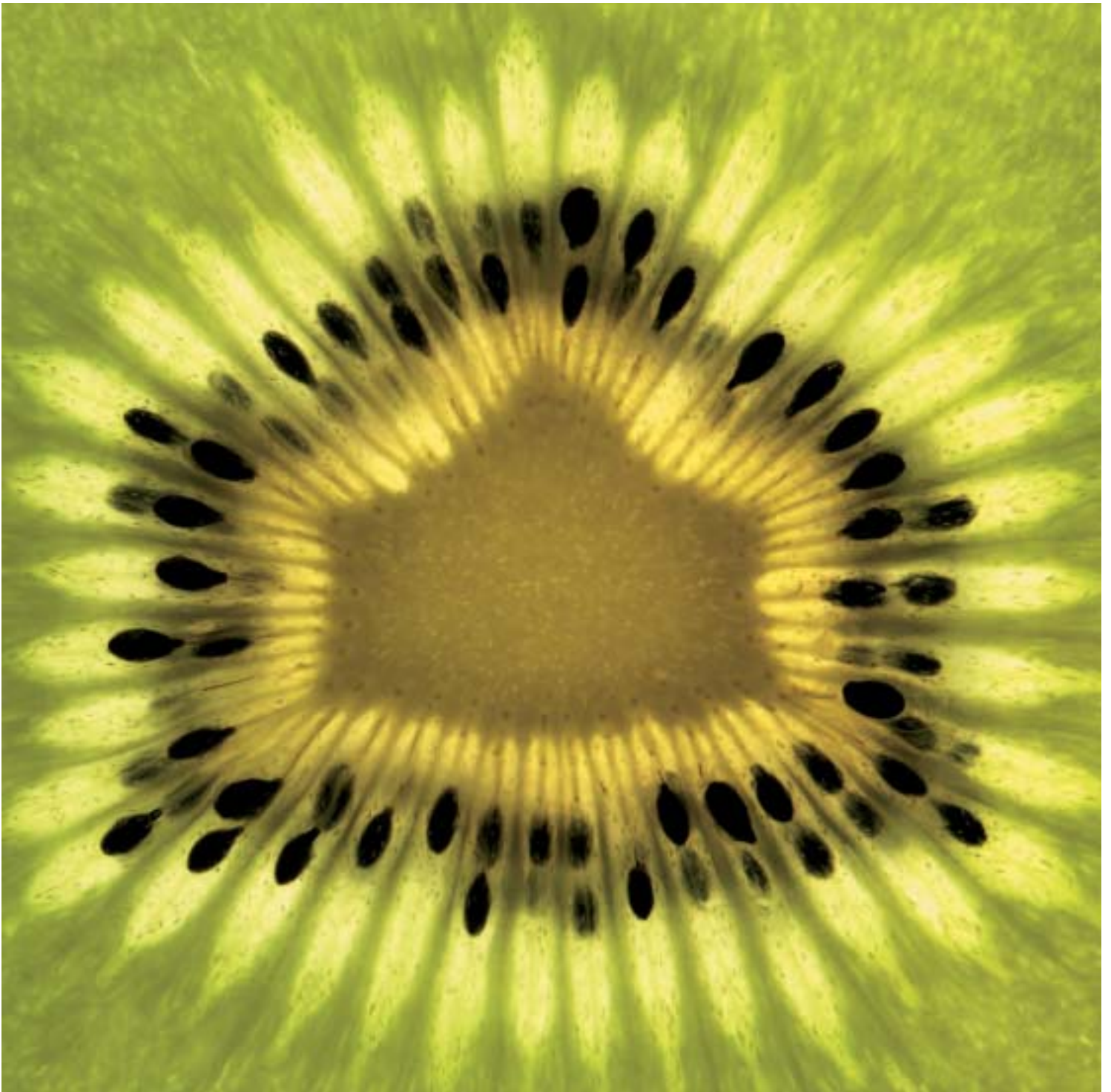


03

Corporate Information

BUILDING ON THE TRUST OF ITS 100 MILLION CUSTOMERS, TELEFÓNICA OFFERS PERSONALIZED SOLUTIONS. IT IS A GROUP WITH A VISION THAT IS DEFINED AND COMMITTED TO RESPONSIBLE, RESPONSIVE AND INNOVATIVE CORPORATE GOVERNANCE





03_01

We already number 100 million

THE TRUST OF 100 MILLION CUSTOMERS AND CLOSE TO 1.7 MILLION SHAREHOLDERS HAVE CONTRIBUTED TO TELEFÓNICA BEING THE FIRST GLOBAL EUROPEAN OPERATOR IN TERMS OF STOCK MARKET CAPITALISATION AND RANKING FIFTH IN THE WORLD



Telefónica has the trust of one hundred million customers, which consolidates it as one of the major telecommunications operators in the world. It is already the first global European operator in stock market capitalisation and holds fifth place worldwide. It is also the fifth company on the index EuroStoXX50 and the fourth worldwide operator in the mobile business.

Telefónica now has 148,288 employees as a consolidated Group, 41% of whom are in Europe and 57% in Latin America, the countries with the largest number of employees being Spain (58,189) and Brazil (42,496).

The Company performs its activity on the Spanish and Portuguese speaking markets, where it has become a market leader and the reference operator. It is a natural market of 500 million people, with a solid growth of the population and wealth, with important opportunities for development. It operates in 15 countries, and is present in over 40.

Telefónica is an operator that provides integrated solutions that cover all the customers' communications expectations and

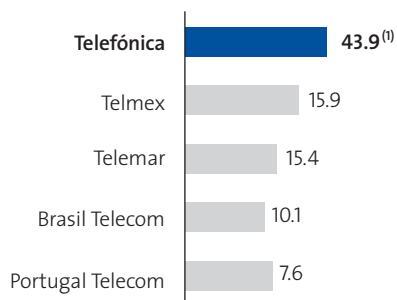
needs. Its offer is based on its two core businesses: fixed communications and mobile communications, around which it develops all kinds of telecommunications services. For its core strategy for the future, it is betting on broadband services, in fixed as well as mobile telephony, and on development of integrated communication solutions as means of market growth.

As to the countries, its main market continues to be Spain where, at the end of 2003 it had 41 million customers, although 33.3 % of the revenue of the Group is generated in Latin America where, also in December 2003, it had 57.8 million customers. About 62% of its customers are from the Spanish speaking market and 36% from the Portuguese speaking market.

In this context, Latin America forms a strategic growth objective in the coming years, especially Mexico and Brazil. Thus, the forecasts for 2003-2006 are that our customer base in Latam will grow between 80 and 83%. On the subcontinent, its main markets are in Argentina, Brazil, Chile, Peru (countries where it is the reference operator) and Mexico (where it is the second mobile operator).

FIXED LINES IN SERVICE

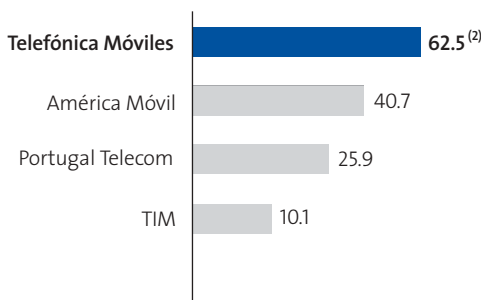
(In millions – Dec. 2003)



(1) 21.6 million lines in Latin America

CELLULAR CUSTOMERS

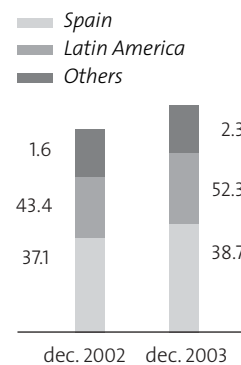
(In millions – Dec. 2003)



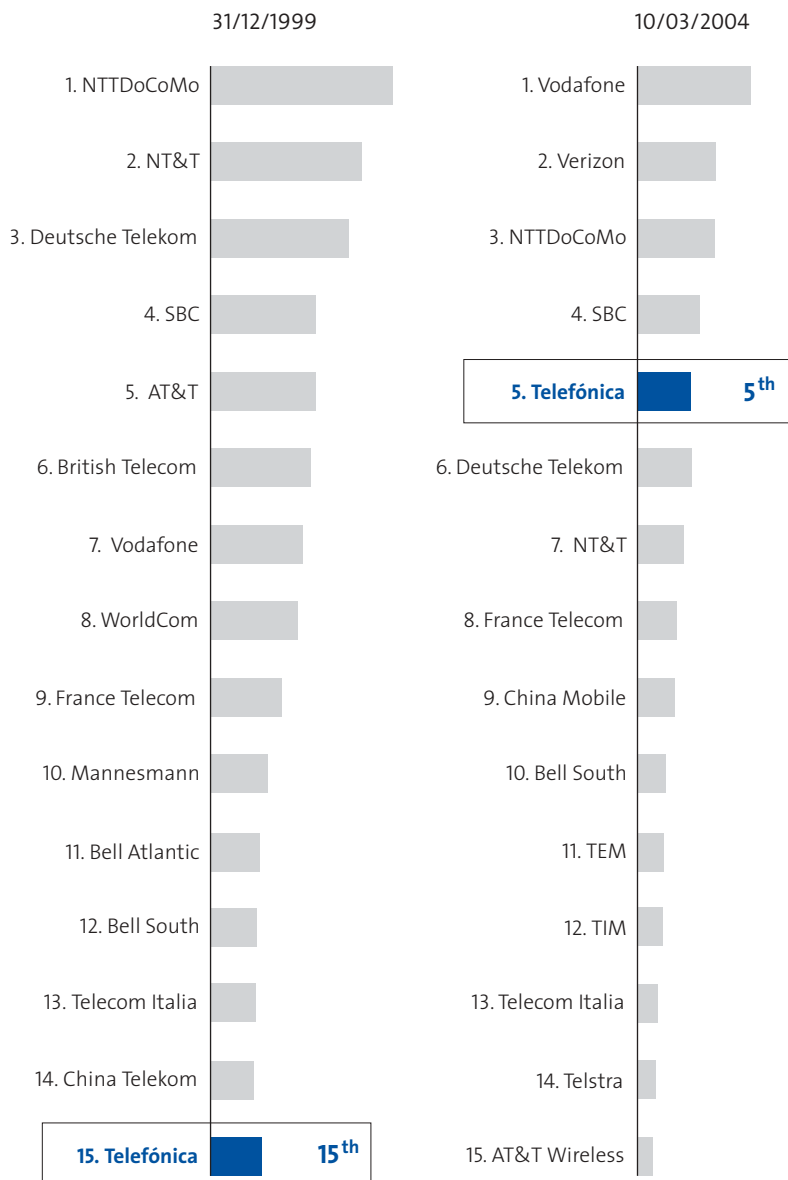
(2) including those from Bell South following the purchase announced in March 2004

MANAGED CUSTOMERS

(In millions)



WORLD RANKING IN TERMS OF STOCK MARKET CAPITALISATION



Source: Bloomberg

Within that same geographic setting, as a relevant milestone, in March 2004 Telefónica announced the acquisition of the mobile operations of Bellsouth in Latin America (when this document went to press, it was still subject to approval by the relevant regulatory bodies), which should provide eight million additional customers, consolidating its position as a leader in the region.

Telefónica defines itself as a multi-domestic operator. This means that, while it takes advantage of all the synergies of a group with a multinational presence, at the same time it adapts its management in each country, considering the peculiarities of their markets and societies. In that context, Telefónica is now the incumbent operator that has the largest percentage of its business outside its market of origin, also being the only operator that is incumbent in the main markets where it operates.

Telefónica has an efficient, agile organisational structure, with businesses that have a great autonomy in the management of their operations, and corporate divisions that define the global strategy, articulate the business, manage the common activities, and allow Telefónica to act on the market as an integrated operator.

The fixed telephony business is managed in Spain by Telefónica de España and in Latin America by Telefónica Latinoamérica. Linked to both businesses, there are corporate communications (Telefónica Empresas) and Internet (Terra). The mobile telephony business is managed by Telefónica Móviles. Moreover, Telefónica has other business, such as the guides and directories (Telefónica Publicidad e Información), production and diffusion of content (Telefónica de Contenidos) and the contact centers (Atento).

It also has a series of subsidiaries and business support institutions such as Telefónica I+D (that



promotes technological innovation aimed at guaranteeing competitiveness through keeping ahead of the markets through new products, services and applications) and Fundación Telefónica (that encourages the social and cultural action of the Group to benefit the more disadvantaged sectors). It also has other subsidiaries such as Fonditel or Antares, financial companies, insurance, investment and pension funds.

Telefónica is a private company that has almost 1.7 million direct shareholders. Its present stock capital is divided into 4,955,891,361 ordinary shares that are traded on the continuous market of the Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia) and on the stock exchanges of London, Paris, Frankfurt, Tokyo, New York, Lima, Buenos Aires, São Paulo and SEAQ International of the London Stock Exchange. Its subsidiaries Telefónica Móviles, TPI (Telefónica Publicidad e Información) and Terra Lycos are also stock market listed.

FIXED TELEPHONY AND MOBILE TELEPHONY

At the year end, Telefónica had 43.9 million fixed telephone lines in service (including the customers of TV Pago de Cablemágico in Peru) and 54.7 million customers with mobile telephones. Following the purchase of Bell South, Telefónica Móviles customers shall total 62.5 million. In both businesses it is the reference operator, in Spain as well as in Latin America.

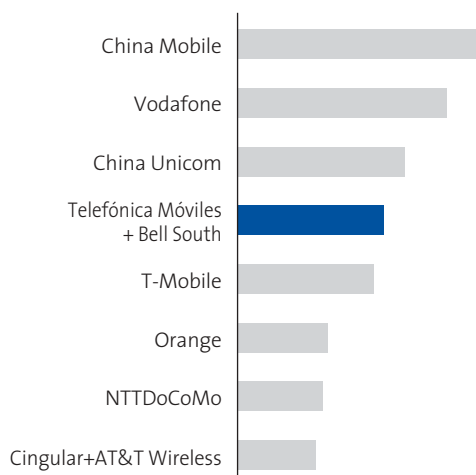
The fixed telephone market is the most mature, on which in its traditional activities, it is subject to a greater regulatory pressure. The strategy of Telefónica is based on achieving the maximum efficiency in the traditional segments, with a decisive commercial action and development of new services, most especially, in development of broadband, growth of business, and to develop the Information Society.

As far as Latin America is concerned, 21,223 million euros from the total investment in acquisitions were in Telefónica Latinoamérica, which has allowed elimination of the deficit in infrastructures, extending the service especially among the lower income groups; practically 100% of the plants have been digitalised, and the time to install a line, which initially involved a two year wait, has fallen to only a few days.

At the end of 2003 Telefónica had 21 million basic telephone lines in service in Latin America, and 769,000 ADSL lines, figures that make it the leading operator in the region.

The expansion of broadband by Telefónica is performed through ADSL technology. In Spain, there are 1.7 million ADSL customers, now representing 59% of the total broadband accesses operating in the country. In Latin America, at the end of December 2003, there were 769,680 ADSL connections, with an inter-annual growth of 68.7%. In Spain alone, it is estimated that the set of broadband access points will reach the figure of seven million in 2007. In Latin America, the forecast for 2006 is 2.4 million ADSL lines.

MOBILE MARKET WORLD RANKING





ADSL has also brought a factor of dynamism to the commercial offer of fixed telephony, through marketing of its wireless version (Wi-Fi), that is beginning to bring about communications solutions integration based on broadband and mobility, a key to services in a not too distant future. It is now a commercial reality in Spain and there are already 120 hot spots in operation and agreements have been signed with 259 points pending installation.

The mobile telephony market, on the other hand, is characterised by a highly dynamic basic service and, simultaneously, a notable growth in new data services. Spain is also the most mature market. Telefónica Movistar has 19.6 million customers in the country and it is the driving force for the mobile business worldwide. It has an intense, innovative commercial activity, that allows it to continue to increase the number of customers in spite of working in a very mature market.

In Latin America, after acquiring the assets of BellSouth in the region, Telefónica Móviles will become the manager of 41 million cellular

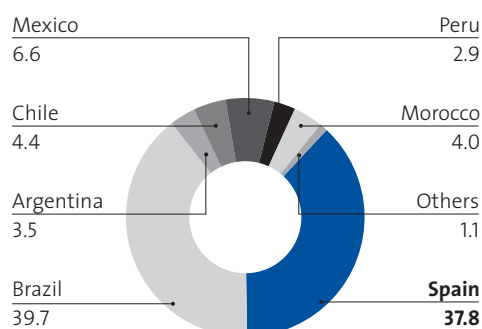
customers in 14 countries on that continent, giving it a leading position. The company has thus reached 40% of the mobile telephony customers on the Spanish and Portuguese speaking market and 35% of the customers in Latin America, one of the strategic geographic areas for Telefónica with the least cellular penetration.

Telefónica has also decided to take advantage of the possibilities of that long period of growth on the mobile telephony market, joining its activities in Brazil to those of its Portuguese partner Portugal Telecom. To that end it has created a joint venture under the brand Vivo, that has become the leader on the Brazilian market, with 20.6 million customers.

In Mexico, the different mobile operators acquired have been gathered under the same brand (Telefónica Movistar) with an integrated management, and have already become the second mobile telephony operator in the country, with 3.5 million customers. The forecast for 2006 is that it will reach a 20% market share.

DISTRIBUTION OF MANAGED CUSTOMERS OF TELEFÓNICA MÓVILES - 2003

(Data in percentages)



TELEFÓNICA MÓVILES IN LATIN AMERICA

(Market Positions of the Company in the countries⁽¹⁾)

Argentina	1
Brazil	1
Chile	1
Colombia	2
Ecuador	2
El Salvador	2
Guatemala	3
Mexico	2
Nicaragua	1
Panama	1
Uruguay	2
Venezuela	1

(1) Following the purchase of Bell South assets

The acquisition of the BellSouth operations will provide an additional dimension to that strategy.

The total strategic forecast for 2006 is to achieve growth of its 55 million-strong mobile customer base, consolidating leadership in the mobile markets of Spain and Brazil and maintaining second place in Mexico. On other markets, (Argentina, Chile, El Salvador, Morocco, Peru and Puerto Rico), the aim is to obtain 14 million more customers.

PROFITABLE GROWTH

Telefónica has designed a profitable growth strategy that is based, on one hand, on organic growth of its core businesses, and on the other, to improve its return on investment.

Its strategy is twofold. On one hand, it has redefined and restructured the non profitable operations, to concentrate on strategic business, from the geographic point of view (Spanish and Portuguese speaking markets) as well as lines of activity (fixed telephony and mobile telephony). On the other hand, it has strengthened the commercial and operating profiles of its organisation and has maintained discipline in expenses and investment through a more efficient business model, that in turn is more flexible.

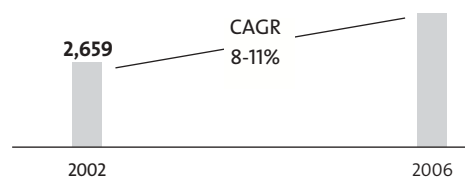
Among the initiatives aimed at improving efficiency, there are the activities by Telefónica Gestión de Servicios Compartidos (t-gestiona) that supplies the different businesses in the Group management of non strategic activities. These shared services centres (Centros de Servicios Compartidos (CSC)) were launched as an initiative by the Group in 2001 and serve six geographic areas: Argentina, Brazil, Chile, Spain, Mexico-Central America and Peru. Through management of non strategic and common support activities of the different

companies, they provide their customers a complete catalogue of services for integral support of the economic activities, Human Resources, logistics, real estate, security, etc., for extremely varied companies in those regions.

The value contributed to the Group by those activities up to 2003 exceeded 175 million euros, a figure that is generated by sharing resources, improving processes, as well as by achieving greater operating efficiency. That has all allowed us to reduce prices for our customers, while improving the quality perceived in customer surveys. Among the initiatives included this last financial year, for companies in the Group as well as external ones, there are mainly those of Telefónica de España, several companies belonging to Terra, and new services for Vivo in Brasil and Pegaso in Mexico. Commencement of new services for companies outside Telefónica

GROWTH OF THE FIXED BUSINESS IN LATIN AMERICA IN FREE CASH FLOW OPERATIVE

(Millions of euros in constant currency and excluding changes in perimeter)



STRATEGIC GROWTH FROM 2003 – 2006

Action plans

- Broadband → Over 6 million ADSL connections in 2006
- Mobile → Short and medium term growth according to strength of Voice and Data services respectively
- Fixed in Latam → To retain and enlarge customer base, stimulate use and ARPU

GROWTH IN REVENUE

(Data in percentages. In constant currency and excluding changes in perimeter)



has extended the scale of these operations and their potential synergies.

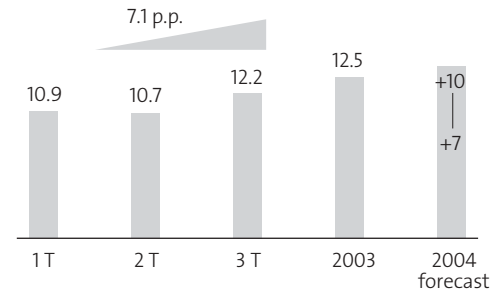
The CSCs have also provided a reference point to define the corporate processes certified in the economic-financial areas, and collaborate most actively in implementation of the NICs within the Telefónica Group.

Another of the initiatives aimed at improving the efficiency of the Group is the Real Estate Efficiency Plan, that commenced in 2002 and which, managed by Inmobiliaria Telefónica, has continued to develop to contribute to improvement of the integral management of the real estate resources of the Group in the period 2002-2006.

As an outstanding part of the Plan, construction works began on the new corporate headquarters of the Group located at Las Tablas in Madrid. That 'Communications City' will house nearly 14,000 employees of the Group and will have an office area of 171,000 m² distributed in 13 buildings, as well as 20,000 m² of commercial areas. On the other hand, it will continue to develop preparation of office space at communication centres, grouping the employees in renewed office spaces equipped with the most efficient working and communication conditions.

GROWTH IN EBITDA

(Data in percentages. In constant currency and excluding changes in perimeter)



Due to these actions, the Group is in the process of releasing space and cancelling third party lease contracts: between 2002 and 2006 it foresees the release of over 1.2 million square metres, of which more than 236,000 square metres have already been released. This process generates notable savings and significant cost reduction.

On the other hand, a plan is already under way to divest non strategic assets, that will last until the year 2006, that was at an advanced stage at the end of financial year 2003.

Within its strategy of profitable growth, Telefónica has declared its commitment to the free cash flow obtained from the results of the different businesses being assigned to specific acquisitions to support those businesses and to shareholder remuneration. In that sense, Telefónica is at the head of the European sector in cash flow generation capacity and its financial management is aimed at protecting this and defending a high credit rating.

Due to that high cash flow generation capacity and debt contention, Telefónica has perspectives of transforming the results into means to remunerate shareholders that will be clearly quantifiable in the coming years. In that sense, it has already published its strategy of paying



dividends in the coming years, to which 0.4 euros per share shall be assigned until 2006.

PUBLIC COMMITMENT

Telefónica has repeatedly publicised its will to remain on the markets in which it operates and its commitment to its respective companies. In all of its markets, Telefónica has committed itself to continue its investment, and it has proven itself to be a company involved in the development of society in the countries where it is present.

Telefónica is the leading private investor in Latin America and one of the main driving forces of economic development and employment in the region, contributing to the growth of its industry, generating wealth directly and indirectly.

After 14 years of sustained investment in the area, Telefónica has assigned 34,323 million euros (without including the purchase of the assets of Bell South in Latin America announced in March 2004) to direct investment and 29,606 million euros to development of infrastructures. That investment represents a significant commitment to sustainable development, extending the service for all – especially the lower income segments – and a commitment to digital inclusion to reduce the digital gap.

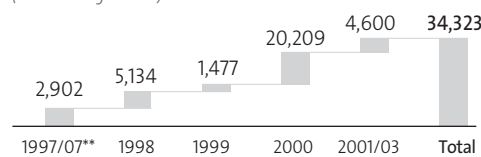
The Company has announced investments in Argentina amounting to 2 billion pesos (600 million euros) over the next four years. In Mexico it intends to invest 1.2 billion euros in mobile telephony over the period 2003-2006. Moreover, in Brazil, Telefónica Sao Paulo will invest 1.4 trillion reais (nearly 371 million euros) in 2004.

To date, since 2000, it has also invested about 2 billion euros in creation of infrastructures, services and broadband content, that have

contributed to the growth of the overall ADSL market, that has provided a benefit not only for Telefónica but for the whole sector. Furthermore, 1 billion dollar were invested in broadband in Latin America.

14 YEARS OF SUSTAINED INVESTMENT IN LATIN AMERICA

Direct investment in acquisitions
(Millions of euros)



+ investment in Bell South assets in Latin America: 5,850 million dollars

Fixed telephony: 21,223 mm.
24,463 mm. in infrastructure

INVESTMENT IN INFRASTRUCTURE IN LATIN AMERICA

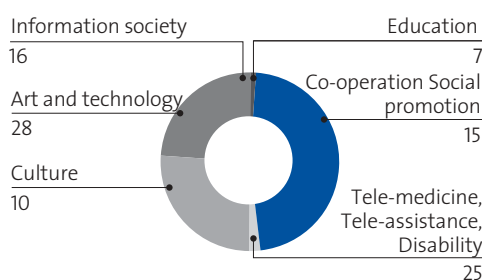
(Millions of euros)

Year	1997/07**	1998	1999	2000	2001/03	Total
Investment	9,802	4,402	3,863	5,023	6,876	29,606

(**) Not including investment in CRT

DISTRIBUTION OF PROJECTS CARRIED OUT BY FUNDACIÓN TELEFÓNICA BY ACTIVITY AREA

(Data in percentages)





Telefónica also maintains a commitment to innovation, which it considers a fundamental instrument to obtain sustainable competitive advantages, to anticipate and distinguish it on the market.

The investment in technological innovation – more than 1.9 billion euros in 2003 – confirms that commitment, aimed at satisfying and achieving customer loyalty with the most suitable technological solution for their needs. Thus, Telefónica is the fifth operator in the world ranking in total investment in R&D and the fourth in investment in R&D against revenue. It is, among the major European operators, the one that has most increased its investment effort in recent years.

Most of the R&D activity is carried out through Telefónica Investigación y Desarrollo, S.A.U, 100% owned by Telefónica, now considered the most important private R&D centre in the country, around which the most advanced telecommunications entrepreneurial activity in Spain is developed.

Always in line with the strategy of the Telefónica Group of leading the digital revolution, its main areas of activity concentrate on encouraging development of broadband, providing new multimedia mobile services that enable anticipation and distinction from competitors, having new platforms to create services, creating new e-Business solutions, optimising business processes, and leading knowledge and profitable use of new technologies, as well as focused on the customer's vision. These activities have allowed the market to be offered a large number of new products and services, and have increased the industrial and intellectual property portfolio of the Group.

Within the strategy of the fixed telephony operators of promoting broadband as a means of quick access to Internet and a channel to obtain new multimedia services, Telefónica is driving the New Generation

Network architectures, above all those integrating voice, data and multimedia images. In that context, TI+D has developed environments to create compatible, evolutionable services, based on the present systems provided by the Group, so they are ready to offer services on the new generation networks. Thus, voice technologies, in which TI+D has been the world leader for years on the Portuguese market and in the spoken languages of Spain, have received a strong innovative drive to guarantee that place in the new RNG environments, where for the first time the services will have interfaces based on people's natural behaviour.

Security has also been consolidated as an added value line of work, leading activities in new generation Internet, IPv6, being responsible for management of the Euro6IX project, a European Union initiative.

Telefónica I+D has supported the Group in renewal of its commercial systems, improving the management systems of the operations to achieve the global objective of operating efficiency. At present, it collaborates with almost all the critical systems under development, and it is implementing numerous projects to reorient the commercial strategy of Telefónica from a corporate-oriented vision to a customer-oriented vision.

Another major public commitment by Telefónica is the social one. Its foundation called Fundación Telefónica is the main channel for social and cultural action by the Group in the countries where it has a presence: Spain, Argentina, Brazil, Morocco, Peru and, since 2003, Mexico. To that end, it develops different projects in collaboration with social organisations in which application of new information and communication technologies is a fundamental factor, through which improvement is achieved in educational processes, in access to culture and art, as well

as in development of society and improved living standards of its members, with special attention paid to the more disadvantaged groups.

All the actions by Fundación Telefónica in the countries in which it operates, based on transnational projects or specific national ones, feature its general interest, its voluntary commitment beyond what is established by law, being non-profit activities.

Education, co-operation and social promotion, tele-medicine, tele-assistance and aid for the handicapped, culture, art, technology and the Information Society are the main areas in which Fundación Telefónica carries out its activity.

WE ARE PREPARING AN OFFER FOR THE FUTURE THAT WILL COMBINE BROADBAND AND MOBILITY SOLUTIONS

In the coming years, the strategy of Telefónica will rest on two pillars: broadband and mobility. The combination of both (through such technologies as ADSL, Wi-Fi, 3G) will give rise to a new generation of services, some of which are already a commercial reality, that will lead to a very important evolution in traditional services.

Broadband will leave the domain of fixed communications (thanks to Internet on the mobile platform) and mobility will leave the domain of mobile communications (Wi-Fi will provide mobility to fixed communications). Integration, thus, the key to a future in which the solutions are aimed less at the technology or product, and more from the customer point of view.

Broadband is one of the main strategic driving forces of growth by the company. Spain is now a European leader in ADSL coverage, with a percentage of practically all lines – about 91% - and it is already accessible to 93% of the

population. While Spain has 1.6 million connections, there are 226,526 in Germany and 769,680 in Latin America.

The expansion of broadband in Spain and other countries has mainly been due to the firm bet by Telefónica on the ADSL technology. Since 2000 and to date, the company has invested nearly 2 billion euros in creation of broadband infrastructures, services and content that have contributed to the growth of the ADSL market overall, which has provided benefit not only for Telefónica but also for the whole sector.

The plans of Telefónica concentrate on encouraging broadband progress based on four essential elements: increased coverage; marketing new products and services; sustained growth of quality; and ongoing innovation.

The increase in coverage requires an annual investment effort that has amounted to about 700 million euros (according to the demand on the market and profitability).

From the point of view of offerings, Telefónica aims to extend its broadband offer, creating alternatives for all and turning it into a consumer product, generating solutions arising from its own initiative, or through third party agreements.

In 2003, it launched Imagenio in Spain. This is a solution that allows added value content and services to be provided in homes, providing television using ADSL technology.

In the last year, ADSL has also introduced a dynamic factor in the commercial offer of fixed telephony through commercialisation of its wireless version (Wi-Fi), that offers mobility through fixed networks.

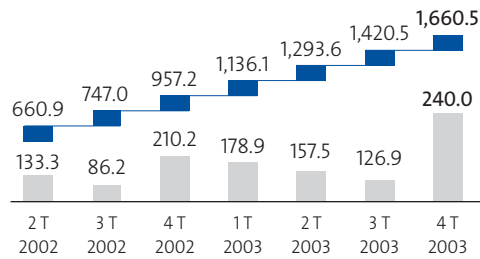
Telefónica has already begun to implement that technology in Argentina, Brazil, Chile,

TELEFÓNICA DE ESPAÑA ADSL LINES

(In thousands)

■ Net term connections

■ Accumulated



Spain and Peru, through a series of services that allow any customer (individuals, homes, companies, etc.) to access and build up their local area networks on a wireless basis with maximum security levels.

It has also marketed Wi-Fi services aimed at private settings in public use (airports, hotels, business schools, trade fairs, etc.) where employees and customers may be provided broadband wireless Internet access and the proprietary applications of their own companies.

The bid by Telefónica for wireless Internet access using Wi-Fi technology has led to a 50% increase in the investments initially foreseen, going from 10 to 15 million euros. In Spain, for example, a large number of Wi-Fi public Internet access points are already operating.

In mobile telephony, after the growth of multimedia services, UMTS is profiled as the service that will provide new broadband services for cell phones. Telefónica Móviles España already offers its corporate customers 'Oficin@ MoviStar UMTS', the first Third Generation

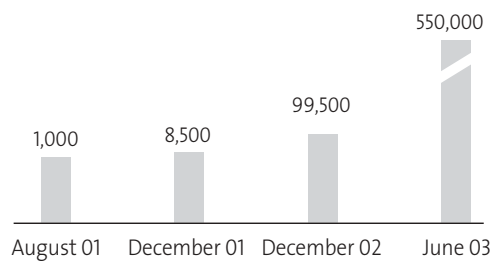


service marketed in Spain by a mobile telephony operator. The pack transmits data at high speed (up to 384 Kbit/s).

Telefónica Móviles España intends to invest 1 billion euros in Third Generation infrastructures over the coming three years. At the end of 2003, it had coverage in the 52 provincial capitals, and the forecasts are that it will have nearly 8,000 UMTS stations in 2005.

The growth of mobile telephony will be transferred from the voice business to the data business in the middle term. In that sense, a significant increase in the customer base is foreseen in Brazil and Mexico. The target in 2006 is to reach 65-70 million customers managed (a third of them in Spain). The penetration in Brazil would be 35-40 % (in areas where Vivo operates) and approximately 20% in Mexico.

ACCUMULATED GRPS CUSTOMERS OF TME



03_02

Our focus: the customer

EACH DAY WE STRIVE TO SATISFY THE COMMUNICATION NEEDS AND HABITS OF OUR CUSTOMERS, PROVIDING PERSONALISED SOLUTIONS FOR THEM ALL: INDIVIDUALS, HOMES, COMPANIES AND PUBLIC ADMINISTRATIONS



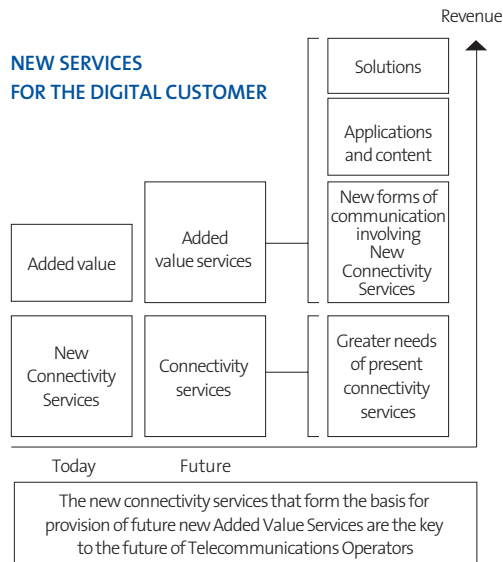
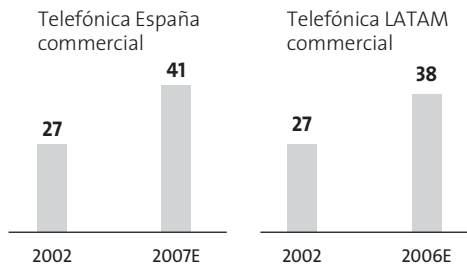
The telecommunications sector is immersed in a structural change with great implications for the business. Customers have new needs, the setting of the sector is increasingly more competitive and a new scenario is being consolidated, dominated by constant technological changes, that have more and more effect on the economic parameters of the business.

The solutions Telefónica provides to these new challenges must be considered within a context marked by great competitive intensity imposed by various factors: consolidation of competitors with their own infrastructures, slowing down of the traditional business due to the growing maturity of the market, and the increased pressure on margins caused by proliferation of aggressive commercial policies.

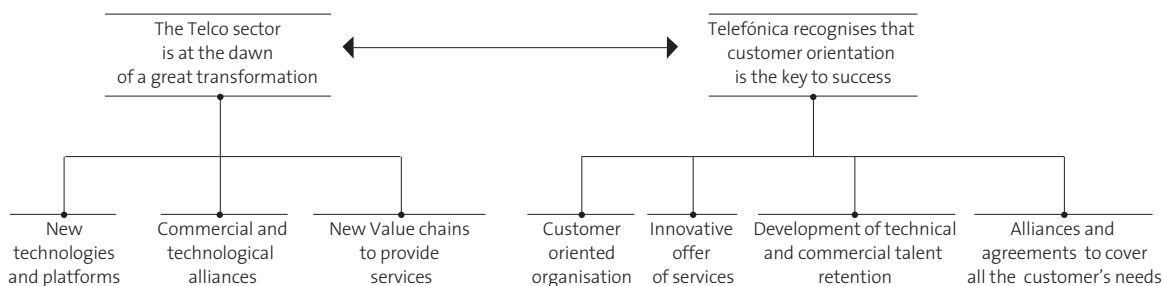
Telefónica has known how to deal with that change in scenario to take advantage of the new reality, to discover new opportunities of growth, that may be taken advantage of to increase the value chain of its business, as an organisation with a strong commercial orientation, a flexible business model and efficient approach to costs and use of assets. Thus, the strategy of the Group in the last year has undergone that transformation of the Company to a more commercial approach, with greater concentration on the customer and less on the product.

PROFOUND TRANSFORMATION OF THE STAFF IN OUR FIXED OPERATIONS

(Data in percentages)



CUSTOMER ORIENTATION AS A KEY TO THE NEW TRANSFORMATION IN THE SECTOR



To orient its management model toward the new reality, Telefónica has used efficient management tools and has transformed its organisational structures.

Among the management tools, there is implementation of the Seis Sigma programme, that allows, in turn, management orientation from the point of view of the customer (keeping ahead of his needs) and simultaneously increasing revenue. Telefónica de España was the pioneer in implementing that methodology, which is already being introduced to the rest of the Group.

Moreover, Telefónica Móviles created the "Usability Group", a methodology that is integrated in the design process, development and launching of the services, improving the experience and usability of the services from the point of view of the customer. The results are an increase in fidelity, improved image of the company, a greater cost reduction and increase in the potential number of users.

In that same line, at the beginning of 2004, Telefónica de España presented the commercial transformation programme "Goal: customer" to continue its process of adaptation to the new market needs and greater customer orientation, to be a more commercial company, with more efficient growth, to generate more confidence and motivation. Structural arrangement of "Goal: customer" into four programmes was due

to a new reorientation toward the end user, to gain an in-depth knowledge of their perceptions and opinions, to take these into account and act according to their demands.

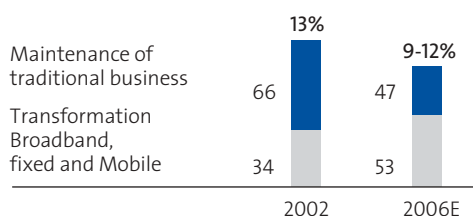
Telefónica Latinoamérica also presented its new customer orientation programme in 2004: "Customer Commitment", in order to transform the operators forming the company in that region into organisations that concentrate on the customer to continue to grow in a profitable, sustainable manner. The three pillars of the Project are: Satisfaction, Confidence and Nearness, and this will especially affect all the employees in Brazil, Argentina, Chile and Peru.

As to transformation of its organisational structures, the forecast is that 41% of the personnel at Telefónica de España and 38% of the employees in Latin America will perform commercial and marketing tasks in 2004, although the whole staff of the Telefónica Group must adopt a commercial attitude. In this sense, the increase in commercial personnel of Telefónica de España up to the year 2007 is forecast at 25%.

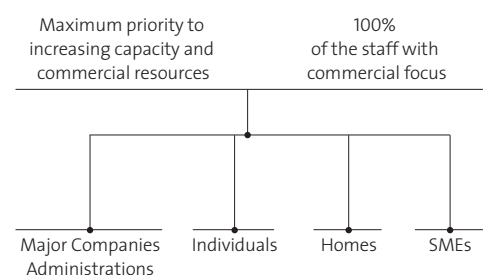
With its strategy focussed more on the customer, and less on the product, Telefónica takes a position as an integrated operator that provides communication solutions covering all the expectations and needs of its customers, combining the different technologies and services. In this sense, Telefónica leads the best

CapEx OF REVENUE. TELEFÓNICA GROUP

(Data in percentages)



THE CUSTOMER: THE KEY TO OUR STRATEGY





strategy on the market, distinguished from partial or niche operators that only satisfy part of those needs.

Consolidation of this new, more flexible structural model, with the organisation more focussed on the core business, has allowed it to form a Group that is lighter in assets and costs. Moreover, the commercial emphasis and flexibility have facilitated an increase in free cash flow generation and reorientation of investments, driving not only the growth and increased profitability of Telefónica, but also the orientation of its objectives toward growth in the free cash flow and shareholder remuneration.

Telefónica has thus become a reference operator in the world, the keys to its strategic reorientation being clearly defined by more personalised attention to its customers, differentiation of solutions for each need and segmentation of the customers into four major groups: individual customers, homes, SMEs, and Major Companies and Public Administrations.

WE SOLVE THE DAILY COMMUNICATION NEEDS OF OUR CUSTOMERS

Permanent interest in hearing the customer's voice has made communication with the client a key factor at Telefónica. To ensure this, we have a large number of channels of communication that guarantee fluent communication with the customers and enable us to provide them products and services that satisfy all their communication needs. Among these channels, we may emphasise: personalised attention by telephone (712 million calls in 2003), online relation channels (more than 6 million registered users), loyalty schemes (approximately one out of every four customers participates in these), etc. Telefónica also performs surveys on satisfaction with the service in all its lines of business (for example, in fixed telephony, 78.5% of the customers state

they are satisfied or very satisfied with the service provided by the company), market studies, launching test projects, "focus groups", etc. All of this is combined with a major institutional presence in forums, at fairs and conferences.

In this context, there is also customer billing performed not only in a more precise, clear format, but also the most suited to their needs. For example, they may choose to combine the charges for different services and lines in one single bill, or, if they prefer, to distribute them in several bills. They may also determine the language in which they wish to receive their bills and the billing frequency. Moreover, the "e-bill formula", the electronic billing service of Telefónica de España, has obtained full fiscal validity with recognition by the Tax Authorities.

These are examples of the progress, made to achieve personalised identification, that allows customers to be served according to their needs and habits. This way of working by the commercial teams has shown, from a strategic point of view, the three focuses for growth over the next years, that will be imposed by the customers' own voice: broadband, mobile services and fixed telephony in Latin America.

The new needs for communication by customers involve new connectivity services that are used as the basis to provide new Added Value Services. These new connectivity services are thus the key to the future of telecommunications operators, as they allow an increase in revenue.

Among these new communication needs of our customers, one may mention services and applications in the digital home, widespread solutions and services on broadband for companies, the increasing importance of TIC activity outsourcing and the new possibilities of mobile data services with the birth of the 3rd generation.



Telefónica has concentrated all its organisation on the different profiles and needs of its four major customer groups: Individuals, Homes, SMEs, Major Companies and Public Administrations.

Individuals

For individual customers, Telefónica has multiple services that allow total mobility: broadband services for mobility, “premium” services, etc. Thus, customers of Telefónica Móviles can exchange short text messages (SMS) among themselves and also with users of other operators worldwide (agreement with Inphomatch, Inc.). The company continues to work to make access to its services easier. It has launched the Movistar Service Menu, a graphic interface to provide users easy access to the diary, Movistar smilies, videogames, multimedia services or tone downloading.

Mobile Recharge is another service that shows the complementary nature of the offer by companies in the Group, in this case, Telefónica de España provides a facility to recharge the balance of up to four Movistar Activa prepaid cards instantly. The service is billed in the usual manner, on the customer’s fixed telephone.

On the other hand, Terra España has included a payment mechanism on its platform using the secure commerce protocol “Verified by Visa”, guaranteeing maximum security in its electronic transactions (with the BBVA group).

TPI-Páginas Amarillas has its new Shopping Channel, with myriad products of all kinds, offered by the 60 most important shops in the country. Moreover, during the year, it launched the new telephone information service 11888, which provides information on individual and company telephone numbers and is accessible to all subscribers of the major fixed and mobile telephone operators. TPI has also included added value services such as call progression, the possibility of making reservations at hotels

and restaurants, or searches by proximity to the services requested, among others.

Terra provides the most simple, amusing way to keep in contact with friends, relatives or colleagues at work by transmission of data, voice and video in real time through Terra Messenger.

Telefónica provides a channel (through SMS messages) that allows users travelling on Iberia, as well as their friends and relatives, to obtain real time information on flight status. The company also participates in Simpay, a new brand of the Payment by Mobile Payment Services Association, that allows customers to pay for low priced purchases, such as mp3 file downloads, or to pay for parking by charging it to an account managed by the mobile telephony operator. On the other hand, Telefónica public phones may already be used for sending text messages to fixed and mobile telephones, faxes and electronic mail addresses.

To this one must add the launch, in 2003, of Telefónica Combined, a modular system that allows each customers to hire the products and consumer services that best suit his fixed telephone use habits, which has been a further step forward by Telefónica in its customer oriented strategy.

Homes

For this segment, Telefónica now provides all kinds of basic communications, as well as digital services for the home: broadband access, entertainment, multimedia, domotics, etc.

Telefónica Services based on ADSL technology are reaching increasingly more residential users. The World ADSL offer solves the entertainment, education and social relations needs of all the members of the home, transcending mere data transport to facilitate own information: multi-conferencing, unified messaging, games, video clips, concerts, training courses, etc., in an



environment that is immediately user friendly and safe for children to use.

Telefónica markets options for the ADSL service to suit each user, with a choice of speed, connection timetable, assignment of dynamic or static IP address, self-installable individual configuration by the user, or on a network of several computers in the same home, the mobility provided by wireless system, and the security conditions required for each type of home. In this sense, Telefónica has designed Canguronet, a net-based application specifically aimed at covering the need of paternal control in the home, although it is also fit for corporate use, which allows access to certain Internet sites and content to be filtered when these are considered inappropriate for the profile of the ADSL line user who is logged on.

The ADSL Line will play a fundamental role in the 21st Century home. The online home is an intelligent home that Telefónica has promoted with the ADSL deployment in recent years. More than 8% of Spanish homes now trust Telefónica to obtain the key that allows them to access a world of entertainment services and multimedia, security, heating, alarm control and community services, and Internet access.

At the beginning of 2004, Imagenio went on sale in Madrid and Barcelona. This is an integrated service with video and audio on demand, interactive digital TV and Internet access on broadband. This new concept of television, in which the customer designs his own programming, has been considered the most innovative in the Tecnet Prizes 2003.

SMEs

Telefónica provides efficient, robust communication solutions for the Small and Medium Enterprise, multimedia services and suites of business solutions and applications. Among these, there is the ADSL Solutions family, with widespread acceptance of ADSL Intranet

Solutions at more than 50,000 SMEs, ADSL Net-LAN Solutions as the complete solution and de facto standard of "VPNs", corporate or security information services, integration of voice-data-broadband-associated services at fixed monthly rates, etc. This is definitively a large range of services that, until recently, were reserved for Major Companies, now available to the Small and Medium Enterprise, that grow daily in features, applications and maintenance and support services.

The determined bid by Telefónica to create and immediately operate the Support Office for the Information Society, OASI, also shows our interest in helping to take maximum advantage of new technologies as productivity tools, customer service and to improve management.

On the other hand, Telefónica de España has been a pioneer in marketing a new ADSL router modem that converts to wireless, which allows the creation of a local Wi-Fi wireless network with Internet access through ADSL. It has also increased the offer of wireless equipment and positively encouraged extension of broadband mobility and its ubiquity by putting more than 100 Hot Spots into service, known as ADSL Wi-Fi Zones, in public areas, for broadband access through Wi-Fi technology or ADSL LAN Wi-Fi solutions within private corporate environment.

Telefónica also participates in the SME Modernisation Programme (PMP) aimed at facilitating convergence of small and medium Spanish enterprises with European ones, helping them to improve competitiveness and adapt to the Information Society. As an example, one would have to emphasise the geo-location services that allow companies to know the physical location of their vehicles and personnel at all times, with the only requirement being for them to have a mobile telephone with coverage within the country. Telefónica de España also offers, as of this year, these services from a PC connected to Internet.



Major Companies and Public Administrations

Within the scope of Major Companies and Public Administrations, Telefónica proposes advanced solutions, developed using new technologies, as well as forming an outsourcing process of the telecommunications infrastructures.

Specifically, Telefónica provides Major Companies with comprehensive communications solutions, advancing on the route to total integration of Voice, Data and Content Services, from carrier infrastructures on broadband that are totally adapted to the connectivity needs of such companies. Its offer includes the support, management and control required to cover a range, from Level of Service Agreements customised to suit the customer's needs, to total outsourcing of the corporate communications, supported by a thorough process of implementation planning.

Telefónica has developed e-BA, a proposal of services and solutions to aid Major Companies and Public Administrations to achieve closer relations with customers and citizens, suppliers and employees, through broadband communications. The value proposal of e-BA is based on broadband services to enable evolution of the technological platforms at companies toward more efficient, competitive computer models. It is also aimed at cost reduction and increased productivity through a complete, personalised offer of services.

Within this environment, Telefónica has consolidated the e-BA infrastructure for Data and Content, while it has progressed in integration of voice communications (Ibercom e-BA). During 2004, it will complete that process with the transformation of the Ibercom Service, that will allow our accessories to use scenarios for integration in Next Generation Networks. The Ibercom service is now the benchmark in voice for Corporations and Major Companies; backed by a market share of nearly 50%. There is

now a plant with 1,370,000 lines, and a million and a half lines are expected to be achieved during this financial year.

The evolution of the Ibercom Service toward new Voice and Data models in 2004 will allow the way forward to IP convergence, providing companies Value Services that considerably improve internal operating costs in exchange for a small increase in their communications expenditure. This new offer, will provide businesses with homogeneous services at all work stations, while each worker have mobility throughout the corporate network.

This evolution in Ibercom based on voice and data convergence will have the following objectives:

- To progressively cover up to 100% of the customer's premises.
- To integrate all the customer's voice services.
- To increase management and after-sales attention, including customised management centres and the service-level agreements demanded by the market.
- For the offer to include new services in IP environments: added value services and, in particular, mobility services, as revenue generators.

Telefónica has consolidated its broadband offer for Major Companies based on optical fiber in 14 Spanish cities, reaching up to 1Gbps in connectivity. This offer allows Major Companies to connect their premises at speeds previously reserved for local area networks, and provides the possibility of implementing remote backup centres at national level, or installed on the Telefonica Internet Centers ("TICs"), data processing and solution centres on the Internet, that allow companies to develop their presence on the Net to the maximum, thus improving security.



On the other hand, Telefónica continues to be a leader in solutions to provide Major Companies services to facilitate tele-working and mobility for their employees. Its Intranet Access service includes existing ADSL accesses, the possibility of switched mode access with flat rate 24x7, with reserved access, to always ensure the possibility of connection.

Telefónica was also the first operator to provide a service integrating management of virtual private networks with management of the new local wireless networks (WIFI), allowing Major Companies to adopt this new technology.

In 2003, Telefónica also launched the integration of virtual private networks with the Telefónica Internet Center (TIC) which allows integration of the TIC as another office / premises of the clients own private virtual network, which may use the intranet, storage, processing and security resources, available through Telefónica in a more efficient manner.

Telefónica is continuing to complete its Outsourcing and integrated management offer. Through its Personalised Management Centres (PMC) it has increased its management capacities to local devices (switches), international services, security (firewall, proxy) and has launched new options for smaller companies that do not have their own space for operators, so these are on the Telefónica premises: the PMC Silver.

On the other hand, the Company has developed a new platform eBA-Gestión, that will provide Major Companies information, monitoring, advanced supervision and management of the services contracted, easily and immediately.

Telefónica leads the IP Virtual Private Network market based on the new MPLS standards. That solution, which guarantees the same security as a private network, has begun to spread among Major Companies, being one of the

largest growth areas. It has also renewed its commitment to quality and confidentiality with the Major Company, by setting up new Service Level Agreements that guarantee companies in Spain may enjoy the best attention.

Internet content presence services and IT infrastructures housing have also provided our customers and suppliers an improvement in their image on the market, increased their customer loyalty and improved operating efficiency, with maximum availability services and optimum response times.

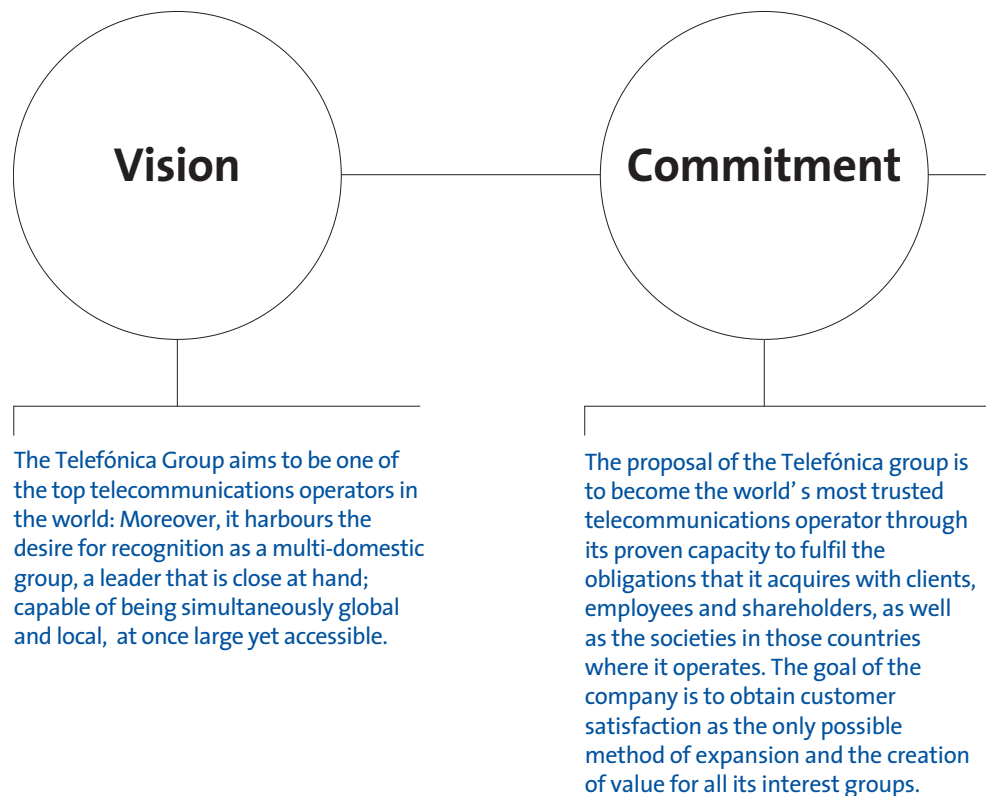
New services and applications have also been launched on the Hosting and Storage Services offered at the Telefónica Internet Centers, allowing Computing on the Net to become a reality.

Considering the present concern all companies have for security matters, the Logical Security Services family has been launched, which allows the information on the data and applications at the customer's office or the TIC to be assured. These services feature the launch of PcBackUP, Managed Firewall, Intruder Detection and Digital Certification. Likewise, the CRM services have been consolidated, to provide strategy, processes and technologies to optimise relations with Companies and Public Administrations, with customers, citizens, employees and partners.

03_03

Annex I. A Group that knows where it's going

THE TELEFÓNICA GROUP SHARES A SINGLE VISION OF LEADERSHIP WITH A COMMITMENT AND VALUES THAT FORM THE CORE OF ITS CORPORATE CULTURE. A CULTURE THAT IS BOTH SOLID YET FLEXIBLE, AND WHICH ALLOWS THE COMPANY TO ADAPT ITSELF TO NEW CONTEXTS AND FUTURE CHALLENGES. THIS IS TELEFÓNICA'S BUSINESS PROJECT FOR THE FORTHCOMING YEARS, A CHALLENGE FOR EVERYBODY THAT FORMS A PART OF THIS COMPANY



It is the desire of the Telefónica Group that everybody that has dealings with the firm feels able to place their trust and confidence with us due to our ability to satisfy the commitments that we undertake.

The generation of confidence includes the support of Telefónica's corporate values: more specifically certain obligations to its shareholders (profitability and transparency); with its clients (service quality and fulfilment of promises); with its employees (clearly defined working practices and professional development); with societies where it holds a presence (closeness and contribution).

These are the values that are shared by the entire group. All actions and decisions that are taken within the organisation need to reinforce these values. The whole company is very much focused on making this effort. Furthermore, the Telefónica Group relies on innovation, solidity, transparency, dynamism and technological leadership as the attributes upon which to establish our values.

The firm has begun profound transformation in a totally commercial direction. In other words, setting client-satisfaction as the key element for growth. With more efficient management and anticipation of trends, in services as well as markets and businesses.

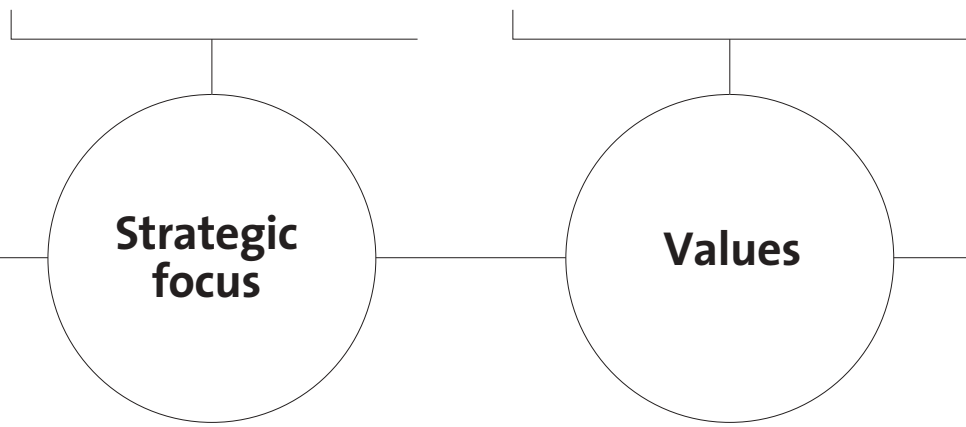
Telefónica: a reliable operator

Telefónica wants to build its vision of leadership upon the foundations of reliability.

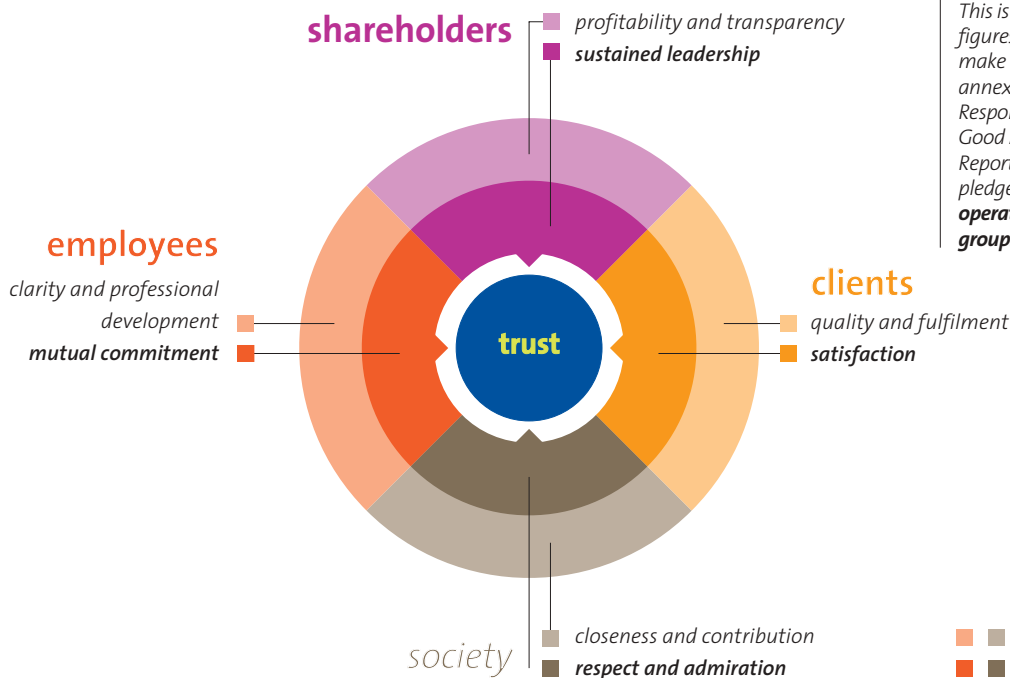
The different groups that have dealings with a telecommunications company look for an operator that makes things both easier and better for them. They want a supplier that meets their requirements and exceeds their expectations, both now and in the long-term. But above all, they want a partner they can trust.

Telefónica pursues the objective of being this partner. For this reason, our professionals manage the technology, products, services and dealings for across-the-board benefit of all the interest groups: shareholders; employees, those from the communities where we operate, as well as society in general. Telefónica aspires to achieve this objective from a baseline of understanding its clients; from continuous improvement in what it does; from the acceptance of responsibilities that leadership brings with it; and from the promise of transparent behaviour, integrity and ethics.

*This is our target. All data, figures and information that make up this annual report and annexes (Corporate Responsibility Report and Good Management Practices Report) are the result of this pledge: **to be the trusted operator for our interest groups.***



THE VALUES OF THE TELEFÓNICA GROUP BY INTEREST GROUPS



Annex II. A committed Group with corporate control

THE FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE OF TELEFÓNICA S.A. ARE SET FORTH IN THE ARTICLES OF ASSOCIATION AND IN THE BOARD REGULATIONS. THESE ARE AT THE DISPOSAL OF THE SHAREHOLDERS AND INVESTORS BOTH AT THE COMPANY HEADQUARTERS, AS WELL AS VIA THE WEB PAGE

Ownership

The share capital of Telefónica, subscribed and fully paid up, is comprised of 4,955,891,361 shares, each with a face value of €1.00, and of a single class and series, represented through account entries.

1,693,049 shareholders¹

(1) Information obtained from Iberclear on 1st April 2003

In accordance with existing information on the Company, there is no individual or legal person that holds, or may hold control over Telefónica either directly or indirectly. There are, however, certain shareholders that are owners of significant stakes:

Total shareholdings	Percentage	Shares
BBVA*	6.09	301,813,784
La Caixa**	3.50	173,456,198

(* According to the Bank itself, the shareholding maintained with permanence criteria in the capital of Telefónica is 5.17%, as at 31st December 2003.

(**) According to the web page of the Savings' Bank, updated on 31st December 2003.

The Annual General Meeting of shareholders is the supreme deliberating and deciding body through which the Company's intentions are set forth and the shareholders decide by majority vote on those matters that fall within the terms of reference of the shareholders' AGM.

Telefónica proposes to submit a regulation for the consideration and, if appropriate, the approval of the ordinary AGM of shareholders (30th April 2004), in which the rules and principles of its organisation and performance are established. This is in pursuance of the provisions set forth in Act 26/2003, dated 17th July.

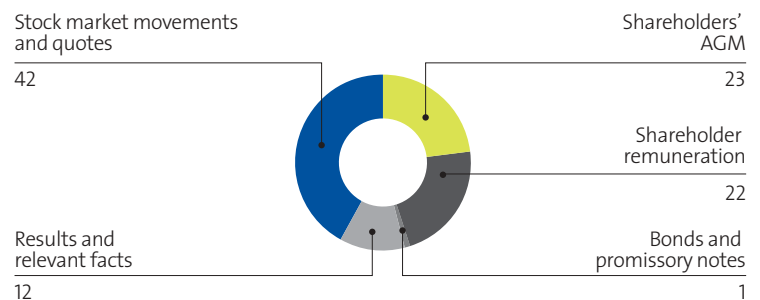
Loyalty, fulfilment and

transparency

Shareholders' Service Office: provides all the relevant company information to shareholders and resolves any doubts that they may have.

DISTRIBUTION OF SHAREHOLDER TELEPHONE ENQUIRIES

(data in percentages)



Investor dealings area. Designs and carries out the Telefónica communication programme with regard to national and international financial markets.

At its session on the 26th March 2003, the Board approved an internal regulation governing communication and information to the markets. This regulation regulates both these processes of communication, as well as the processes of producing the annual informative leaflets.

Major web improvements with regard to content that is relevant to shareholders and investors, restructuring existing information and bringing in new content. Moreover, a section specifically dedicated to issues of corporate governance has been created. These sections received a total of 680,000 visits during 2003.

www.telefonica.com/ir
www.telefonica.com/accionista
www.telefonica.com/gov
www.telefonica.es/hechosrelevantes

8 (42%)
independent
board members

6 (32%)
core
shareholders



Board of Directors

The Board is the supervisory and control body of the company's activity and holds specific responsibilities with regard to the strategy and business management, as well as the coordination of the group of companies.

19 board members

Management

The Board entrusts the ordinary management of Company business to the executive bodies and the management team.

The top group executives attended virtually all of the board meetings that were held in 2003 and which dealt with matters that fell within their terms of responsibility.

Likewise, the different Board Committees have analysed matters that fall within their own terms of responsibility. These committees function as a common channel between the management of the company and the Board.

During the 2003 financial year, the Telefónica board held 13 meetings (11 ordinary and 2 extraordinary). Each meeting lasted approximately 4 hours.

Agreements shall be adopted through Board member majority of those present, attending or represented at the session.

Board Commissions. The existence of a **Deputy Committee**, whose duty is set forth in the Board regulations, provides greater effectiveness and efficiency to the Board. It is currently made up of eight directors. In 2003, the Deputy Committee held 19 sessions, each of which lasted for more than 3 hours.

Stock markets where Telefónica S.A. shares are quoted.

- 4 Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia)
- London Stock Exchange
- Paris Stock Exchange
- Frankfurt Stock Exchange
- Tokyo Stock Exchange
- New York Stock Exchange
- Buenos Aires Stock Exchange
- Lima Stock Exchange
- Sao Paolo Stock Exchange
- Included in the Stock Exchange Automated Quotation System (SEAO International)

COMPOSITION (board members)

Other Board Commissions	COMPOSITION (board members)		Sessions (2003)
	Non-executive	Executive	
Auditing and control	4	—	13
Appointments, remunerations and good practices	4	—	10
Human resources and corporate reputation	4	—	4
Regulation	2	1	8
Service quality and commercial service	3	—	6
International matters	4	1	2

(*) Since May 2003

Annex III. A responsible Group

TELEFÓNICA UNDERSTANDS THAT ITS FIRST AND FOREMOST RESPONSIBILITY IS TO DO ITS JOB EFFICIENTLY AND PROPERLY: ASSURING THE QUALITY OF WHAT IS DIRECTLY ROOTED IN ITS BUSINESS ACTIVITY

Thus, for the Telefónica Group, responsibility is understood from a global perspective, pursuing the creation of value for all interest groups.

An all-round commitment to convert Telefónica into a motor of economic, social and technological development of the companies in which it operates.

An all-round commitment

Customers	Shareholders/ investors	Suppliers	Media
<p>Quality & fulfilment</p> <ul style="list-style-type: none"> • Excellence in service 99.35% of installation commitments fulfilled • Communication with customers 712 million calls taken in the customer service centres • Fidelity plans 15,355,818 customers belong to fidelity plans in Telefónica Móviles España • Customer satisfaction 78.5% average customer satisfaction with fixed telephony (Spain + Latin America) 	<p>Profitability & transparency</p> <ul style="list-style-type: none"> • Communication channels 680,000 Internet sessions devoted to shareholders and investors www.telefonica.com/ir www.telefonica.com/accionista • Complete and transparent information 964,302 files downloaded online • Investment using responsible criteria 1% of the Employees' Fund invested using sustainable criteria 	<p>Equal opportunities and mutual benefit</p> <ul style="list-style-type: none"> • Large number of suppliers More than 10,500 million euros awarded to 17,100 suppliers • Equal opportunities 10,500 suppliers registered in Suppliers Catalog • Mutual benefit 53 supplier development projects • Sustainable growth of the Company 88% of procurement from local suppliers in each country 	<p>Information & transparency</p> <ul style="list-style-type: none"> • Interest in Telefónica activities 31,138 hits on the Spanish press • Complete and rigorous information 1,834 press releases published in the world

For more information see the 2003 Annual Corporate Responsibility Report and web page www.telefonica.es/responsabilidadcorporativa

We all are society

Employees

Clarity & professional growth

- A large human group
148,288 employees in all the world (consolidated datum)
- Reward
110,000 employees assessed on performance
- Professional growth
6.3 million hours of training
- Human Rights
106,593 employees covered by collective agreements
- Collaborating employees
62,854 employees collaborate with ATAM

Environment

Respect & protection

- Commitment to the Environment
The Company has subscribed to the United Nations World Pact
- Environmental management
ISO 14001
 - Telefónica de España (in the Logistics Centre)
 - Telefónica I+D (in all operations)
 - Telefónica Móviles España (in all operations)
 - Telefónica Móviles México (Certification in process)
- Minimise the impact
7,000 base stations certified in 2003 (electromagnetic emissions)
- Development of services with a positive impact on the Environment
353 projects assessed

Society

Contribution & proximity

- Commitment to the countries where it operates
1.85% average contribution of Telefónica revenue to the GNP of Spain, Argentina, Chile, Peru and Brazil
- Digital inclusion
3,334,560 low-cost lines between Spain and Latin America
- Development of the information society
120 agreements made with Universities and Business Schools
- Social use of communications
14,559,319 persons benefited from Fundación Telefónica projects in 2003
- Support for the disabled
1,000 disabled people Internet trained in Chile
- Solidarity
Investment in Social and Cultural Action 2003
Fundación Telefónica: 23,477,000 euros
ATAM: 8,800,000 euros
Rest of the Group: 14,271,000 euros
Total: 46,548,000 euros

Annex IV. A socially responsive Group

FUNDACIÓN TELEFÓNICA IS THE MAIN INSTRUMENT THAT CHANNELS SOCIAL AND CULTURAL ACTION OF THE TELEFÓNICA GROUP IN THE COUNTRIES WHERE IT IS PRESENT: SPAIN, ARGENTINA, BRAZIL, MOROCCO, PERU AND, SINCE 2003, MEXICO

Fundación Telefónica, in collaboration with social organisations, develops different projects to implement new information and communication technologies. The fundamental component of these projects is to pursue improvements in education, access to culture and arts, as well as development of Society and betterment of people's standard of living, and in particular that of the most disadvantaged groups.

All actions developed by Fundación Telefónica in the countries where it operates, are based on trans-national or specifically national projects, and characterised by being in the general interest, by representing a voluntary commitment beyond those laid down by law and by being not-for-profit.

Education, Co-operation and social promotion, Tele-medicine, tele-assistance and disability, Culture, Art and technology and Information Society are the main areas in which Fundación Telefónica carries out its activity.

Further information can be obtained by consulting the Fundación Telefónica Social Report or visiting the web site: www.fundacion.telefonica.com

FUNDACIÓN TELEFÓNICA

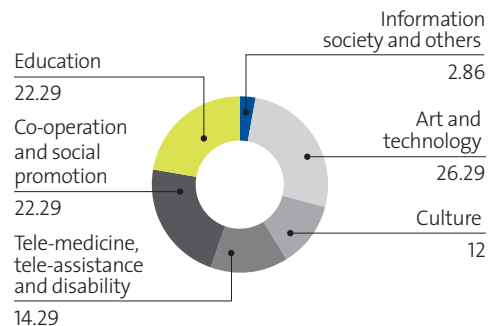
FUNDACIÓN TELEFÓNICA INVESTMENT IN SOCIAL AND CULTURAL ACTION IN 2003

(Data in euros)

Fundación Telefónica España	17,548,000
Telefónica Foundations for Latin America and Morocco	5,929,000
Total	23,477,000

DISTRIBUTION OF FUNDACIÓN TELEFÓNICA RESOURCES IN SPAIN BY ACTIVITY AREAS

(Data in percentages)

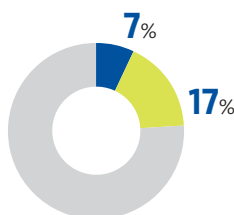


DISTRIBUTION OF FUNDACIÓN TELEFÓNICA PROJECTS BY ACTIVITY AREA

■ Spain ■ Latin America and Morocco

Education

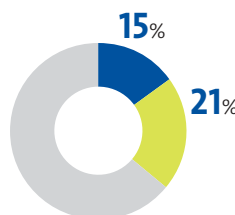
- EducaRed
- CampusRed
- Educational Internet
- Technology skills



16,693 Beneficiary organisations

Co-operation and social promotion

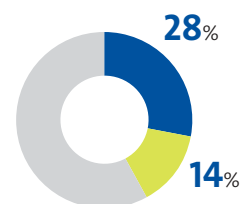
- Aid for telecommunication equipment
- Risolidaria
- Corporate volunteers
- Co-operating campaigns



1,786 Beneficiary organisations

Art and technology

- Exhibitions
- Management of artistic and historical wealth of the Group
- Preservation and restoration



62 Beneficiary organisations



TELEFÓNICA GROUP BUDGET FOR SOCIAL AND CULTURAL ACTION IN 2003

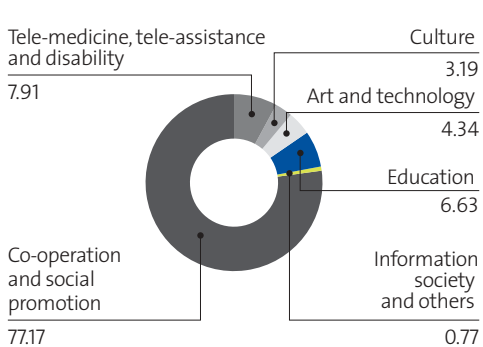
(Data in euros)

Fundación Telefónica	23,477,000
ATAM	8,800,000
Rest of Group*	14,271,000
	46,548,000

(* Includes other activities carried out by the Companies of the Telefónica Group (in particular Telefónica, S.A., Telefónica de España, Telefónica Móviles, TPI, Terra and Atento) that comply with the basic criteria of Social and Cultural Action: actions of general interest, voluntary and not-for-profit.

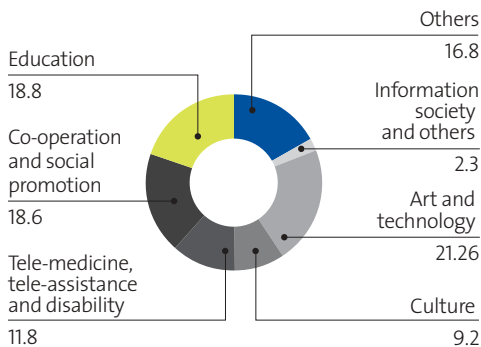
DISTRIBUTION OF THE 784 BODIES COLLABORATING WITH TELEFÓNICA ESPAÑA BY ACTIVITY AREA

(Data in percentages)



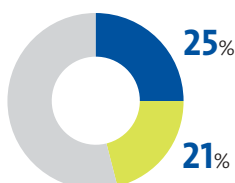
DISTRIBUTION OF FUNDACIÓN TELEFÓNICA RESOURCES BY ACTIVITY AREA, CONSOLIDATED DATA

(Data in percentages)



Tele-medicine, tele-assistance and disability

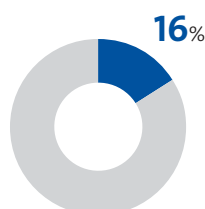
- Mercadis
- Support for abused women
- Support for Alzheimer sufferers
- Sport and disability



1,448 Beneficiary organisations

Information Society

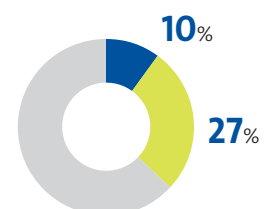
- Forums and conferences
- Dissemination
- Publications



6 Beneficiary organisations

Culture

- Ars Virtual
- Museums
- Publications



15 Beneficiary organisations

Annex V. An innovative Group

TELEFÓNICA I+D ACTS AS A CATALYST TO STRENGTHEN AND BOOST GROWTH OF BUSINESS ACTIVITY IN INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT)

Most of the Group's research and development (R & D) activity is carried out in Telefónica Investigación y Desarrollo (I+D). Owned 100% by Telefónica, it works, for the most part, for Telefónica Business Lines and participates in other research projects, both at the domestic and the international level.

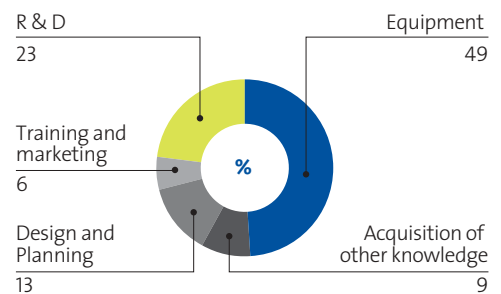
During the year 2003, Telefónica I + D worked on 1,800 projects, 35 of them belonging to the European IST Programme. It participated in or collaborated with 25 technological standardisation associations, forums or groups, directly employing 1,125 people and 1,258 indirectly and involving 32 firms from the ICT sector, as well as 14 Universities in this activity.

INVESTMENT

TOTAL INVESTMENT IN INNOVATION OF THE TELEFÓNICA GROUP IN 2003

1,902
million euros

Telefónica is the most important investor in technological innovation for business purposes in Spain, investing more than 1,103 million euros during 2003 with the following break-down:



GEOGRAPHICAL SPHERE

Telefónica has committed to being one of the driving forces behind technological innovation in Latin America.



Although over half the 100 million customers of the Telefónica Group are in other markets, the thrust of the R & D effort is carried out in Spain.

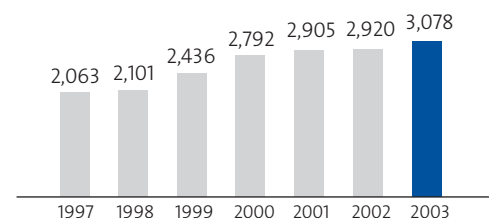
INDUSTRIAL PROPERTY PORTFOLIO

This strong commitment to innovation has allowed us to expand our industrial and intellectual property portfolio in the countries where Telefónica innovates.

1,085
intellectual property registrations

1,541
patents

EVOLUTION OF PORTFOLIO OF INDUSTRIAL AND INTELLECTUAL PROPERTY RIGHTS OF TELEFÓNICA
Total rights registered



CHRONOLOGY OF INITIATIVES IN 2003

January

- Telefonía Móviles is the first operator in Peru to offer third generation services (CDMA 2000 1X)
- Telefonía I + D develops a prototype enabling implementation of an electronic ticket solution system.
- Telefonía Móviles facilitates the sending of short messages to Telefonía fixed-line telephones.

February

- Telefonía SP backs growth in wake-up call, weather and schedule information services.
- Telefonía de España incorporates dynamic addressing into its IP network.
- TPI-Páginas Amarillas launches the new 11888, the first offer of Telefonía information in a liberalised market.

March

- Unifón launches Asterisco Mail, to receive and reply to e-mails from telephones through voice messages.
- Telefonía de España launches Solución ADSL e-gestión, its new range of online software for SMEs and professionals.
- Telefonía de España begins to offer Internet connection by satellite.

April

- Imagenio, the Telefonía de España project of television via ADSL, received a prize for the most innovative service in tecnet 2003.
- Telefonía de España launches a new router modem that allows for the creation of a Wi-fi wireless local area network for ADSL.
- Telefonía Móviles installs one of the most advanced cell networks of Latin America in Chile.
- Telefonía CTC Chile, leader in the Chilean ADSL market, launches a multi-service offer for broad band.

May

- Movistar e-moción incorporates the downloading of videos into its contents offer.
- Telefonía Móviles España completes and simplifies access to the data services of Oficin@ Movistar.
- Telefonía de España and Terra initiate marketing of Mundo ADS:, a product that integrates communication, training and entertainment.

June

- Telefonía Soluciones presents a service that allows transport businesses to control their activity in real time.
- Telefonía Móviles launches in Movistar e-moción access to contents developed with I-mode technology.

July

- Telefonía presents the White Book of Digital Households to implement new technologies in Spanish households.
- TSA presents Globaline Vision, a service for businesses that transport audio-visual contents between countries and continents.
- Oficin@ Movistar integrates all the data services for the businesses of Telefonía Móviles España.
- Paginasamarillas.es brings out an automation section that allows control of a virtual intelligent household from a mobile telephone and the Internet.

August

- Telefonía de España offers a new range of security products and services for businesses and households.
- Telefonía Móviles, Orange, Tim and T-mobile unveil their first joint products

September

- Terra has a new Internet search service.

- Vivo, the first operator in Brazil to offer video services on mobiles.

- Telefonía deploys Speedy Wi-Fi in Peru, a service that allows wireless broad band access to the Internet.

October

- Terra launches a Wi-Fi wireless broad band Internet access service in Brazil.
- Telefonía Data España launches the PC backup service.
- Telefonía Móvil Chile is the first Latin American operator to launch broad band high speed mobile services based on edge.
- Telefonía Soluciones launches the first pre-commercial UMTS service in Spain.

November

- Telefonía Soluciones launches a service that allows businesses to know the exact situation of their staff, vehicles and goods.
- Telefonía de España renews its commercial voice offer with a new range of products tailored to the client.
- Telefonía Empresas and Unifón offer added value services and software in Argentina through broad band e-solutions.

December

- Telefonía Empresas launches a new service that offers broad band solutions by satellite.
- TME presents the new Movistar TSM 30 terminal, the first mobile telephone with I-mode fully developed in Spain.
- Telefonía del Perú launches a new service Speedy Plus with more advantages in terms of Internet access.