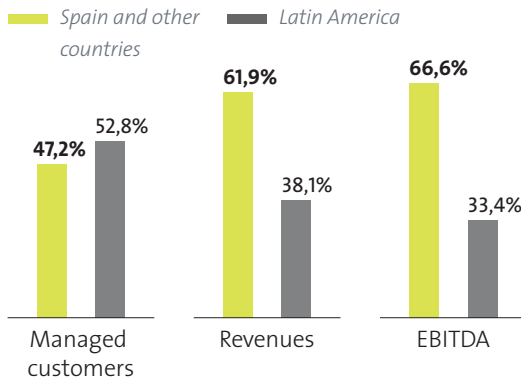


an avant-garde company

As the focal point of its strategy in developing the Information Society, Telefónica aims to lead the digital revolution, with its Broadband service as one of its main priorities and the core of its transformation

Spain and Latin America, Telefónica's natural markets



Telefónica is one of the world's leading companies in the telecommunications sector. It is the reference operator in the Spanish and Portuguese-speaking markets. It has an active presence in 16 countries and operations in nearly 50. It has a total of more than 89 million clients, of which more than half are in Latin America.

It is the seventh largest company in its sector in the world in terms of market capitalization (at March 2003). Moreover it is Europe's sixth largest, according to the EurostockXX-50 index, and Spain's first.

Telefónica is organised as a multi-domestic and multi-incumbent company. It is multi-domestic because as a multinational company it adapts to the situation and individual nature of each country in which it operates; it is multi-incumbent because it is the market leader in each of them. Telefónica is the global telecommunications operator with the most important presence outside of its market of origin.

Its 157,504 employees (average yearly workforce) are one of the sector's most motivated professional teams, with a high level of *know-how*, allowing the company to maintain its leadership in the markets in which it operates.

The Business

Telefónica's operations cover the entire telecommunications sector: fixed telephony, mobiles, Internet and Broadband, contents, directories, applications, CRM services, etc. It has 44.9 million fixed telephone lines (42 million managed), 43.9 million mobile clients (41 million managed) and already has more than 1.4 million ADSL(1) Broadband lines.

It is the leading fixed telephone operator in Latin America, controlling 26% of the market share, with 24 million lines in service (21 million managed). It is also the sub-continent's second mobile operator, with a total of 21.9 million clients (19.3 million managed), with 22% of the market share.

The company is playing an important role in the expansion of Broadband. Spain has Europe's second largest number of ADSL lines, more than one million, and 7.3% of Internet connections are via Broadband.

Telefónica takes a global view of telecommunications, offering integrated solutions to assist in communications for individuals and businesses and to contribute to the technological and social development of the societies in which it operates. Telefónica is placing its strategic emphasis on the development of the Information Society in the countries in which it operates, with the aim of being at the forefront of the digital revolution, with Broadband coverage as one of its main priorities and as the core of its transformation process.

Organisation

In order to achieve these objectives, Telefónica has an organizational model that combines the versatility of operational autonomy for its Business Lines, with the horizontal policies and benefits of synergies offered by a Corporate Centre.

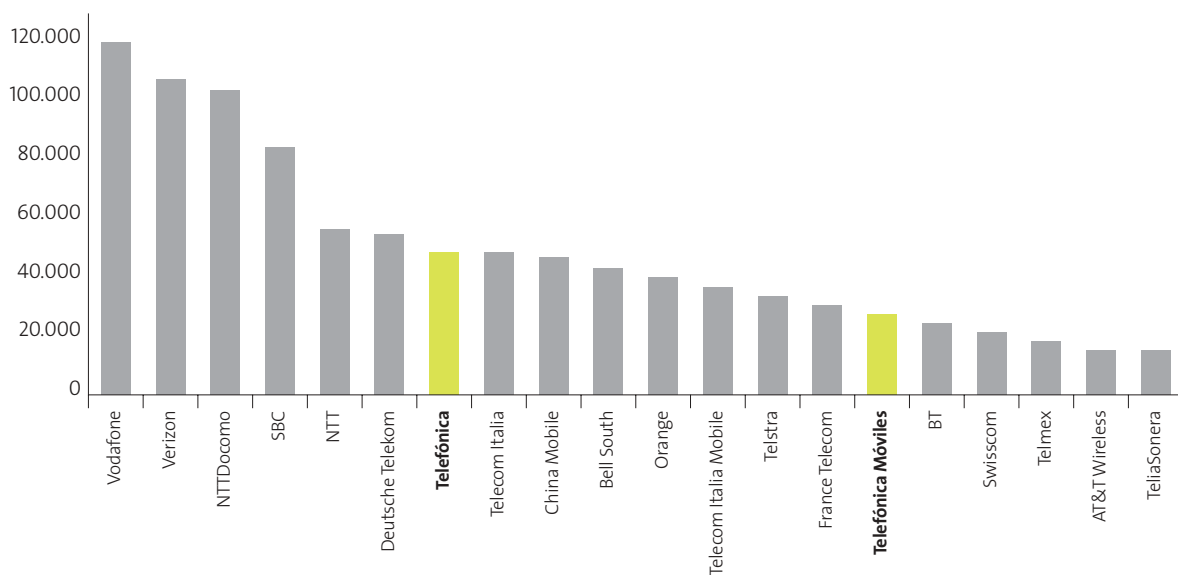
The Corporate Centre is responsible for the definition of global strategies and global corporate strategies, for the organisation of common activities (shared services, purchasing, logistics and property

Telefónica is a multinational with an important presence in Latin America, with more than one third of its business based in this region.

(1) As of the financial year 2003 there has been a change in the method of calculation for the Equivalent Lines in service for fixed telephony within the Telefónica Group. This new criterion introduces a different treatment of the ISDN Primary Accesses and of the 2/6 accesses for exchanges and Ibercom

Ranking of telecommunications companies by stock market capitalization

(figures as of 21/01/03)



management) and for the creation of support policies in areas including human resources, information systems, communication, marketing, finances and legal issues.

The fixed-line telephone business in Spain is managed by Telefónica de España, while Telefónica Latinoamérica is responsible for carrying out the same kind of operations in the Latin American region.

The mobile communications business on a worldwide scale is controlled by Telefónica Móviles S.A., (except for Chile) which includes both the Spanish and Latin American markets and, on a lesser scale, those of the Mediterranean Basin.

All guides and directories are the responsibility of Telefónica Publicidad e Información (Telefónica Publicity and Information, TPI); Terra Lycos is focused on offering Internet access and services such as portals, on-line publicity, e-commerce platforms and multimedia content; business data services are controlled by Telefónica Data; Atento is responsible for Customer Attention Services, and the production and diffusion of content using audio-visual methods are the responsibility of Admira and Telefónica Contenidos.

Apart from these lines of activity, Telefónica has a series of subsidiary companies separate which are separate from its business areas which offer value-

added services: Telefónica R+D, financial companies (Fonditel and Antares), insurance companies (Pléyade), Shared Services (t-gestiona) etc. Another important element is the Telefónica Foundation, aimed at the development and promotion of social and cultural activities.

In this business model, Telefónica S.A. is the parent company of the Group, with its business being mainly carried out through subsidiary companies which, in turn, are responsible for the operations of other companies involved in the same business area. The aim of the Group, by using this structure, is to seek reciprocal development of the company and to obtain synergies between the different Business Areas.

Profitable Growth

The Telefónica Group aims at becoming an operator worthy of the confidence of all those involved with it. To do so, it has developed a precise strategy, based on four main points: clients, services, geographical areas and finance.

Clients

The company's strategy with regard to clients is to capture and maintain lucrative, high quality clients in a potential market which is both highly homogeneous and extensive (with more than 500 million inhabitants), where Telefónica is the reference operator. Moreover, client segmenta-

The core elements of Telefónica's strategy



tion has the objective of giving more customer attention and thus obtaining higher customer satisfaction levels.

Services

Telefónica's service strategy consists of presenting the most competitive offers in each of its markets, based on innovation, quality and integrated solutions, with the best price/quality ratio possible. Another of its main objectives is to be at the forefront of the digital revolution with the development of Broadband.

Geographical Areas

Telefónica is centred on its natural markets, in which it is the reference operator, with Spain and Latin America forming the backbone of this market. In other markets (such as Spain and the Mediterranean Basin) the Company pays close attention to any opportunities which may arise, although any investments made will be highly selective, and only made if they enable improving its competitive position in the region and ensuring business growth.

Finances

The Company's financial strategy is best expressed by the term «profitable growth»: growth in its client base, in the use of existing services, and through new services; and profitability through operational efficiency (Telefónica is already a leader in terms of efficiency measured as lines per

employee), thanks to making the very best investments and implementing initiatives which make it possible to obtain perfect synergies.

The Telefónica Brand

Telefónica evaluates its portfolio of commercial brands for their use as a measurement of management and control. Consideration is given to those brands that represent a significant value for the business; they are long-term investments and are backed by substantial investment in marketing.

The value of Telefónica's brand portfolio is estimated at 16.600 billion Euros, and has remained stable in comparison to that estimated in 2001 even if the values of each brand have demonstrated noticeable changes.

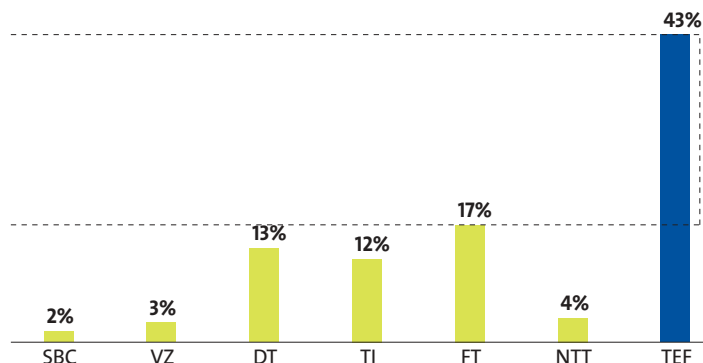
One of the bases for calculating the value of Telefónica's brands is determining their contribution to generating demand.

Brands which feature «Telefónica» in their name, which represent close to 90% of the calculated value of all calculated brands, have contributed to the creation of demand by between 13% and 26%, depending on the profile and direct clients of each business.

The most multi-domestic of the large telecoms companies

% of EBITDA, consolidated 2001* generated outside the operator's original market

*Sources: estimated values from JP Morgan and annual company results



(1) The values are calculated annually by Dirección de Marketing Corporativo (Corporate Marketing) and FutureBrand, as an independent body. These values could exceed acquisition costs, if any, of the brands in question. Due to the type and objective of this indicator, and given that it does not come under FAS 141 «Business Combinations» and/or IAS 38 «Intangible Assets», the value is not entered in the accounts. In the event that brand values could be entered in the accounts, such calculation would have to take into account European rules as well as those which might be required by the Spanish authorities, and/or any other international ones relevant to the presentation of Telefónica results