica considers tele-work to be yet another step in its strategy of technological, cultural and organisational transformation. The key aspects it puts in practice are flexibility and confidence in its collaborators.

Telefónica de España performed an evaluation of the results of its tele-work project eWready! three months after it was set up. At the time of evaluation, 100 employees were participating in the project on conditions outside collective agreement, a figure that was increased to 400 at the end of 2003. The objective for financial year 2004, is to extend that practice to 1,000 employees outside the collective agreement, it being foreseen to extend that mode to personnel within the Agreement just as agreed in the Collective Agreement for 2003-2005.

The hierarchical superiors as well as the tele-workers, above all the latter group, perceive certain improvement in performance, better planning and more quality in their work. On the other hand, one of the key factors that explain satisfaction among tele-workers is the favourable environment they enjoy, with their family as well as with the working team. Moreover, 80.7% of the sample, with only an average of 10.52 hours of tele-work a week, state they had saved approximately 3.19 hours per week on travel.

Telefónica I+D implemented a tele-work project with favourable results in 2003, fundamentally evaluating the professional activity, personal life and relations with the working team. At other countries, there have been different experiences in the field of tele-work or the virtual office, in which 900 employees have participated.

Reduced working day

In December 2003, 4,906 employees took advantage of flexi-time in Telefónica Group companies to work less hours, amounting to 3.3% of the workforce. Among the causes

SATISFACTION WITH THE TELE-WORK EXPERIENCE AT TELEFÓNICA I+D

(Data on a scale of 1-5)

	SEPT 2003	OCT 2002
• Professional activity	4.5	4
• Media	3.2	3.1
• Relation with supervisor	3.3	4.16
• Relation with work team	4.2	4.16
• Relation with customers	3.5	3.6
• Personal life	4.4	4.6

expressed by the employees when requesting this model, are: illness (42% of the cases), maternity (27%) or studies (16%).

The duration of maternity leave is according to the current legal requisites in each country, ranging from 12 weeks in some countries to 18 in others. In the case of Spain, that leave lasts 16 weeks.

Leisure Club

Under the slogan of *An amusing way to keep company*, the Leisure Club was presented at Telefónica Móviles España, being understood as a permanent service to provide games, sports, cultural and recreational activities in general, for leisure among all the workforce. The initiative arose to respond to diverse needs observed when studying the working atmosphere, due to lack of knowledge of activities in other areas or lack of interdepartmental collaboration.

The aim of the Leisure Club is to help relations among people from different departments, to encourage and improve relations between the employees of Telefónica Móviles, by allowing them to participate in group leisure activities outside the working environment.

GLOBAL SATISFACTION WITH THE TELE-WORK EXPERIENCE eWREADY!

(Data on a scale of 1 to 7)



Atento Peru created the a plan in 2004 for the Atento Perú Cultural Centre, which has the mission of training all who are interested in developing their artistic and acting skills.

Other initiatives

In 2003, Telefónica I+D created the Commission for the Balance of personal and professional life, formed by 11 members, to improve satisfaction among people and the results of the company, through motivation and commitment among its professionals. Among the new measures implemented, there is arranging flexible working hours, the physiotherapy service or the favourable conditions for mothers, related to lactation periods or maternity leave.

Some companies in the Group offer complementary aid to their workers, especially in matters of family aid (grants, crèches, or support for maternity). During 2003, nearly 30,000 employees of the Telefónica Group benefited from these.

Moreover, and also drawn on a heading of Social Funds agreed in the Collective Agreement of Telefónica de España, diverse promotion and aid options were also implemented in relation to employee leisure time, through offers of hotel accommodation and subsidies. In this sense, different holiday plans are offered at different seasons of the year, holiday camps for employees and aid for study and exchanges abroad. The possibility of enjoying diverse options also includes retired and pre-retired employees. Throughout financial year 2003, a total 9,909 applications were granted out of a total 16,387. Grants were also awarded to study away from home to 575 employees.

In 2002, Atento Perú founded a Children’s Club, in order to organise activities for the more than 180 children registered on the programme, to cover the needs of employees who are parents.

**HEALTH CHECK-UPS.
PREVENTION SERVICE IN SPAIN**

Activity	No. of attentions
Diagnostic tests	140,927
Health campaigns	49,433
Health queries	77,998
Vaccination	9,102
Check-ups	42,858

**HEALTH RISKS
PREVENTION ACTIVITIES**

Prevention activity	No. of activities
Technical assistance	4,038
Reports and technical studies	2,092
Fire prevention	508
Risk evaluation	312

05 HEALTH AND SAFETY

The three main lines of action within Labour Risk Prevention in the Telefónica Group are detailed in the Annual Report on Activities by the Common Labour Risk Prevention Service, published in 2003.

- Surveillance, promotion and maintenance of health at work, mainly consisting of three types of health assistance:
 - Health check-ups (including diagnostic tests).
 - Health campaigns for prevention and vaccination campaigns.
 - Health queries, by the labour doctor and/or SRN/SEN at the Company.
- Prevention of labour risks, underpinned by five basic concepts:
 - Preventive planning.
 - Risk evaluation (Initial, specialised according to the risks and psycho-social risks).
 - Fire prevention (emergency simulation and plans of action).
 - Reports and technical studies.
 - Technical advice (health and safety committees, official bodies and different departments of the company).
- Accident Rate Control, with the following aspects:
 - Evaluation of companies with zero accident rates. Every year, more companies manage to fulfil that objective.
 - Comparison of frequency and severity indexes, not only between the different companies in the Group, but also with the service sector.

The companies in the Telefónica Group work along with their employees on more than 75 health and safety committees worldwide:

- The Directorate General of Operations of Telefónica de España, in collaboration with the Directorate General of Human Resources, has set up a Communication Plan on Labour Risk Prevention, aimed fundamentally at operating personnel performing work related to External Plant and Installation and Maintenance.
- A notable factor is that of risk reports prepared at the base stations and installations that are delivered to personnel from Telefónica Móviles España and collaborating subcontractors.
- An ambitious training programme has been set up in Argentina, aimed at decreasing accidents at work. Approximately 3,000 people have participated in it, concentrating on such matters as fire prevention, emergency evacuations and electricity risk.
- In Chile, within the field of health, a training plan has been set up to decrease the accident rate of company vehicles, through diverse actions that combine purely training aspects, with responsibility awareness factors.

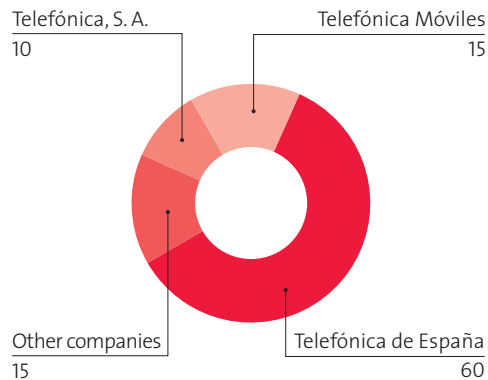
06 EMPLOYEE SOLIDARITY

a) Corporate volunteers

Since it commenced in 2001, nearly seven hundred employees of the Telefónica Group have joined the Corporate Volunteer programme, through which social promotion projects are co-ordinated and implemented at the initiative of the Fundación Telefónica, or are proposed by the volunteers themselves, the majority of which are carried out in collaboration with social organisations.

DISTRIBUTION OF EMPLOYEES COLLABORATING IN THE CORPORATE VOLUNTEERS PROJECT SPAIN 2003

(Data in percentages)



The projects chosen are related to childhood, disability, the elderly and culture, and among them, priority is given to those that feature the importance follow the benefit and its direct effect on the community.

During financial year 2003, the corporate volunteers project was set up in Spain, under co-ordination by the Fundación Telefónica and with collaboration by approximately 1,000 workers. The demand for volunteer posts at non-profit entities exceeds one hundred posts, the outstanding areas being information system, management, administration and marketing. The different projects carried out in 2003 are calculated to have taken more than 10,000 hours of voluntary activity.

In June 2003, the Corporate Volunteer Programme was presented in Chile. During 2003, nearly 2,000 workers participated directly in the diverse projects and solidarity actions performed, also obtaining collaboration in the

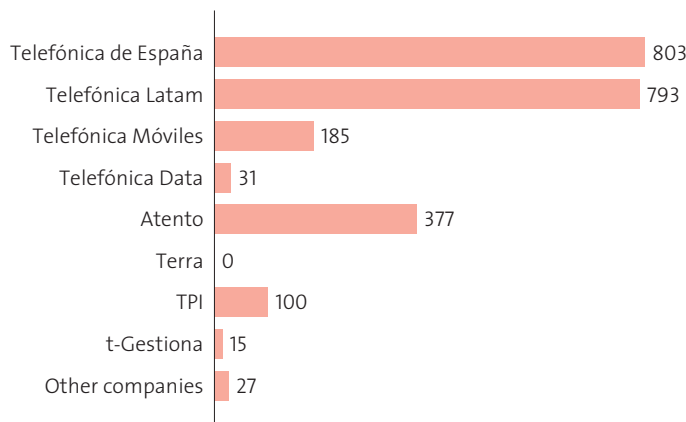
programme by relatives of employees, suppliers and customer, whose actions benefited about 600 needy people.

Among the activities carried out by the volunteers from the Telefónica Group there was *A Ceiling for Chile*, (construction of Mediaguas, a basic wooden housing unit with a surface area of 18 metres) for the needy, contributing to eradicate poverty; and *Christmas with Sense*, providing a telephone service to select children who are then provided gifts donated by the employees.

Throughout the year, the volunteer group at Atento Argentina collaborated with the needs of society, organising collection of non perishable foodstuffs, clothes, school equipment and toys, which were delivered to different educational institutions, kindergartens, common dining halls and shelters. Another initiative was an educational market garden project for a children's' home in the province of Buenos Aires.

ACCIDENTS AT WORK*

(No. of accidents at work in 2003)



(*) The labour accidents are recorded according to the recommendations of the WLO (World Labour Organisation).

SOME CORPORATE VOLUNTEER INITIATIVES IN ARGENTINA. 2003

Project	Activity
Satchels and school equipment	– 1,160 satchels with school material were delivered at 26 schools to needy pupils
Children's day	– 27 different activities to improve facilities or provide sewing machines for sewing workshops. – These activities benefited a total of 7,200 people.
Community Libraries	– Modernising the library computer equipment – Providing study books to stimulate reading among the young
Volunteer training	– 40 employees prepare and motivate other volunteers to carry out community actions, providing them tools to evaluate projects
Educating to learn / t-gestiona	– Volunteers on the Corporate Volunteer Programme of the t-gestiona area to perform school support tasks at schools with few financial resources in Buenos Aires

In Peru, the "Peru gives a Hand" plan was implemented, to provide relief for victims of the heavy flooding in the southern area of the country, where Atento collaborated with one tonne of food and clothing. Telefónica Móviles Perú created the Social Aid Committee in order to promote social action among the company workers, who organised a Christmas campaign to help more than 250 boys and girls at the Felipe Alva Settlement in the city of Lima. The operators of Atento Perú visited an area in need, taking a great deal of joy and amusement to more than 300 children living in deficient conditions.

In Brazil, Telefónica volunteers have carried out numerous corporate voluntary actions. For example, about 30,000 employees of the Telefónica companies in Brazil, as well as relatives and guests, participated in the July Festival, organised by Telefónica SP to support collection for the Social Solidarity Foundation in the State of São Paulo, campaigns to collect products and gifts for children at Christmas, collaboration in campaigns of the Hunger Zero programme. Atento employees organised 18 campaigns to collect goods and/or donations to support the underprivileged.

In Puerto Rico, Atento employees collaborated in the Christmas campaign to aid the Niño Jesús Home and the Campaign against AIDS.

b) Telefónica Association to Aid the Handicapped

ATAM was founded in 1973 among Telefónica employees and the social agents of the

Company, in order to attend to the group of people with physical, mental and sensorial disabilities. After nearly 30 years in existence, and in a phase of expansion ATAM received a major recognition of its work in 2003:

- Telefónica was awarded the Company and Society Prize for the Best Social Action in collaboration with employees for the initiative ATAM (Telefónica Association to Aid the Handicapped). That prize was dedicated to the 65,000 employees who collaborate with the association.
- Fundación Sagardoy awarded Telefónica an extraordinary prize for its prevention and social and labour integration task through ATAM (Telefónica Association to Aid the Handicapped).
- The Regional Government of Catalonia recognised the record of ATAM in an act of appreciation for entities representing the handicapped who have been working for more than 25 years.

ATAM has the following figures:

- Number of associated employees: 62,854 in December 2003, between employees, early retirees and pensioners of the 23 companies in the Telefónica Group.
- Number on the census: 3,562 at the end of 2003, nationwide, who have been provided the necessary support and measures to develop their potential at the centres of the association or through other aid and/or

SOME CORPORATE VOLUNTEER ACTIVITIES IN SPAIN. 2003

Project	Activity
Prestige	<ul style="list-style-type: none"> – Participation by Telefónica volunteers on certain working days – Participation by 102 employees
Learning to venture	<ul style="list-style-type: none"> – Participation as teachers on 35 courses for children from 7 to 17, aimed at educating to achieve goals within a framework of freedom and education. – Participation by 45 teachers and benefited 875 children.
Recovery of computer equipment	<ul style="list-style-type: none"> – Reinstatement of obsolete computer material, for later use in social projects (donated through the Bip-Bip Foundation) – Participation by 60 employees who recycled 500 sets of equipment
Solidarity telephone operators	<ul style="list-style-type: none"> – 162 employees attended to 12,000 calls to the Inocente Inocente 2003, charity drive to collect funds to research cancer in children.

services. During 2003, a total 409 disabled persons were attended through their own territorial centres.

- The aid the Association grants to registered sufferers of disability are individual and aimed at helping to pay part of the expense of the needs arising from the person's disability, considering such factors as age and social-family and financial circumstances. During 2003, a total 14,422 grants were awarded under this heading.
- Annual budget for 2003: 17,904,138 euros

Some notable events at ATAM in 2003:

- Implementation of a total quality management system for its services. Moreover, in September, ATAM collaborated in conferences co-ordinated with FEAPS Madrid on quality services for the intellectually disabled and their families.
- CIF System to evaluate the degree of disability. That pioneering tool in Spain aims to prepare an evaluation mechanism to provide an integral response (covering all the dimensions of the person) and one that is ongoing (throughout the different stages of life).
- Agreement with the Spanish Royal Trustees of Disability, aimed at joint participation in developing innovative projects to prevent deficiencies, evaluate disability and for social and labour integration of disabled persons.
- ATAM and the Spanish Committee of Representatives of Disabled Persons (CERMI), signed an agreement last December to co-operate in matters of social integration of disabled persons.
- Discapsalud: design of a maximum accessibility portal, intended on one hand to provide inform, guidance and prevention of deficiencies and disabilities, and on the other hand, knowledge and diffusion of all aspects related to health and the specific characteristics of diverse deficiencies. This portal will be operational in the first quarter of 2004.
- First congress on the Labour Market and Disability: the entities forming Mercadis organised a congress on 18th and 19th June at which all the aspects to be taken into account when planning social and labour policies were debated, in order to improve access to jobs for the disabled. Mercadis is a project promoted by the Telefónica Foundation with the technical support of ATAM, in which the main entities and associations from the world of disability participate.