

information for shareholders

Evolution of the Company's Share Capital

As of year-end 2002, Telefónica had 4,860,661,286 shares in circulation, representing an increase of 4.04% over the same period the previous year.

The increase in the number of shares was the result of two capital increases charged to freely available reserves, approved by the Company's General Shareholders' Meeting on 15 June 2001.

In the first of these actions, capital was increased by 93,438,317 euros through the issuance of 93,438,317 shares that were freely assigned to shareholders in a ratio of one new share for every fifty held. The operation was formalised on 19 February 2002, and the shares started trading on 26 February 2002.

The second increase in capital corresponded to the second of the free issues approved by the same Shareholders' meeting, also in a ratio of 1 for every 50. On this occasion, the capital was increased by 95,307,084 euros with the issuance of 95,307,084 shares, formalised on 12 April 2002, and the shares started trading on 30 April 2002.

Increase in capital

The following increases in capital were carried out in 1998, 1999, 2000, 2001 and 2002:

Date	N° Shares Issued	Issue Price Euros	Issue amount (millions)		
			Nominal Euros	Cash Euros	
	25/03/98	85,406,438	30.051	256.652	2,566.548
(*)	27/05/98	642	29.103	0.002	0.019
(**)	16/12/98	20,497,558	3.005	61.596	61.596
(**)	25/02/99	20,907,509	3.005	62.828	62.828
(*)	15/09/99	1,002	9.595	0.001	0.009
(**)	29/09/99	63,976,998	1.000	63.976	63.976
(*)	04/02/00	13,965,205	9.442	13.965	131.859
(*)	23/02/00	3,026,268	9.461	3.026	28.632
(*)	29/03/00	4,448,442	9.496	4.448	42.242
(***)	26/04/00	14,477,109 (1)	9.500	14.477	137.532
(*)	26/04/00	2,914,193	9.524	2.914	27.755
(*)	31/05/00	780,927	9.564	0.781	7.469
(*)	28/06/00	1,426,472	9.591	1.426	13.681
(***)	04/07/00	157,951,446 (2)	9.129	157.951	1,441.939
(***)	06/07/00	371,350,753 (3)	11.910	371.351	4,422.787
(***)	06/07/00	90,517,917 (4)	3.999	90.518	361.619
(***)	11/07/00	80,954,801 (5)	9.072	80.955	734.422
(*)	26/07/00	33,716,560	9.531	33.717	321.353
(***)	02/08/00	213,409,097 (6)	3.875	213.409	826.960
(***)	18/12/00	88,944,644 (7)	11.231	88.945	998.898
(**)	24/01/01	86,814,214	1.000	86.814	86.814
(****)	14/02/01	1,123,072	5.000	1.123	5.615
(****)	19/02/01	31,504,244	5.000	31.504	157.521
(**)	28/03/01	89,203,045	1.000	89.203	89.203
(***)	15/06/01	122,560,575 (8)	5.50	122.561	674.083
(***)	19/02/02	93,438,317	1.000	93.438	93.438
(**)	12/04/02	95,307,084	1.000	95.307	95.307

(*) Increases to deal with conversion and the repayment of convertible debentures each with a nominal value of 1,000 US Dollars

(**) Increases of capital charged to freely available reserves, approved by the Extraordinary Shareholders' Meeting held on 24 June 1998, by the Ordinary Shareholders' Meeting held on 26 March 1999, and by the Ordinary Shareholders' Meeting held on 7 April 2002, 7 April 2000, and by the Ordinary Shareholders' Meeting held on 15 June 2001

(***) Increases of capital with options taken and paid out via non-cash contributions consisting of shares in the companies: (1) Vigil Corp. S.A. and Ambit, S.A., (2) Telefónica de Argentina, S.A., (3) Telecomunicações de São Paulo, S.A., (4) Telesudeste Participações, S.A., (5) Telefónica de Perú, S.A., (6) Endemol Entertainment Holding N.V., (7) CEI Citicorp Holdings, S.A., (8) Various Mexican mobile telephone operators acquired by the Motorola Group

(****) Increases of capital with options taken and paid out via cash contributions by employees of the Telefónica Group belonging to the Share Options Plan for non-managerial personnel (TIES Programme)

Telefónica Shares

In 2002, the international stock markets ended the year with losses for the third consecutive year, although in the final year losses were higher due to greater uncertainty, inconstancy and a lack of confidence that has overshadowed the variable income market.

The main factors that affected this behaviour were as follows:

- Confirmation of delays in the economic recovery of the USA and Europe, causing the Federal Reserve and the Central European Bank to reduce interest rates by 50 bp, up to 1.25% in the USA, and 2.75% in the Euro zone.
- The publication of corporate results below expectations, together with the announcement of a similar trend in the coming quarters.
- After Enron filed for bankruptcy, cases of irregularity in accountancy data started to come to light, which in many cases led to closure and the suspension of payments.
- An increase in geopolitical tensions in the second half of the year, particularly between the USA and Iraq, with the subsequent increase in oil prices.
- Instability in some Latin American markets, particularly Argentina, Brazil and Venezuela.
- Depreciation of the dollar against the major international currencies.

In this context of instability, by the start of October some international indexes reached their lowest levels in recent years. By the end of the year, negative yields on the main stock market indexes had risen to 23.4% on the S&P 500 in the U.S., to 43.9% on Germany's DAX, to 28.1% on Spain's IBEX-35, and to 37.3% on the Eurostoxx-50.

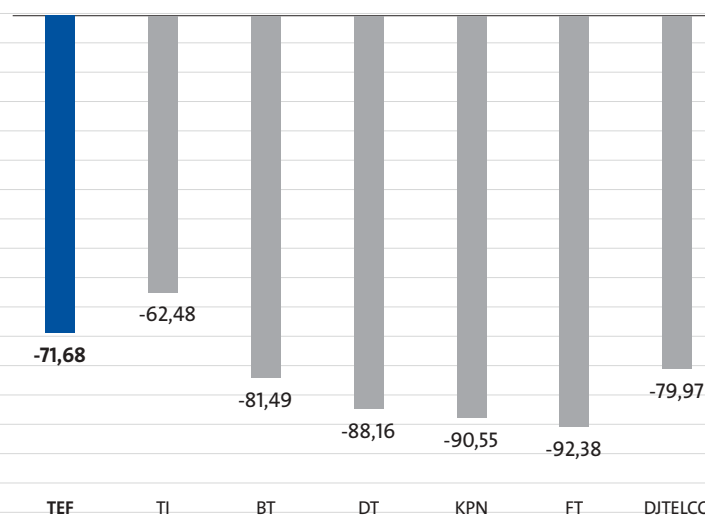
The financial instruments used as a refuge in times of crisis (fixed yield securities, precious metals – mainly gold – Swiss Francs, etc.) have most benefited from this scenario in which there has been reticence towards involvement with variable-income securities.

In this atmosphere, the telecommunications sector has undergone considerable changes, in some cases reaching the lowest levels in four or five years. This behaviour is due to the high level of debt incurred by some operators, decreases in ratings, doubts about the future growth of cellular businesses, uncertainty about future cash generation due to the weakness of the fixed telephony market, lack of confidence in emerging business, delays in the launching of UMTS services, financial problems of alternative operators and cellular telephone manufacturers (suspension of payments by KPNQwest, Global Crossing, Energis; junk bond ratings; accounting irregularities, etc.) and the general negative views of investors and investment banks (questioning whether companies would comply with their announced plans for restructuring, and the lack of short-term drivers of growth).

The companies with the highest debt burden, France Telecom and Deutsche Telekom, suffered stock-market declines during the financial year of 62.7% and 36.5% respectively, whereas the more defen-

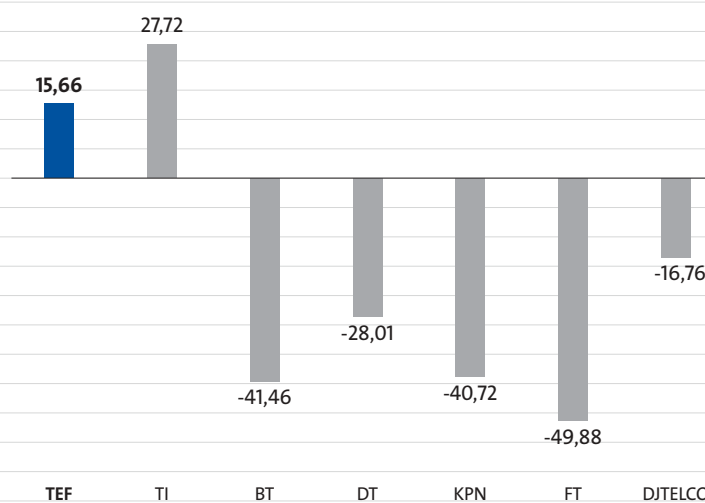
Variation from maximum prices until 31/12/2002

(data given percentages)



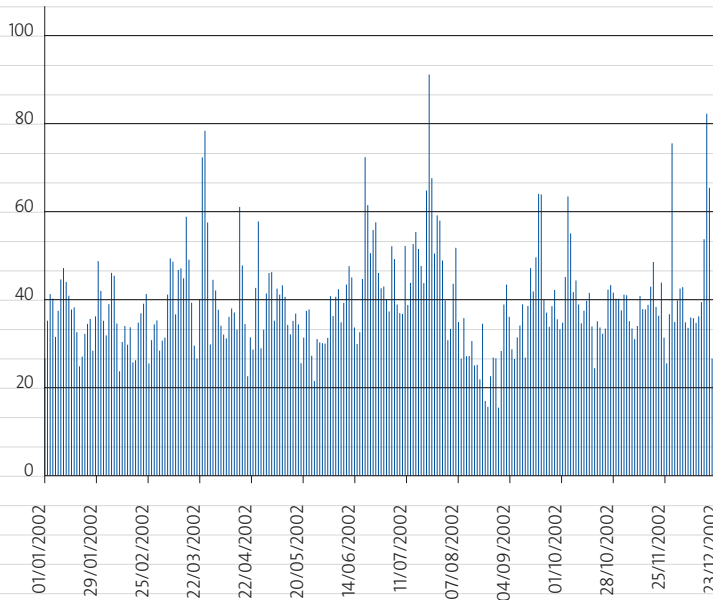
Variation from 31/12/1997 until 31/12/2002

(data given in percentages)

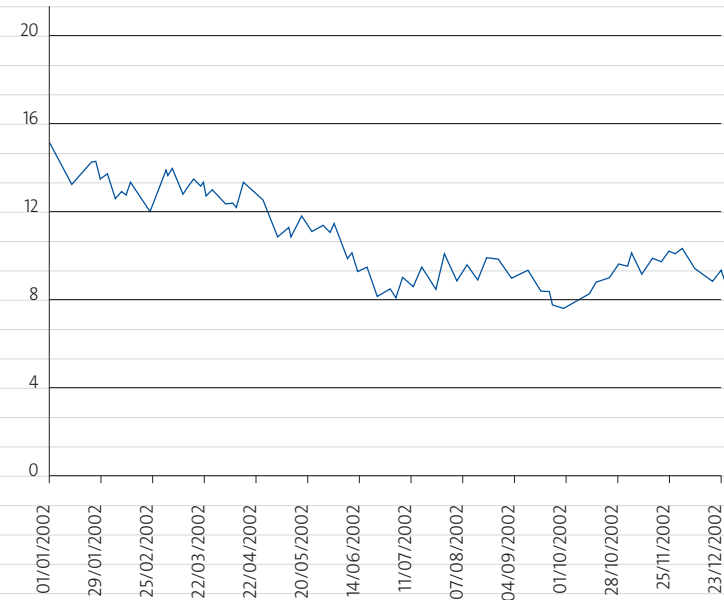


Evolution of TEF volume 2002

(number of shares)



Evolution of TEF prices 2002



sive companies, with dividend policies and no pending strategic issues, such as Swisscom, Telecom Italia and Portugal Telecom, had a more favourable relative development (-11.4%, -23.3% and -27.4% respectively). KPN's situation was different, as it was the only dominant European operator that ended the year with positive growth in profits (+8.8%), with investors rewarding the efforts made in cost-cutting, investment, the writedown of assets, increased financial projections, and the ability to escape from the situation of near-insolvency it suffered at the end of 2001.

Telefónica's development on the stock exchange in 2002 was negative, with a drop of 41.0%, although the added factor of the crisis in Latin America can explain its poor performance to a large extent, compared to other European operators with less exposure in Brazil and Argentina. The other large Spanish companies with a presence in Latin America (BBVA, SCH, Repsol, Endesa, etc) were also affected for the same reason. The devaluation of the Argentinean peso to a level of close to 4 pesos to the dollar had a significant impact in the first half of the year, both on share prices and the results and balance sheet of the Telefónica Group. Furthermore, the instability of the Argentine government and the lack of agreement with the IMF continued to cause a negative impact throughout the year. In Brazil, the process of currency devaluation started in May, when the first opinion polls indicated that 'Lula' would win the presidential elections. The markets did not view this positively, concerned about the possibility of changes in economic policies and the implementation of popular measures that would increase public spending, further obstructing payment of the country's national debt. This caused a

devaluation of the real to 3.95 to the dollar, and a marked increase in the country risk premium as the election date drew closer. At the end of the year, following Lula's triumph in the elections, the drop in the value of the Brazilian Real (due to uncertainty about the new government's economic team), and the possibility of debt default have continued to damage Telefónica's shares. Investment banks have also reflected this situation in their evaluations, applying important discounts and giving a zero value to all assets from the region.

Despite the losses that Telefónica shares suffered in 2002, the security is still one of those recommended for model investment portfolios, due to its streamlined balance sheet, and its financial strength and discipline, allowing it to maintain an adequate level of debt and a credit rating classified as 'A'. The market also reacted well to the announcement in July of a series of measures to be taken: a return to the policy of paying dividends to shareholders; writing off investments or slowing the pace of activity in non-strategic businesses, and the writedown of investments in third generation mobile telephony in Europe. This announcement pushed Telefónica shares up in the three following days by 20.7%. These measures have allowed Telefónica to position itself at the head of the sector in terms of strategic actions. In the following months, all of Europe's main operators revised the value of their UMTS assets. Several months earlier, Telefónica had announced its agreement for the merger of Vía Digital with Sogecable.

Telefónica and the other principal European operators had reached their highest market values ever in March 2000, with the exception

of BT (31/12/1999), coinciding with the maximum values attained by technological and Internet companies. From that moment until year-end 2002, Telefónica's second in the list of companies with least share-value loss (-71%), preceded by Telecom Italia (-62.5%). At the other end of the scale, France Telecom is the operator that has shown the most share-value loss (-92.4%), followed closely by KPN (-90.6%), Deutsche Telekom (-88.2%) and BT (-81.5%).

Finally, if we consider the situation over the past five years, only the shareholders of Telecom Italia and Telefónica have obtained any profits from their investments, as share values for the other dominant European companies showed losses for this period, proof of the solid operational and financial management strategies applied by the Telefónica Group over this period.

Dividends

From 1998 onwards, Telefónica modified the way in which it remunerated its shareholders, replacing the traditional distribution of dividends in cash with capital increases. These operations were charged to freely available reserves, recognising the right of free allocation to shareholders, in the proportion of one new share for every fifty owned. These actions were approved by the Extraordinary Shareholders' Meeting on 24 June 1998, and by Ordinary Shareholders' Meetings on 26 March 1999, 7 April 2000, 15 June 2001, and 12 April 2002.

On 24 July 2002, Telefónica announced its commitment to re-establish the distribution of dividends as a direct way of compensating shareholders, after the suspension of this policy in 1998. In order to comply with this commitment, on 26 February 2003 the Board of Directors agreed to propose to the Ordinary Shareholders' Meeting in April 2003 the distribution of a dividend of 0.25 euro per share, charged to reserves.

Latest News: On 18 March 2003, the Board of Directors agreed to propose to the General Meeting of Shareholders of April 2003, that the Reserve Share Issue Premium be distributed to the shareholders of Telefónica, S.A., through the issuance of shares representing 30% of the share capital of "Antena 3 de Televisión S.A.E." (Antena 3), currently the equivalent of 50,000,400 shares, valued, in the Company books, at 420,003,360 euros.

Number of shareholders in the company

As detailed by the Service for the Compensation and Liquidation of Securities (S.C.L.V.) as at the close of business on 3 March 2003, the number of shareholders in Telefónica S.A., according to registers detailing both individuals and legal entities, totalled 1,698,326.

Notes

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Telefónica S.A.

Annual Report 2002

This Annual Report is also available at
Telefónica's Internet web sites:
www.telefonica.es (Spanish),
www.telefonica.com (English) and
www.telefonica.com.br (Portuguese)

Shareholders may request copies of the Annual Report
from Telefónica's **Shareholders Services Office**
by calling freephone **900 111 004** (in Spain),
or by electronic mail to: accion.telefonica@telefonica.es

or over the Internet at: www.telefonica.es/accionista

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