

*annual financial statement
and management report
for Telefónica S. A.*

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& Touche**

AUDITORS' REPORT ON FINANCIAL STATEMENTS

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

To the Stockholders of Telefónica, S.A.:

1. We have audited the financial statements of Telefónica, S.A. comprising the balance sheet as of December 31, 2002, and the related statement of operations and notes to financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. The financial statements for 2002 referred to above are presented in compliance with current Spanish corporate law, despite the fact that the operations of Telefónica, S.A. and of the companies it controls are managed on a consolidated basis. Accordingly, the financial statements of Telefónica, S.A., which acts basically as a holding company, do not reflect the financial and net worth variations resulting from application of consolidation methods to these holdings or to the transactions carried out by the related investees, some of which respond to the Group's overall strategy. However, these variations are reflected in the Telefónica Group's consolidated financial statements for 2002, on which we issued our auditors' report dated February 16, 2003, which was qualified for an uncertainty similar to that described in paragraph 4 below. The effect of consolidation is disclosed in Note 4-d.
3. As required by Spanish corporate law, for comparison purposes the directors present, in addition to the 2002 figures for each item in the balance sheet and statements of operations and of changes in financial position, the figures for 2001. Our opinion refers only to the 2002 financial statements. Our auditors' report dated March 14, 2002, on the 2001 financial statements contained an opinion qualified for an uncertainty concerning the Telefónica Group's net investment in Argentina, and in an emphasis paragraph we indicated the intention of management to update and review, on a yearly basis, the business plans of the Group companies that hold third-generation wireless telephony (UMTS) licenses and, where appropriate, to make any value adjustments that might be required.

In view of the changes in 2002 in the assumptions on which the aforementioned business plans were based, of the findings of reports commissioned from third parties and of the fact that the aforementioned wireless telephony technology is not yet commercially available, the directors of Telefónica Móviles, S.A. announced their decision to temporarily discontinue and restructure this company's business activities in Germany, Italy, Austria and Switzerland, and in 2002 they recorded the related write-down for accounting purposes, as described in Note 7, which gave rise to a charge, net of the related tax effect, of €1,062 million, to the statement of operations of Telefónica, S.A.

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4. Also, as a result of the depreciation of the Argentine peso with respect to the U.S. dollar and the euro in 2002, losses of €1,400 million were recorded in the statement of operations (see Note 2). However, certain uncertainties remain regarding the effect that the evolution of certain economic measures will have on the normal course of operations and on the financing thereof in Argentina (mainly that relating to the establishment of the wireline telephony rates). Accordingly, it is not yet possible to assess whether there will be any additional effects for accounting purposes on the Telefónica Group's net investment in the companies located in Argentina, which, calculated as described in Note 2, amounted to €1,637 million as of December 31, 2002, a substantial reduction with respect to the previous year.
5. In our opinion, except for the effects of any adjustment which might be required if the final outcome of the uncertainty described in paragraph 4 above were known, the financial statements for 2002 referred to above present, in all material respects, a true and fair view of the net worth and financial position of Telefónica, S.A. as of December 31, 2002, and of the results of its operations and of the funds obtained and applied by it in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.
6. The accompanying management report for 2002 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the management report is consistent with that contained in the financial statements for 2002. Our work as auditors was confined to checking the management report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE & TOUCHE ESPAÑA, S.L.
Inscrita en el R.O.A.C. nº S0692



Eduardo Sanz Hernández
Socio

February 26, 2003

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

Telefónica, S.A.

Balance sheets as of december 31, 2002 and 2001

ASSETS (Millions of Euros)

	2002	2001
A) FIXED AND OTHER NONCURRENT ASSETS	43,809.33	37,859.67
I. Start-up expenses	61.66	102.24
II. Intangible assets (Note 5)	38.82	37.22
Computer software	52.20	36.87
Other intangible assets	10.84	10.13
Accumulated amortization	(24.22)	(9.78)
III. Property, plant and equipment (Note 6)	22.38	21.31
Land and structures	0.81	0.81
Furniture, tools, etc.	24.35	21.71
Accumulated depreciation	(2.78)	(1.21)
IV. Long-term investments (Note 7)	43,686.47	37,698.90
Investments in Group companies	22,806.83	22,665.24
Investments in associated companies	408.83	407.86
Other investments	565.65	565.72
Loans to Group and associated companies	22,261.11	16,416.46
Other loans	111.60	0.38
Long-term deposits and guarantees given	86.50	9.81
Taxes receivable (Note 14.2)	4,932.90	435.28
Allowances	(7,486.95)	(2,801.85)
B) DEFERRED CHARGES (Note 8)	314.60	157.21
C) CURRENT ASSETS	6,005.79	14,704.77
I. Accounts receivable	159.44	662.53
Trade receivables	11.88	14.60
Receivable from Group companies (Note 16.8)	111.97	234.30
Receivable from associated companies	1.62	2.02
Sundry accounts receivable	3.35	333.36
Employee receivables	1.25	0.82
Taxes receivable (Note 14.2)	45.41	84.71
Allowance for bad debts	(16.04)	(7.28)
II. Short-term investments	5,472.83	13,592.49
Loans to Group and associated companies (Note 7.3)	4,141.22	13,581.07
Short-term investment securities (Note 7.6)	1,331.61	11.42
III. Short-term treasury stock (Note 9)	334.56	260.70
IV. Cash	24.37	178.93
V. Accrual accounts	14.59	10.12
TOTAL ASSETS	50,129.72	52,721.65

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these balance sheets.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of discrepancy, the Spanish-language version prevails.

Telefónica, S.A.

Balance sheets as of december 31, 2002 and 2001

STOCKHOLDERS' EQUITY AND LIABILITIES (Millions of Euros)

	2002	2001
A) STOCKHOLDERS' EQUITY (Note 9)	17,572.26	22,110.24
I. Capital stock	4,860.66	4,671.92
II. Additional paid-in-capital	11,670.02	11,670.02
III. Revaluation reserves	2,881.94	3,070.68
IV. Reserves	2,638.33	3,051.80
Legal reserve	652.57	652.57
Reserve for treasury stock	334.56	260.70
Other reserves	1,651.20	2,138.53
V. Loss for the year	(4,478.69)	(354.18)
B) DEFERRED REVENUES	—	0.91
C) PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 16.7)	138.75	149.40
D) LONG-TERM DEBT	23,899.79	18,737.42
Debentures, bonds and other marketable debt securities (Note 10)	2,509.21	2,479.30
Nonconvertible debentures and bonds	2,509.21	2,433.29
Other marketable debt securities	—	46.01
II. Payable to credit institutions (Note 11)	3,509.89	4,845.16
III. Payable to Group and associated companies (Note 12)	17,679.63	11,350.98
IV. Other payables	21.22	15.67
V. Taxes payable (Note 14.2)	34.71	46.26
VI. Uncalled capital payments payable	145.13	0.05
Group companies (Note 7.4)	145.13	0.05
E) CURRENT LIABILITIES	8,518.92	11,723.68
I. Debentures, bonds and other marketable debt securities (Note 10)	754.13	752.51
Debentures	—	116.09
Other marketable debt securities	699.34	578.80
Interest on debentures and other securities	54.79	57.62
II. Payable to credit institutions	1,736.36	2,662.13
Loans and other accounts payable (Note 11)	1,702.47	2,640.01
Accrued interest payable	33.89	22.12
III. Payable to Group and associated companies (Note 12)	5,885.29	8,025.91
IV. Trade accounts payable	70.50	123.41
Accounts payable for purchases and services	70.50	123.41
V. Other nontrade payables	72.32	151.02
Taxes payable (Note 14.2)	12.16	147.80
Other nontrade payables (Note 15)	60.16	3.22
VI. Accrual accounts	0.32	8.70
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	50,129.72	52,721.65

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these balance sheets.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

Telefónica, S.A.

Statements of operations for the years ended december 31, 2002 and 2001

DEBIT (Millions of Euros)

	2002	2001
A) EXPENSES		
Personnel expenses (Note 16.2)	90.06	80.23
Depreciation and amortization expense	57.09	48.56
Property, plant and equipment (Note 6)	1.57	0.83
Intangible assets (Note 5)	14.44	7.15
Deferred charges	41.08	40.58
Other operating expenses	241.56	246.62
Outside services provided by Group companies (Note 16.8)	46.73	40.06
Outside services	176.59	155.18
Taxes other than income tax	9.49	2.04
Other current operating expenses	8.75	49.34
I. OPERATING INCOME	—	—
Interest on accounts payable to Group companies (Notes 16.4 and 16.8)	900.23	836.53
Other interest on accounts payable and similar expenses (Note 16.4)	480.44	550.82
Variation in short-term investment valuation allowances	80.99	28.80
Amortization of deferred charges	22.07	34.35
Exchange losses (Note 16.5)	1,598.87	429.17
II. FINANCIAL INCOME	405.05	960.85
III. INCOME FROM ORDINARY ACTIVITIES	116.49	778.43
Variation in investment valuation allowances (Note 7.1)	5,484.78	1,384.38
Extraordinary expenses and losses (Note 16.7)	400.72	126.97
IV. EXTRAORDINARY INCOME	—	—
V. INCOME BEFORE TAXES	—	—
Corporate income tax accrued in Spain (Note 14)	(1,292.67)	(327.36)
Foreign taxes (Note 14)	5.06	62.45
VI. INCOME FOR THE YEAR	—	—

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these statements of operations.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of discrepancy, the Spanish-language version prevails.

Telefónica, S.A.

Statements of operations for the years ended december 31, 2002 and 2001

CREDIT (Millions of Euros)

	2002	2001
B) REVENUES		
Net sales to Group companies (Note 16.1)	36.17	140.50
Other operating revenues	63.98	52.49
Non-core and other current operating revenues	63.98	52.49
I. OPERATING LOSS	288.56	182.42
Revenues from equity investments	902.20	1,128.47
Group companies (Note 16.8)	881.96	1,114.82
Associated companies	5.79	0.02
Other companies	14.45	13.63
Revenues from other equity investments and loans (Note 16.4)	1,314.23	1,324.02
Group companies (Note 16.8)	1,285.82	1,254.88
Associated companies	—	0.32
Other companies	28.41	68.82
Exchange gains (Note 16.5)	1,271.22	388.03
II. FINANCIAL LOSS	—	—
III. LOSS ON ORDINARY ACTIVITIES	—	—
Gains on fixed asset disposals	1.17	0.01
Extraordinary revenues (Note 16.6)	1.54	113.82
IV. EXTRAORDINARY LOSS	5,882.79	1,397.52
V. LOSS BEFORE TAXES	5,766.30	619.09
VI. LOSS FOR THE YEAR	4,478.69	354.18

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these statements of operations.

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Telefónica, S.A.

Notes to financial statements for the year ended december 31, 2002

(1) Introduction and general information

Telefónica, S.A. (“Telefónica” or “the Company”) was incorporated for an indefinite period of time on April 19, 1924, under the corporate name of Compañía Telefónica Nacional de España, S.A., and it adopted its present name in April 1998.

The Company’s registered office is at calle Gran Vía 28, Madrid (Spain), and its employer identification number is A-28/015865.

Telefónica’s corporate purpose, per Article 4 of its bylaws, is the provision and operation of all manner of telecommunications services (including ancillary or supplementary telecommunications services or the services derived therefrom); research and development, the promotion and application of all manner of telecommunications components, equipment and systems; the manufacture, production and, in general, all other types of industrial activity relating to telecommunications; and the acquisition, sale and, in general, all other types of commercial activity relating to telecommunications.

As also stipulated in Article 4 of its bylaws, all the business activities that constitute the corporate purpose described above may be performed either in Spain or abroad and may be carried on either wholly or partially by the Company, or through shareholdings or other equity interests in other companies or legal entities with an identical or similar corporate purpose.

In keeping with the foregoing, after the organizational restructuring process carried out in recent years, Telefónica is now the parent company of a Group of companies which operate mainly in the telecommunications, media and entertainment industries, providing a wide range of services on the international stage.

The Company is taxed under the general tax regime established by the Spanish government, the autonomous community governments and local governments, and files consolidated tax returns with most of the Spanish subsidiaries in its Group under the consolidated tax regime applicable to corporate groups.

(2) Basis of presentation

True and fair view

The accompanying financial statements were prepared from Telefónica’s accounting records by the Company’s directors in accordance with the accounting principles and standards contained in the Commercial Code as implemented by the Spanish National Chart of Accounts and, accordingly, give a true and fair view of the net worth, financial position and results of operations and of the funds obtained and applied in 2002.

The financial statements for 2002 will be submitted for approval by the Stockholders’ Meeting and it is considered that they will be

approved without any changes. The financial statements for 2001 were approved by the Stockholders’ Meeting on April 12, 2002.

Comparative information

There were no significant changes in the structure of the balance sheet and statement of operations with respect to those for the previous year. Also, no changes in accounting principles with respect to 2001 with a material effect were made. However, as indicated in Note 7, provisions were recorded in 2002 for the losses incurred by investees. These provisions are deemed to be necessary on the basis of the analyses performed.

Similarly, no significant events took place preventing the comparison of the figures for 2002 with those for 2001.

The figures in these financial statements and in the management report are expressed in millions of euros unless indicated otherwise.

Devaluation in Argentina

In view of its international presence, the Telefónica Group, like other corporations, has been affected by the economic situation in Argentina through the various Group companies operating there. As of December 31, 2002 and 2001, Telefónica S.A.’s exposure through direct or indirect equity investments in the various Argentine companies amounted to g968.12 million and g3,124.83 million, respectively, including intercompany financing and the value assignable to these investments (considering the losses incurred by these subsidiaries before the related tax effect, which amounted to g669.01 million and g457.15 million in 2002 and 2001, respectively).

As of December 31, 2001, there was no explicit Argentine peso/euro exchange rate that could be taken as representative. Also, pursuant to an executive decision, in early 2002 the Argentine peso was devalued with respect to the euro, an event to which the market reacted subsequently.

Taking into account Spanish accounting legislation, the express communications from the Spanish Accounting and Audit Institute (ICAC) regarding the way in which this devaluation should be treated at 2001 year-end and the international accounting rulings in force, in preparing its financial statements for 2001 Telefónica S.A. used peso/euro and peso/U.S. dollar exchange rates of ARP 1.5149/g1 and ARP 1.7/US\$ 1 at year-end as the first representative exchange rates prevailing in the market after December 31, 2001, following the aforementioned devaluation. At 2002 year-end, with the normal currency exchange market re-established, the exchange rate used was ARP 3.5341/g1 (ARP 3.37/US\$ 1). In accordance with the foregoing, these financial statements reflect an adverse impact on earnings due to the valuation allowance recorded for the investments in question, which amounted to g1,400.03 million and g305.07 million as of December 31, 2002 and 2001, respectively (see Note 7.1).

The matters still not resolved include the necessary renegotiation with the Argentine Government of the future rates due to the effect of the provisions of Law 25.561. Accordingly, although the book value of the operating fixed assets was maintained on the basis of estimates based on the information currently available, neither the results of the negotiations relating to rate levels nor, therefore, the future sales revenues and net cash flows can be predicted.	Years of Estimated Useful Life	
	Buildings	33–40
	Plant and machinery	10
	Furniture, office equipment and other	4–10
d) Long-term investments		
Given that the aforementioned circumstances had not occurred at the date of preparation of these financial statements and that it is not certain that they will occur, it was not possible to quantify their effect, if any, on the financial statements as of December 31, 2002.	Investments in marketable securities are recorded as follows:	
	1. Listed securities (excluding shares of Group or associated companies).	
	At the lower of cost or market value. The market value was taken to be the lower of average market price in the last quarter or market price at year-end.	
	2. Investments in Group and associated companies.	
	At the lower of acquisition cost or underlying book value of the holdings, adjusted by the amount of the unrealized gains disclosed at the time of the acquisition and still existing at the date of subsequent valuation.	
	3. Unlisted securities.	
	At cost, reduced, if appropriate, to their underlying book value by the required investment valuation allowances, adjusted, where appropriate, by the amount of the unrealized gains disclosed at the time of the acquisition and still existing at the date of subsequent valuation.	
Unrealized losses (cost higher than market value) are recorded in the “Allowances” account (see Notes 7 and 16.7).		
Dividends are recorded as a revenue as soon as their distribution is approved, and gains or losses on the sale of holdings are recorded as revenues or expenses in the year in which they are realized.		
The Company has prepared separate consolidated financial statements. In 2002 the effect of consolidation, with respect to the accompanying individual financial statements, was to increase (decrease) the following balances by the amounts shown:		
Millions of Euros		
	Assets	17,911–51
	Stockholders’ equity	(576.26)
	Net sales	28,375.11
	Loss for the year	(1,098.11)
Property, plant and equipment is carried at cost.		
The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.		
Upkeep and maintenance expenses are expensed currently.		
Property, plant and equipment is depreciated by the straight-line method at annual rates based on the following years of estimated useful life:		

<p>e) Deferred charges</p>	<p>payable fall due or are repaid early, or as negative exchange differences for the same or a higher amount are recognized in each homogeneous group.</p>
<p>This caption includes the following items:</p>	
<p>– Interest on long-term promissory notes</p>	<p>h) Pension and other commitments to employees</p>
<p>This relates to the difference between the face value and the effective value of the promissory notes issued at over one year. This interest is charged to income by the interest method.</p>	<p>Telefónica has entered into an agreement with its employees, the most salient features of which are as follows:</p>
<p>– Debt arrangement expenses</p>	<p>– Occupational pension plan pursuant to Pension Plans and Funds Law 8/1987, Royal Decree 1307/1988 implementing the aforementioned Law and Royal Decree 1589/1999 amending the aforementioned Pension Plan regulations.</p>
<p>These relate to long-term debt arrangement expenses and issuance premiums on debentures and bonds and are amortized by the interest method on the basis of the principal amounts outstanding.</p>	<p>– Defined contribution of 4.51% of the participating employees' regulatory salary. The defined contributions of employees transferred to Telefónica from other Group companies at which these defined contributions were different (6.87% in the case of Telefónica de España) will be maintained.</p>
<p>– Executive loyalty-building program costs</p>	
<p>This caption relates to the unaccrued costs relating to Telefónica's stock option plan (the TOP Plan, see Notes 8 and 16.3).</p>	<p>– Obligatory contribution by the participant of a minimum of 2.2% of his/her regulatory salary.</p>
<p>f) Treasury stock</p>	<p>– Individual and financial capitalization systems.</p>
<p>Treasury stock is valued at the lower of cost, comprising the total amount paid for the shares, or market. Since these shares were acquired without any prior resolution having been adopted by the Stockholders' Meeting to reduce capital, they are assumed to be intended for subsequent sale or, alternatively, for a possible capital reduction, and, accordingly, market value is taken to be the lowest of average official market price in the last quarter of the year, year-end market price, or the related underlying book value. The Company recorded a provision with a charge to the statement of operations for the difference between the acquisition cost and the lower of the year-end market price or the average market price in the last quarter, and with a charge to reserves for the difference between the aforementioned market value and the related underlying book value.</p>	<p>This fund has been externalized in the Fonditel B pension fund managed by the subsidiary Fonditel Entidad Gestora de Fondos de Pensiones, S.A.</p> <p>As of December 31, 2002 and 2001, 746 and 682 employees, respectively, were included in the plan and the cost for the Company amounted to g2.27 million and g2.01 million in 2002 and 2001, respectively (see Note 16.2).</p>
<p>g) Foreign currency transactions</p>	<p>i) Accounts payable</p>
<p>Fixed-income securities and receivables and payables denominated in foreign currencies are translated to euros at the exchange rates ruling at the transaction date, and are adjusted at year-end to the exchange rates then prevailing.</p>	<p>Accounts payable are recorded at repayment value, except in the case of zero-coupon debenture and bond issues, which are recorded in the balance sheet at issue value plus the related accrued interest (see Note 10.3).</p>
<p>Exchange differences arising on adjustment of foreign currency fixed-income securities and receivables and payables to year-end exchange rates are classified by currency and due date, and for this purpose currencies which, although different, are officially convertible are grouped together.</p>	<p>j) Derivatives</p> <p>Transactions whose purpose and effect is to eliminate or significantly reduce exchange, interest rate or market risks on asset and liability positions or on other transactions are treated as hedging transactions. The gains or losses arising during the life of these derivatives are accrued and taken to the income statement symmetrically to the gains or losses on the hedged asset.</p>
<p>The positive net differences in each group of currencies are recorded under the "Deferred Revenues" caption on the liability side of the balance sheet, unless exchange losses in a given group have been charged to income in prior years, in which case the net positive differences are credited to period income up to the limit of the negative net differences charged to income in prior years.</p>	<p>Transactions that, exceptionally, were not assigned to hedge risks, are not treated as hedging transactions. In transactions of this kind, which can arise as a result of risk hedges at Group companies, the differences in market price are recorded for accounting purposes when the transactions are canceled or finally settled. However, if potential losses are anticipated at year-end, the related provision is recorded with a charge to the statement of operations.</p>
<p>The positive differences deferred in prior years are credited to income in the year in which the related accounts receivable and</p>	

k) Corporate income tax	Millions of Euros	Computer Software	Other Intangible Assets	Total		
The expense for corporate income tax of each year is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income. Tax relief and tax credits, excluding tax withholdings and prepayments, are deducted from the corporate income tax charge in the year in which they are definitively taken, except in the case of investment tax credits earned since 1996 which, at the time when they are taken, are deferred over the average life of the assets which gave rise to them. The difference between the accrued expense and the tax paid is due to the above-mentioned deferral and to revenue and expense recognition timing differences giving rise to deferred tax assets and liabilities (see Note 14).	Cost:					
	Balance at 12/31/00	18.45	5.30	23.75		
	Additions	25.91	3.63	29.54		
	Retirements	(5.03)	(1.26)	(6.29)		
	Transfers	(2.46)	2.46			
	Balance at 12/31/01	36.87	10.13	47.00		
	Additions	15.33	3.24	18.57		
	Retirements	–	(2.53)	(2.53)		
	Balance at 12/31/02	52.20	10.84	63.04		
	Accumulated amortization:					
	Balance at 12/31/00	1.66	0.97	2.63		
	Additions	6.53	0.62	7.15		
	Balance at 12/31/01	8.19	1.59	9.78		
	Additions	13.45	0.99	14.44		
	Balance at 12/31/02	21.64	2.58	24.22		
	Intangible assets, net	30.56	8.26	38.82		
Also, pursuant to an ICAC resolution dated March 15, 2002, Telefónica S.A. recorded the tax assets relating to the tax relief and tax credits (mainly the tax credits arising pursuant to Transitional Provision Three of Law 24/2001) not yet taken for tax purposes and regarding which there is no doubt, in accordance with the accounting principle of prudence in valuation, that they can be deducted in the future. The balance recorded under the “Corporate Income Tax Incurred in Spain” caption amounted to g85.61 million (see Note 14.3).						
l) Recognition of revenues and expenses						
Revenues and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.	Millions of Euros	Balance at 12/31/01	Additions	Retirements	Transfers	Balance at 12/31/02
In accordance with the accounting principle of prudence, only realized income is recorded at year-end, whereas foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known (see Note 16).	Cost:					
	Land and structures	0.81	–	–	–	0.81
	Furniture, tools, etc.	21.71	3.67	(1.17)	0.14	24.35
	Property, plant and equipment, gross	22.52	3.67	(1.17)	0.14	25.16
	Accumulated depreciation:					
	Land and structures	0.14	0.02	–	–	0.16
	Furniture, tools, etc.	1.07	1.55	–	–	2.62
	Total accumulated depreciation	1.21	1.57	–	–	2.78
	Property, plant and equipment, net	21.31	2.10	(1.17)	0.14	22.38

The detail of the balances of property, plant and equipment, of the related accumulated depreciation and of the variations therein in 2001 is as follows:

Millions of Euros

	Balance at 12/31/00		Balance at 12/31/01		
	Additions	Retirements	Transfers		
Cost:					
Land and structures	0.91	–	–	(0.10)	0.81
Furniture, tools, etc.	17.70	6.43	(2.52)	0.10	21.71
Property, plant and equipment, gross	18.61	6.43	(2.52)	–	22.52
Accumulated depreciation:					
Land and structures	0.16	0.02	–	(0.04)	0.14
Furniture, tools, etc.	0.22	0.81	–	0.04	1.07
Total accumulated depreciation	0.38	0.83	–	–	1.21
Property, plant and equipment, net	18.23	5.60	(2.52)	–	21.31

As of December 31, 2002, there were no fully depreciated items.

Telefónica, S.A. has taken out insurance policies to cover the possible risks to which its property, plant and equipment is subject.

(7) Long-term investments

7.1 The detail of the balances of the long-term investments, of the related investment valuation allowances and of the variations therein in 2001 and 2002 is as follows:

a) Variations in long-term investments:

Millions of Euros

	Balance at 12/31/00				Balance at 12/31/01				Balance at 12/31/02	
	Additions	Retirements	Transfers		Additions	Retirements	Transfers			
Investments in Group companies	19,695.82	2,969.42	–	–	22,665.24	963.89	(1,661.72)	839.42	22,806.83	
Investments in associated companies	406.90	0.96	–	–	407.86	0.97	–	–	408.83	
Other investments	563.34	2.46	(0.08)	–	565.72	–	(0.07)	–	565.65	
Loans to Group and associated companies	14,659.81	3,381.93	(30.51)	(1,594.77)	16,416.46	4,178.30	(824.90)	2,491.25	22,261.11	
Other loans	–	0.47	(0.09)	–	0.38	–	–	111.22	111.60	
Deposits and guarantees given	1.07	8.75	(0.01)	–	9.81	97.56	(20.87)	–	86.50	
Taxes receivable (Note 14.2)	35.04	400.24	–	–	435.28	4,669.66	(36.06)	(135.98)	4,932.90	
Total	35,361.98	6,764.23	(30.69)	(1,594.77)	40,500.75	9,910.38	(2,543.62)	3,305.91	51,173.42	

b) Variations in the long-term investment valuation allowances:

Millions of Euros

	Balance at 12/31/00				Balance at 12/31/01				Balance at 12/31/02	
	Additions	Retirements	Transfers		Additions	Retirements	Transfers			
Investments in Group companies	1,410.76	1,382.99	–	–	2,793.75	5,419.48	(901.08)	101.40	7,413.55	
Investments in associated companies	0.70	1.39	–	–	2.09	65.30	–	–	67.39	
Other investments	6.01	–	–	–	6.01	–	–	–	6.01	
Total investment valuation allowances	1,417.47	1,384.38	–	–	2,801.85	5,484.78	(901.08)	101.40	7,486.95	
Total investments, net	33,944.51	5,379.85	(30.69)	(1,594.77)	37,698.90	4,425.60	(1,642.54)	3,204.51	43,686.47	

The provisions recorded in 2002 related mainly to the investments in Grupo Telefónica Internacional (g2,272.97 million), Terra Networks, S.A. (g867.32 million), Telefónica de Contenidos, S.A., formerly Grupo Admira Media, S.A. (g625.86 million), MediaWays Germany GmbH (g574.22 million), Telefónica DataCorp, S.A. (g387.72 million) and Telefónica Móviles (g283.32 million). These provisions were recorded to value the investments at their underlying book value, considering, where appropriate, any unrealized gains disclosed (see Note 4-d).	Millions of Euros Company	2002		2001	
		Long Term	Short Term	Long Term	Short Term
In 2002 various Telefónica Group companies in which Telefónica, S.A. has a direct or indirect ownership interest reassessed the recoverability of certain assets associated with the third-generation wireless telephony (UMTS) licenses and recorded the resulting value adjustments in their financial statements. The effect of these value adjustments at Telefónica, S.A. was g1,061.82 million, and this amount was recorded under the "Variation in Investment Valuation Allowances" caption (g1,005.67 million) and the "Other Extraordinary Expenses" caption (g56.15 million) (see Note 16.7).	Telefónica Internacional, S.A.	7,096.30	1,024.68	4,966.55	3,054.93
	Telefónica Móviles España, S.A.	0.19	32.42	32.87	1,551.53
In addition, the effect of devaluation in Argentina was to increase the provisions recorded in the year by g1,400.03 million (g305.07 million in 2001) (see Note 2).	Telefónica Data España, S.A.	–	43.48	–	51.54
	Telefónica Publicidad e Información, S.A.	33.83	44.85	48.65	0.13
The provisions recorded in 2001 related mainly to the investments in Telefónica de Contenidos, S.A. (g395.19 million), Terra Networks, S.A. (g212.09 million), Telefónica Datacorp, S.A. (g165.10 million), Emergia, N.V. (g152.76 million) and Atento Delaware, Inc. (g116.15 million).	Telefónica Empresas Brasil, S.A.	–	–	–	59.36
	Corporación Admira Media, S.A.	27.46	0.04	666.06	1,129.50
The retirements related to shareholdings sold or contributed in the year, mainly the investment in Mediaways Germany, GmbH, which was sold to the Telefónica Data Group for its net book value at the date of the sale.	Inmobiliaria Telefónica, S.L.	13.62	28.23	17.70	40.29
	Telefónica de España, S.A.U.	7,244.28	1,098.27	7,941.79	929.99
7.2 The detail of the subsidiaries, associated companies and investees is shown in Exhibit I.	Telefónica Cable, S.A.	–	56.05	–	51.13
	Telefónica de Contenidos, S.A.	1,088.70	920.87	–	–
7.3 The detail of loans to Group and associated companies is as follows:	Atento Brasil, S.A.	–	–	–	56.53
	Atento USA Inc.	–	17.40	0.02	20.53
The information on the loans to Group and associated companies is as follows:	Portugal Telecom, S.A.	21.00	–	21.00	–
	Telefónica Móviles, S.A.	5,544.13	546.41	1,132.31	5,714.10
– The financing granted to Telefónica de España, S.A.U. consist mainly of a loan which, arising in the unbundling process, had an outstanding balance of g6,975.21 million as of December 31, 2002, of which g6,277.70 million mature at long term and g697.51 million at short term. This loan earns interest at 6.8%.	Telefónica Datacorp, S.A.U.	581.70	39.60	362.79	212.83
	Comunicapital Inversiones, S.A.U.	75.36	–	70.51	9.20
– The loans to Telefónica Internacional, S.A. consist mainly of the following:	Katalyx, Inc.	–	–	–	137.43
	Atento Argentina, S.A.	–	2.25	–	24.99
A long-term interest-free participating loan of g3,305.57 million repayable in 12 equal quarterly installments from September 30, 2005 to June 30, 2008.	Atento Maroc, S.A.	–	10.81	–	13.92
	Emergia S.A.	357.58	187.95	1,058.08	62.63
A participating loan of g1,414.26 million repayable in 12 quarterly installments from June 30, 2001, which may be postponed at the decision of the borrower up to a maximum limit of December 30, 2006. The interest is established on the basis of the company's net income, and it can only be repaid early if capital is increased by the same amount.	Atento Delaware	136.88	26.97	78.55	17.43
	Atento México	–	10.71	–	15.00
Total	T. B2B Licencing Inc.	16.09	0.88	16.09	–
	Mediaways GmbH	–	–	–	12.03
Total	Atento Centroamérica	–	–	–	12.93
	G.M.A.F., S.L.	–	15.36	–	10.48
Total	Telesp	–	0.57	–	306.83
	Euroleague Marketing	22.89	–	–	–
Total	Other	1.10	33.42	3.49	85.79
	Total	22,261.11	4,141.22	16,416.46	13,581.07

<p>A multicurrency credit line of US\$ 1,962 million with floating interest tied to Libor or Euribor plus 0.35% depending on whether it is drawn down in a foreign currency or euros, respectively. To date Telefónica Internacional, S.A. has drawn down US\$ 858 million against this credit line.</p>		<p>ing its ownership interest in this company to 99%. As part of the reorganization of the Telefónica Group by business line currently being implemented, in December 2002 this shareholding was transferred to Telefónica Data Corp, S.A. for its net book value.</p>
<p>The loans totaling approximately g2,100 million used to refinance and restructure the debt of Telefónica Internacional, S.A. These loans earn interest at a floating rate.</p>		<p>In March 2002, under the last part of the agreement entered into between Telefónica, S.A. and Iberdrola, S.A. for the acquisition by the Company of all the holdings which the Iberdrola Group owned in the Brazilian operators in which the two companies are direct or indirect stockholders, Telefónica, S.A. acquired a 3.38% holding in Tele Leste Celular Participações, S.A. in exchange for 799,411 Telefónica, S.A. shares hitherto held as treasury stock (see Note 9-a). This holding was subsequently contributed to Telefónica Móviles, S.A. at its book value.</p>
<p>– Loan of US\$ 1,100 million to Emergia S.A., maturing in 2005 and earning interest tied to three-month Libor plus a spread. As a result of the repayments made and the conversion of debt to equity at this company (see Note 7.4-d) in 2002, the outstanding balance of this loan was reduced to US\$ 525 million as of December 31, 2002.</p>		<p>In 2002 Telefónica S.A. acquired 717,465 shares of the subsidiary Terra Networks, S.A. for g5.53 million, increasing the Telefónica Group's direct and indirect holding in this company to 38.58%.</p>
<p>– The loans to Telefónica Móviles, S.A. comprise mainly the following:</p>		
<p>Long-term credit lines, against which a total of g3,253.37 million have been drawn down. These credit lines, each of which comprises a fixed-interest tranche and a floating-interest tranche, were recorded at short term at 2001 year-end and were renegotiated in 2002.</p>		<p>In January Telefónica, S.A. incorporated the wholly-owned subsidiary Telefónica Capital, S.A. and paid this company's initial capital stock (g6 million) in full. Subsequently, Telefónica Capital increased capital by g1 million with additional paid-in capital of g38.01 million, all of which was subscribed and paid by its sole stockholder Telefónica, S.A. through the nonmonetary contribution of 201,682 shares of Fonditel, Entidad Gestora de Fondos de Pensiones, S.A. representing 77.22% of this company's capital stock.</p>
<p>Financing for an amount equal to g1,404 million provided to Telefónica Móviles, S.A. to enable it to make its investments in Mexico, Puerto Rico and Brasil. This financing earns interest at a market rate tied to Euribor or Libor plus a spread.</p>		<p>In September Telefónica, S.A. subscribed to g32.69 million of the capital increase carried out at Seguros de Vida y Pensiones Antares, S.A. through the increase in the par value of this company's shares. As of December 31, 2002, the amount subscribed had not been paid. Additionally, in December Telefónica, S.A. acquired from its Luxembourg subsidiary Casiopea Reaseguradora, S.A. 110,000 shares of Seguros de Vida y Pensiones Antares, S.A. for a total amount of g172.01 million. The Company disbursed g59.63 million in this transaction and recorded the outstanding amount of g112.38 million relating to the last capital increase at Seguros de Vida y Pensiones Antares, S.A. as capital payments payable. As a result of this transaction, Telefónica owns 142,000 shares of Seguros de Vida y Pensiones Antares, S.A. representing 94.67% of its capital stock.</p>
<p>– The loans granted to Telefónica de Contenidos, S.A.U. include most notably two long-term credit facilities of g500 million and g237 million which had been fully drawn down as of December 31, 2002. These credit facilities earn interest at a market rate tied to Euribor plus a spread.</p>		
<p>7.4 The detail of the equity investments sold and purchased by Telefónica is as follows:</p>		
<p>a) Acquisitions of equity interests and capital increases:</p>		
<p>2002</p>		
<p>Subsidiaries</p>		
<p>Millions of Euros</p>		
Seguros de Vida y Pensiones Antares, S.A.	204.70	<p>In December, by virtue of its agreements with the Tyco Group, Telefónica, S.A. acquired 17,872,341 shares of the Dutch company Emergia Holding, N.V. for g47.09 million. As a result of this transaction, Telefónica owns, directly or indirectly, all the shares of this company.</p>
HighWay One Germany GmbH	637.07	
Emergia Holding, N.V.	47.09	<p>In November Telefónica, S.A. acquired all 3,010 shares of Gran Vía Media, S.L. from its wholly-owned subsidiary Telefónica de Contenidos, S.A. Gran Vía Media, S.L. changed its corporate name to Lotca Servicios Integrales, S.L. In December Lotca increased capital by 16,920,000 shares of g1 par value each, which the Telefónica Internacional Group subscribed in full through a nonmonetary contribution. These shares were subsequently acquired by Telefónica, S.A. for g16,920,000. As of December 31, 2002, this company was wholly owned by Telefónica, S.A.</p>
Terra Networks, S.A.	5.53	
Telefónica de Contenidos, S.A.	5.99	
Lotca, Servicios Integrales, S.L.	16.92	
Tele Leste Celular Participações	13.59	
Telefónica Capital, S.A.	6.00	
Other	27.00	
	963.89	
<p>The main additions in 2002 were as follows.</p>		
<p>In 2002 Telefónica, S.A. subscribed in full the capital increase of g637.07 million at HighWay One Germany GmbH, thereby increas-</p>		<p>Grupo Admira Media, S.A. and Telefónica Internet, S.A., both of which are wholly-owned subsidiaries of Telefónica, S.A., changed their cor-</p>

<p>porate names in 2002 to Telefónica de Contenidos, S.A. and Corporación Admira Media, S.A., respectively. Also, Corporación Admira Media, S.A. increased capital by g5.99 million, which Telefónica, S.A. subscribed in full.</p>		<p>22% of the capital stock of Movicelular, S.A. de C.V. (a further 68% was contributed indirectly through the acquisition of all the shares of Tamcel, S.A. de C.V.). Additionally, to supplement this transaction, Telefónica contributed g12.33 million in cash. The market value of the holdings acquired as of the transaction date was g2,173.74 million. These holdings were contributed in July to Telefónica Móviles, S.A., which increased capital by 203 million shares which were fully subscribed by Telefónica, S.A.</p>
<p>2001 Subsidiaries Millions of Euros</p>		
Mediaways GmbH	1,535.58	<p>In 2001 Telefónica, S.A. acquired 8,289,305 shares of Telefónica Móviles, S.A. for g68.68 million. As of December 31, 2001, the Company had a direct and indirect holding of 92.70% in Telefónica Móviles, S.A.</p>
Telefónica Datacorp, S.A.U.	248.06	
Telefónica Móviles, S.A.	68.68	<p>Telefónica, S.A. acquired 4,713,015 shares of Terra Networks, S.A. for g53.96 million. Following these acquisitions, Telefónica had a direct and indirect holding of 37,63% in Terra Networks, S.A. as of December 31, 2001.</p>
Terra Networks, S.A.	53.96	
Baja Celular Mejicana, S.A. de C.V.	206.98	<p>Telefónica, S.A. and Iberdrola, S.A. entered into an agreement whereby the Company acquired all the holdings which the Iberdrola Group owned in the Brazilian operators in which the two companies were direct or indirect stockholders. These holdings were acquired by Telefónica, S.A. in exchange for its own shares at the following exchange ratios:</p>
Celular de Telefonía, S.A. de C.V.	224.94	
Telefonía Celular del Norte, S.A. de C.V.	117.76	<p>– Holding of 3.48% in the capital stock of Sao Paulo Telecomunicações Holding, S.A., the majority stockholder of Telecomunicações de Sao Paulo, S.A. (Telesp), for 6,638,157 shares of Telefónica, S.A.</p>
Grupo Corporativo del Norte, S.A.	79.79	
Corporación Integral de Comunicación, S.A. de C.V.	31.29	<p>– Holding of 7% in the capital stock of TBS Celular Participações, S.A., the majority stockholder of Celular CRT Participações, S.A., for 1,493,902 shares of Telefónica, S.A.</p>
Movitel del Noroeste, S.A. de C.V.	25.64	
Sao Paulo Telecomunicações Holding, S.A.	115.13	<p>– Holding of 7% in the capital stock of Sudestecel Participações, S.A., the majority stockholder of Tele Leste Celular Participações, S.A., for 3,693,775 shares of Telefónica, S.A.</p>
Iberoleste Participações, S.A.	113.20	
Sudestecel Participações, S.A.	64.06	<p>– Holding of 62.02% in the capital stock of Iberoleste Participações, S.A., the majority stockholder of Tele Leste Celular Participações, S.A., for 6,526,736 shares of Telefónica, S.A.</p>
Celular CRT Participações, S.A.	11.00	
Other	73.35	<p>– Holding of 0.66% in the capital stock of Celular CRT Participações, S.A. for 634,541 shares of Telefónica, S.A.</p>
	2,969.42	
<p>The main additions in 2001 were as follows:</p>		<p>Also, the exchange of 3.38% of the capital stock of Tele Leste Celular Participações, S.A. for 783,736 shares of Telefónica, S.A. (799,411 shares following the capital increase carried out at no cost to stockholders on February 19, 2002) envisaged within the framework of this agreement had not yet been carried out pending obtainment of the prior regulatory authorizations. As indicated above, this exchange took place in 2002.</p>
<p>On January 31, 2001, pursuant to an agreement entered into in May 2000, Telefónica, S.A. acquired all the shares of Mediaways GmbH Internet Services for g1,473.08 million from the German company Bertelsmann AG. Also, in December 2001 Telefónica, S.A. subscribed to a capital increase carried out by this company for g62.5 million.</p>		<p>Telefónica, S.A. paid g248.06 million to fully subscribe the capital increase carried out by its wholly-owned investee Telefónica Datacorp, S.A.U., pursuant to the agreement entered into by the Telefónica Group and the Brazilian bank Banco Itáú for the provision of services to the bank in connection with the management of its corporate telecommunications network.</p>
<p>In June 2001 the Company increased capital by 122,560,575 shares of g1 par value each and additional paid-in capital of g4.5 per share. As consideration for this capital increase, Telefónica received as a nonmonetary contribution from Motorola certain investments in the wireless business in Mexico: all the shares of Corporación Integral de Comunicación, S.A. de C.V.; all the shares of Grupo Corporativo del Norte, S.A.; 79% of the capital stock of Telefonía Celular del Norte, S.A. de C.V. (the remaining 21% was contributed indirectly through the acquisition of all the shares of Corporación Integral de Comunicación, S.A. de C.V.); 73.81% of the capital stock of Celular de Telefonía, S.A. de C.V. (the remaining 26.19% was contributed indirectly through the acquisition of all the shares of Grupo Corporativo del Norte, S.A. de C.V.); all the shares of Baja Celular Mexicana, S.A. de C.V.; 0.00001% of the capital stock of Baja Celular Servicios Compartidos, S.A. de C.V. (the remaining 99.99999% was contributed indirectly through the acquisition of all the shares of Baja Celular Mexicana, S.A. de C.V.); 0.00001% of the capital stock of Tamcel, S.A. de C.V. (the remaining 99.99999% was contributed indirectly through the acquisition of all the shares of Baja Celular Mexicana, S.A. de C.V.); 22% of the capital stock of Movitel del Noroeste, S.A. de C.V. (a further 68% was contributed indirectly through the acquisition of all the shares of Tamcel, S.A. de C.V.); 22% of the capital stock of Moviservicios, S.A. de C.V. (a further 68% was contributed indirectly through the acquisition of all the shares of Tamcel, S.A. de C.V.) and</p>		

b) Disposal of investments:		Company	Millions of Euros
2002		Retirements:	
Subsidiaries	Gross Book Value	Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	(12.12)
		HighWay One GmbH	(637.07)
		Zeleris España, S.A.	(3.91)
		TBS Celular Participações, S.A.	(25.91)
		Sudestecel Participações, S.A.	(64.06)
MediaWays GmbH	1,535.58	Tele Sudestecel Participações, S.A.	(0.01)
Sao Paulo Telecomunicações Holding, S.A.	113.94	Iberoleste Participações, S.A.	(113.19)
Telefónica Data Brasil Holding, S.A.	1.19	Tele Leste Celular Participações, S.A.	(13.59)
CRT Celular Participações, S.A.	11.01	Atento Holding, Inc.	(282.71)
	1,661.72		(1,152.57)
Telefónica, S.A. sold all the shares owned by it of MediaWays GmbH to HighWay One Germany GmbH for 634.50 million, the net value of the holding at the date of the sale.		Additions:	
SP Telecomunicações Holding, S.A., the majority stockholder of Telecomunicações de Sao Paulo, S.A. (Telesp), reduced capital in 2002 by assigning to Telefónica, S.A. 3,504,347,177 shares of the Brazilian company Telefonica Data Brasil Holding. These shares, together with the 189,278,445 shares of SP Telecomunicações Holding, S.A. owned by Telefónica, S.A., were sold to the Telefónica Internacional Group at their book value.		Telefónica Capital, S.A.	12.12
In 2002 Telefónica, S.A. sold to Telefónica Móviles, S.A. the 0.66% holding in Celular CRT Participações, S.A. acquired by it under the agreements entered into with Iberdrola, S.A. in 2001. This transaction was carried out at the book value of the holding.		Telefónica Datacorp, S.A.	637.07
2001		Zeleris Soluciones Integrales, S.L.	3.91
In 2001 there were no significant disposals of investments in Group, associated or other companies.		Telefónica Móviles, S.A.	216.76
c) Nonmonetary contributions of holdings to Group companies		Atento Holding, N.V.	282.71
2002			1,152.57
Continuing with the restructuring process initiated by the Company in prior years to group together its interests by line of business, in 2002 and 2001 capital increases were carried out at certain Group companies through nonmonetary contributions of shares of other companies, as explained in section 7.5. The detail of these contributions is as follows.		2001	
		Company	Millions of Euros
		Retirements:	
		Telecomunicações Sao Paulo, S.A.	(4,475.40)
		Telefónica de Argentina, S.A.	(1,462.52)
		CEI Citicorp Holding, S.A.	(1,000.68)
		Telefónica del Perú, S.A.A.	(745.01)
		Celular de Telefonía, S.A. de C.V.	(224.94)
		Baja Celular Mejicana, S.A. de C.V.	(206.98)
		Telefonía Celular del Norte, S.A. de C.V.	(117.76)
		Grupo Corporativo del Norte, S.A.	(79.79)
		Corporación Integral de Comunicación, S.A. de C.V.	(31.29)
		Movitel del Noroeste, S.A. de C.V.	(25.64)
			(8,370.01)
		Additions:	
		Telefónica Internacional, S.A.	6,839.61
		Telefónica Móviles, S.A.	1,415.85
		Telefónica Datacorp, S.A.	114.55
			8,370.01
		The value for tax purposes of these additions may differ from that recorded for accounting purposes as a result of the application of the values for tax purposes at which the holdings contributed had been carried, which are disclosed, where appropriate, in the accompanying financial statements and in those for previous years.	

<p>d) Transfers due to conversion of loans into equity</p>	<p>Participações, S.A., Sudestecel Participações, S.A., Tele Leste Celular Participações, S.A. and Tele Sudeste Celular Participações, S.A.</p>
<p>2002</p> <p>In December Telefónica Datacorp, S.A. increased capital through the issuance of 200 million new shares of g1 par value each, which were subscribed in full by Telefónica, S.A. through the conversion of a g200.00 million loan into equity.</p>	<p>This transaction was carried out under the tax neutrality regime provided for nonmonetary contributions in Article 108 of Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995.</p>
<p>The Uruguayan company Emergia, S.A. increased capital in December by US\$ 500 million. Telefónica subscribed and paid the capital increase in full by converting loans to this company into equity. As a result of this transaction, Telefónica now has a 99.17% holding in the Uruguayan company.</p>	<p>2001</p> <ul style="list-style-type: none"> – Capital increase authorized by the Stockholders' Meeting carried out on June 18, 2001, by Telefónica, S.A. as consideration for all the shares of the Mexican companies Telefonía Celular del Norte, S.A. de C.V., Celular de Telefonía, S.A. de C.V. and Baja Celular Mexicana, S.A. de C.V. and for 90% holdings in the Mexican companies Movitel del Noroeste, S.A. de C.V., Moviservicios, S.A. de C.V. and Movicelular, S.A. de C.V.
<p>7.5 Following is a detail of the transactions carried out in 2002 and 2001 that qualified for taxation under the tax neutrality regime provided for by Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995 (Articles 97.5 or 108). The transactions performed prior to 2001 are duly detailed in prior years' financial statements.</p>	<ul style="list-style-type: none"> – Capital increase authorized by the Special Stockholders' Meeting carried out on February 2, 2001, by Telefónica Internacional, S.A. for a par value of g4,259,293,130.20, as consideration for shares of Telecomunicações de Sao Paulo, S.A. (TELESP).
<p>2002</p> <ul style="list-style-type: none"> – Capital increase of g39.01 million, including additional paid-in capital, authorized by the Stockholders' Meeting carried out on November 27, 2002, by Telefónica Capital, S.A. as consideration for shares representing 77.22% of the capital stock of the Spanish company Fonditel Entidad Gestora de Fondos de Pensiones, S.A., with a net book value of g12.12 million. – Capital increase authorized by the Special Stockholders' Meeting carried out on December 23, 2002, by Telefónica Datacorp, S.A. as consideration for shares representing 99% of the capital stock of the German company HighwayOne Germany GmbH. – Capital increase carried out by Atento N.V. as consideration for all the shares of the U.S. company Atento Holding Inc. – Capital increase of g821,763.71 carried out by Zeleris Soluciones Integrales, S.L. as consideration for all the shares of the Spanish company Zeleris España, S.A. <p>This transaction was carried out under the tax neutrality regime provided for share exchanges in Article 97 of Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995.</p> <ul style="list-style-type: none"> – Capital increase authorized by the Stockholders' Meeting of Telefónica Móviles, S.A. carried out on May 23, 2002, for a par value of g6,998,086.3 and additional paid-in capital of g106,197,586.22 as consideration for shares of the Brazilian company Iberoleste Participações, S.A. <p>This transaction was carried out under the tax neutrality regime provided for nonmonetary contributions in Article 108 of Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995.</p> <ul style="list-style-type: none"> – Capital increase authorized by the Stockholders' Meeting of Telefónica Móviles, S.A. carried out on May 27, 2002, for a par value of g6,402,660.5 and additional paid-in capital of g97,161,858.50 as consideration for shares of the Brazilian companies TBS Celular 	<ul style="list-style-type: none"> – Capital increase authorized by the Special Stockholders' Meeting carried out on February 21, 2001, by Telefónica Internacional, S.A. for a par value of g547,060,009.60 as consideration for shares of Telefónica del Perú, S.A.A. – Capital increase authorized by the Special Stockholders' Meeting carried out on January 26, 2001, by Telefónica Internacional, S.A. for a par value of g861,165,627.90 as consideration for shares of Telefónica de Argentina, S.A. – Capital increase authorized by the Special Stockholders' Meeting carried out on May 8, 2001, by Telefónica Internacional, S.A. for a par value of g998,898,300.40 as consideration for shares of Telefónica Holding Argentina, S.A. (formerly CEI Citicorp Holding, S.A.). – Capital increase authorized by the Special Stockholders' Meeting of Telefónica Móviles, S.A. on October 26, 2000, for a par value of g87,431,682, through the issuance of 174,863,364 shares of Telefónica Móviles, S.A. as consideration for shares of Telefónica de Argentina, S.A., carried out on January 25, 2001. – Capital increase authorized by the Special Stockholders' Meeting of Telefónica Móviles, S.A. on October 26, 2000, for a par value of g32,969,782, through the issuance of 65,939,564 shares of Telefónica Móviles, S.A. as consideration for shares of Telefónica del Perú, S.A.A., carried out on March 7, 2001. – Capital increase authorized by the Special Stockholders' Meeting of Telefónica Móviles, S.A. on October 30, 2000, for a par value of g101,680,173, through the issuance of 203,360,346 common shares of Telefónica Móviles, S.A. of g0.50 par value each, as consideration for the shares of the aforementioned Mexican companies, carried out on July 5, 2001. – Capital increase authorized by the Special Stockholders' Meeting carried out on February 21, 2001, by Telefónica Datacorp, S.A. as consideration for shares representing 1.177% of the capital stock of the Peruvian company Telefónica del Perú, S.A.A.

- Capital increase authorized by the Special Stockholders' Meeting carried out on January 26, 2001, by Telefónica Datacorp, S.A. as consideration for shares representing 2.967% of the capital stock of the Argentine company Telefónica de Argentina, S.A.

7.6 Short-term investment securities. In 2002 this caption included mainly placements of temporary cash surpluses in short-term investments.

(8) Deferred charges

The breakdown of the balance of this caption as of December 31, 2002, and the related amortization schedule are as follows:

	2003	2004	Maturity				Balance at	Balance at
			2005	2006	2007	Subsequent Years	12/31/02	12/31/01
Interest on long-term promissory notes	7.32	7.00	7.00	7.05	7.13	23.29	58.79	69.33
Debt arrangement expenses	34.95	31.89	27.18	19.01	17.59	77.20	207.82	76.06
Executive loyalty-building program costs (Notes 4-e and 16.3)	4.73	–	–	–	–	–	4.73	11.82
Other deferred charges	4.88	4.26	4.27	4.27	4.27	21.31	43.26	–
Total	51.88	43.15	38.45	30.33	28.99	121.80	314.60	157.21

The increase in capitalized debt arrangement expenses is due mainly to the loans obtained in 2002 from Telefónica Europe BV (see Note 12.2).

(9) Stockholders' equity

The detail of the balances of equity accounts and of the variations therein in 2001 and 2002 is as follows:

	Balance at 12/31/00	Allocation of Loss	Capital Increase	Other Variations	Balance at 12/31/01	Allocation of Loss	Capital Increase	Other Variations	Balance at 12/31/02
Capital stock	4,340.71	–	331.21	–	4,671.92	–	188.74	–	4,860.66
Additional paid-in capital	10,987.99	–	682.03	–	11,670.02	–	–	–	11,670.02
Revaluation reserves	3,246.70	–	(176.02)	–	3,070.68	–	(188.74)	–	2,881.94
Legal reserve	652.57	–	–	–	652.57	–	–	–	652.57
Voluntary reserves	2,704.28	(120.90)	–	(450.25)	2,133.13	(354.18)	–	(133.15)	1,645.80
Reserve for treasury stock	198.19	–	–	62.51	260.70	–	–	73.86	334.56
Other restricted reserves	5.40	–	–	–	5.40	–	–	–	5.40
Loss for the year	(120.90)	120.90	–	(354.18)	(354.18)	354.18	–	(4,478.69)	(4,478.69)
Total	22,014.94	–	837.22	(741.92)	22,110.24	–	–	(4,537.98)	17,572.26

<p>a) Capital stock and additional paid-in capital</p>																
<p>As of December 31, 2002, Telefónica, S.A.'s capital stock amounted to g4,860,661,286 and consisted of 4,860,661,286 fully paid common shares of a single series and of g1 par value each, all recorded by the book-entry system and traded on the Spanish computerized trading system ("Continuous Market") (in the selective "Ibex 35" Index), on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York, London, Paris, Frankfurt, Tokyo, Buenos Aires, Sao Paulo and Lima Stock Exchanges.</p>	<p>stockholders at a ratio of one new share for every 50 shares held by them, and empowered the Board of Directors accordingly to execute the resolution in question within one year from the date on which it was adopted. Before December 31, 2002, the Board of Directors resolved to carry out the first of the two aforementioned capital increases, for a par value of g97,213,225, in January and February 2003 (see Note 19).</p>															
<p>Pursuant to Royal Decree 8/1997, the prior administrative authorization system applies to certain corporate resolutions that might be adopted by Telefónica, S.A., Telefónica Móviles, S.A. and Telefónica de España, S.A.U., and to certain others which may give entitlement to the direct or indirect acquisition, including third-party trusts or interposed third parties, of shares or certain assets of Telefónica, S.A., Telefónica Móviles, S.A. or Telefónica de España, S.A.U. The administrative authorization system will remain in force for ten years from February 18, 1997.</p>	<p>Also, on April 12, 2002, the Stockholders' Meeting resolved to issue fixed-income securities convertible into new Company shares and/or exchangeable for existing shares of the Company or of any of the Group companies, with disapplication of the preemptive subscription right, for a total maximum amount of g2,000 million or an equal amount in another currency, and to increase capital by the amount required to cater for such conversion requests as might be made. It also granted the Board of Directors the necessary powers to implement the resolution adopted by the Stockholders' Meeting and to determine the features of the issue and capital increase not specified by the latter, including the express power to refrain from implementing, or to only partially implement, this resolution. As of December 31, 2002, the Board of Directors had not made use of these powers to implement this resolution.</p>															
<p>On June 15, 2001, the Stockholders' Meeting of Telefónica, S.A. authorized the Board of Directors to increase the Company's capital, at one or several times within a maximum period of five years from that date, under the terms provided by Article 153.1 b) of the Spanish Corporations Law (authorized capital) up to a maximum of g2,274,677,655, by issuing for this purpose the related new common shares, be they redeemable or of any other type permitted by the Law, with a fixed or variable premium, with or without preemptive subscription right and, in all cases, with disbursements for the new shares issued in the form of monetary contributions. As of December 31, 2002, the Board of Directors had not made use of this authorization.</p>	<p>In addition, on April 12, 2002, the Stockholders' Meeting resolved to increase capital by g2,180,809 through the issuance of new common shares with additional paid-in capital of g11.61 per share to cater for the needs derived from the establishment of a stock option plan for the employees of the Endemol Group. It also granted the Board of Directors the necessary powers to implement the capital increase resolution, including the express power to refrain from implementing the resolution. In a resolution dated December 18, 2002, the Board of Directors expressly decided not to implement the aforementioned resolution to increase capital, and opted to cover the stock option plan referred to above by a means other than through a capital increase with the issuance of new shares (i.e. through the prior acquisition of Telefónica shares on the stock market).</p>															
<p>Also, on June 15, 2001, the Stockholders' Meeting approved two successive capital increases with a charge to unrestricted reserves, each for an amount equal to 2% of the subscribed and paid-in capital stock, through two successive issues of new shares that will be assigned free of charge to the Company's stockholders at a ratio of one new share for every 50 shares held by them, and empowered the Board of Directors accordingly to execute the resolution in question within one year from the date on which it was adopted. These two capital increases were carried out in the first few months of 2002, as indicated below.</p>	<p>Also, on April 12, 2002, the Stockholders' Meeting authorized the Board of Directors to derivatively acquire treasury stock, for consideration, up to the limits and pursuant to the terms and conditions established by the Stockholders' Meeting, within a maximum period of 18 months from that date. However, it established that in no case could the par value of the shares acquired, added to that of the treasury stock already held by Telefónica, S.A. and any of its controlled subsidiaries, exceed 5% of the capital stock of Telefónica.</p>															
<p>In addition, on June 15, 2001, the Stockholders' Meeting resolved to empower the Board of Directors to issue, within a maximum period of five years, at one or several times, fixed-income securities convertible into or exchangeable for Company shares, up to a maximum amount of g2,000 million or an equal amount in another currency, and to increase capital by the amount required to cater for such conversion requests as might be made. As of December 31, 2002, the Board of Directors had not made use of these powers.</p>	<p>As of December 31, 2002 and 2001, Telefónica S.A. held the following shares of treasury stock:</p> <table><tr><th></th><th>Number of Shares</th><th>Cost per Share (*)</th><th>Market Value</th><th>%</th></tr><tr><td>Treasury stock at 12/31/02</td><td>91,631,076</td><td>8.53g</td><td>781.61</td><td>1.88516</td></tr><tr><td>Treasury stock at 12/31/01</td><td>45,440,901</td><td>14.22g</td><td>646.17</td><td>0.97264</td></tr></table>		Number of Shares	Cost per Share (*)	Market Value	%	Treasury stock at 12/31/02	91,631,076	8.53g	781.61	1.88516	Treasury stock at 12/31/01	45,440,901	14.22g	646.17	0.97264
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<p>Furthermore, on April 12, 2002, the Stockholders' Meeting resolved to approve two successive capital increases with a charge to unrestricted reserves, each for an amount equal to 2% of the subscribed and paid-in capital stock, through two successive issues of new shares that will be assigned totally free of charge to the Company's</p>	<p>(*) Lower of the market value of the treasury stock at year-end or the average market price in the last quarter. As indicated in Note 4-f, a drop in the market value of the shares would lead to the recording of additional provisions with a charge to income, but would not affect the total amount of equity.</p>															

<p>In 2002 the Company acquired for consideration 55,169,765 shares of treasury stock and 1,819,821 shares were assigned to it in the capital increases at no charge to stockholders. Also, 799,411 shares were used to acquire holdings in certain Brazilian companies from Iberdrola, S.A. (see Note 7.4-a), and 10,000,000 shares were sold, giving rise to a loss of g1.79 million. The average acquisition cost of the shares of treasury stock as of December 31, 2002 and 2001, was g11.65 and g14.85 per share, respectively.</p>	<p>– On April 12, 2002, the notarial deed of formalization and execution of a further capital increase at Telefónica, S.A. was executed. This capital increase, for a par value of g95,307,084, was carried out with a charge to unrestricted reserves through the issuance of an equal number of new common shares of the Company, of g1 par value each, which were assigned to the Company’s stockholders free of charge at a ratio of one new share for every 50 shares held by them.</p>																																																																											
<p>The balance sheets as of December 31, 2002 and 2001, include the acquisition cost of the shares of treasury stock (g1,067.94 million and g674.73 million, respectively) net of allowances of g733.38 million and g414.03 million, respectively, the provisions to which were recorded, in accordance with current accounting regulations (see Note 4-f), with a charge to the statement of operations in respect of the market value of these shares (g286.33 million and g26.29 million in 2002 and 2001, respectively) and with a charge to unrestricted reserves in respect of the amount by which the market value exceeds the underlying book value (g447.05 million and g387.74 million in 2002 and 2001, respectively). The provision recorded with a charge to the 2002 statement of operations amounted to g288.09 million (see Notes 16.6 and 16.7).</p>	<p>Following registration of the aforementioned public deed at the Mercantile Registry, the new shares were admitted to listing on official markets from April 30, 2002.</p>																																																																											
<p>The Company has recorded the related restricted reserve for the amount of these shares of treasury stock. Also, in 2002 and 2001 it recorded provisions of g59.29 million and g387.74 million, respectively, with a charge to the “Unrestricted Reserves” caption on the asset side of the accompanying balance sheet to reflect the underlying book value of the treasury stock (see Note 4-f).</p>	<p>As a result of these two capital increases with a charge to unrestricted reserves, the capital stock of Telefónica, S.A. amounted to g4,860,661,286. This figure remained unchanged through December 31, 2002.</p>																																																																											
<p>Variations in capital stock and additional paid-in capital in 2002</p> <p>The variations in 2002 in the “Capital Stock” and “Additional Paid-in Capital” captions were as follows:</p>	<p>Variations in capital stock and additional paid-in capital in 2001</p> <p>The variations in 2001 in the “Capital Stock” and “Additional Paid-in Capital” captions were as follows:</p>																																																																											
<table><tr><th></th><th></th><th></th><th colspan="2">Millions of Euros</th></tr><tr><th></th><th>Issue Date</th><th>Number of Shares</th><th>Capital Stock</th><th>Additional Paid-in Capital</th></tr><tr><td>Balance at 12/31/01</td><td></td><td>4,671,915,885</td><td>4,671.92</td><td>11,670.02</td></tr><tr><td>Capital increase at no cost to stockholders</td><td>02/13/02</td><td>93,438,317</td><td>93.44</td><td>–</td></tr><tr><td>Capital increase at no cost to stockholders</td><td>04/12/02</td><td>95,307,084</td><td>95.30</td><td>–</td></tr><tr><td>Balance at 12/31/02</td><td></td><td>4,860,661,286</td><td>4,860.66</td><td>11,670.02</td></tr></table>				Millions of Euros			Issue Date	Number of Shares	Capital Stock	Additional Paid-in Capital	Balance at 12/31/01		4,671,915,885	4,671.92	11,670.02	Capital increase at no cost to stockholders	02/13/02	93,438,317	93.44	–	Capital increase at no cost to stockholders	04/12/02	95,307,084	95.30	–	Balance at 12/31/02		4,860,661,286	4,860.66	11,670.02	<table><tr><th></th><th></th><th></th><th colspan="2">Millions of Euros</th></tr><tr><th></th><th>Issue Date</th><th>Number of Shares</th><th>Capital Stock</th><th>Additional Paid-in Capital</th></tr><tr><td>Balance at 12/31/00</td><td></td><td>4,340,710,735</td><td>4,340.71</td><td>10,987.99</td></tr><tr><td>Capital increase at no cost to stockholders</td><td>01/25/01</td><td>86,814,214</td><td>86.82</td><td>–</td></tr><tr><td>TIES program</td><td>02/14/01</td><td>1,123,072</td><td>1.13</td><td>4.49</td></tr><tr><td>TIES program</td><td>02/20/01</td><td>31,504,244</td><td>31.51</td><td>126.02</td></tr><tr><td>Capital increase at no cost to stockholders</td><td>04/03/01</td><td>89,203,045</td><td>89.20</td><td>–</td></tr><tr><td>Acquisition of wireless business in Mexico from Motorola</td><td>06/19/01</td><td>122,560,575</td><td>122.55</td><td>551.52</td></tr><tr><td>Balance at 12/31/01</td><td></td><td>4,671,915,885</td><td>4,671.92</td><td>11,670.02</td></tr></table>				Millions of Euros			Issue Date	Number of Shares	Capital Stock	Additional Paid-in Capital	Balance at 12/31/00		4,340,710,735	4,340.71	10,987.99	Capital increase at no cost to stockholders	01/25/01	86,814,214	86.82	–	TIES program	02/14/01	1,123,072	1.13	4.49	TIES program	02/20/01	31,504,244	31.51	126.02	Capital increase at no cost to stockholders	04/03/01	89,203,045	89.20	–	Acquisition of wireless business in Mexico from Motorola	06/19/01	122,560,575	122.55	551.52	Balance at 12/31/01		4,671,915,885	4,671.92	11,670.02
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<p>– On February 13, 2002, the notarial deed of formalization and execution of a capital increase at Telefónica, S.A. was executed. This capital increase, for a par value of g93,438,317, was carried out with a charge to unrestricted reserves through the issuance of an equal number of new common shares of the Company, of g1 par value each, which were assigned to the Company’s stockholders free of charge at a ratio of one new share for every 50 shares held by them.</p>	<p>– In January 2001 the first of the two capital increases of Telefónica, S.A. approved by the Stockholders’ Meeting on April 7, 2000, and which the Board of Directors agreed to implement on December 20, 2000, was carried out with a charge to unrestricted reserves. Under the capital increase, 86,814,214 common shares of the Company of g1 par value each were issued, thereby increasing the capital stock by g86,814,214. The new shares issued were assigned to the stockholders free of charge at a ratio of 1 new share for every 50 shares already held by them.</p>																																																																											
<p>Following registration of the aforementioned public deed at the Mercantile Registry, the new shares were admitted to listing on official markets from February 26, 2002.</p>	<p>The capital increase was executed in a public deed and registered at the Mercantile Registry on January 25, 2001, and the new shares were admitted to listing on the official markets from February 2, 2001.</p>																																																																											
	<p>– A first capital increase at Telefónica, S.A., for a par value of g1,123,072, through the issuance of the same number of new common shares of the Company, of the same class and series and carrying the same rights as the outstanding shares, and with</p>																																																																											

<p>additional paid-in capital of g4 per share, was executed in a public deed on February 14, 2001. The new shares were fully subscribed and paid, through a monetary contribution, by the employees of several Telefónica Group companies who decided to participate in the stock option plan known as the TIES Program aimed at Group employees (see Note 16.3).</p> <p>Following registration of the aforementioned capital increase deed at the Mercantile Registry, the new shares were admitted to listing on official markets from February 16, 2001.</p> <ul style="list-style-type: none"> On February 20, 2001, the notarial deed of formalization and execution of a second capital increase at Telefónica, S.A. was executed. This capital increase, for a par value of g31,504,244, was carried out through the issuance of an equal number of common shares of the same class and series and carrying the same rights as the outstanding shares of the Company and with additional paid-in capital of g4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by Banco Bilbao Vizcaya Argentaria, S.A. (50%) and Caja de Ahorros y Pensiones de Barcelona “La Caixa” (50%) as the agent banks of the aforementioned TIES program (see Note 16.3). 	<p>in Movitel del Noroeste, S.A. de C.V., Moviservicios, S.A. de C.V. and Movicelular, S.A. de C.V. (see Note 7).</p> <p>The number of issued shares subscribed and paid by the person or entities that transferred the aforementioned Mexican cellular companies was determined by applying the following variable defined by Telefónica, S.A.’s Stockholders’ Meeting and Board of Directors’ Meeting on June 15, 2001.</p> <ul style="list-style-type: none"> Value of the contributed assets for the purpose of the exchange for shares of Telefónica: g2,173,742,973.96. This amount is the result of applying the U.S. dollar/euro exchange rate of US\$ 0.8492/g1 prevailing on June 14, 2001, to the amount of US\$ 1,857,300,000 (initial valuation), less US\$ 14,123,000 (debt adjustment), plus US\$ 2,765,533.49 (interest accrued through the exchange transaction date). Value of the Telefónica shares to be exchanged: g17.6355 each, i.e. an amount equal to the average market price of the Company’s shares in the 20 trading sessions prior to the date on which the Stockholders’ Meeting which approved the capital increase was held (June 15, 2001).
<p>Following registration at the Mercantile Registry of the public deed for this second capital increase covering the TIES Program, the new shares thus issued were admitted to listing on official markets from March 1, 2001.</p>	<ul style="list-style-type: none"> Cash disbursement: g12,325,950.35, equal to 10% of the result of dividing the value of the assets by the value of each Telefónica share.
<ul style="list-style-type: none"> In March 2001 the second of the capital increases at Telefónica, S.A. approved by the Stockholders’ Meeting on April 7, 2000, and which the Board of Directors agreed to implement on January 24, 2001, was carried out with a charge to unrestricted reserves. Under the capital increase, 89,203,045 common shares of the Company of g1 par value each were issued, thereby increasing the capital stock by g89,203,045. The new shares issued were assigned to the stockholders free of charge at a ratio of 1 new share for every 50 shares already held by them. 	<p>The aforementioned public deed of capital increase stated that solely for the purpose of evidencing the full payment of the capital increase and the additional paid-in capital, pursuant to Article 133.1 of the Mercantile Registry Regulations, regardless of the criteria used to determine the exchange ratio, a total value of g674,083,162.50 was attributed to the nonmonetary contribution which is lower than that established by the independent appraiser appointed by the Madrid Mercantile Registry, and is also lower than that used as a reference for setting the exchange ratio.</p>
<p>The capital increase was executed in a public deed on March 30, 2001, and registered at the Mercantile Registry on April 2, 2001, and the new shares were admitted to listing on the official markets from April 9, 2001.</p>	<p>This capital increase was registered at the Madrid Mercantile Registry on June 19, 2001, and the new shares issued were admitted to listing on official markets from June 25, 2001.</p>
<ul style="list-style-type: none"> On June 18, 2001, the notarial deed of formalization and execution of the capital increase at Telefónica, S.A. approved by the Company’s Stockholders’ Meeting on June 15, 2001, was executed. Capital was increased through the issuance of 122,560,575 common shares of the Company of g1 par value each, of the same series and carrying the same rights as the outstanding shares of the Company and with additional paid-in capital of g4.50 per share; these shares were subscribed and their par value and additional paid-in capital were paid in full through a non-monetary contribution to Telefónica, S.A. of various Mexican companies owned by the Motorola Group, which entailed the direct or indirect acquisition by Telefónica, S.A. of all the shares of Telefónica Celular del Norte, S.A. de C.V., Celular de Telefonía, S.A. de C.V. and Baja Celular Mejicana, S.A. de C.V., and of holdings of 90% 	<p>b) Legal reserve</p> <p>Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Otherwise, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.</p> <p>c) Revaluation reserves</p> <p>The balance of the “Revaluation Reserves” caption arose as a result of revaluations made from 1946 to 1987 and of the revaluation made pursuant to Royal Decree-Law 7/1996.</p>

The detail of the variations in this caption in 2002 and 2001 is as follows:

Millions of Euros

Balance at 12/31/00	3,246.70
Capital increase on January 25	(86.82)
Capital increase on April 3	(89.20)
Balance at 12/31/01	3,070.68
Capital increase on February 19	(93.44)
Capital increase on April 22	(95.30)
Balance at 12/31/02	2,881.94

The balance of the "Revaluation Reserve Royal Decree-Law 7/1996" account can be used, free of tax, to offset recorded losses which might arise in the future, and to increase capital stock. From January 1, 2007 (ten years from the date of the balance sheet reflecting the revaluations), the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realized. The surplus will be deemed to have been realized in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or retired from the accounting records.

(10) Debentures, bonds and other marketable debt securities

10.1 The balances as of December 31, 2002 and 2001, of the debentures, bonds and corporate promissory notes, and the variations therein in the years then ended, were as follows:

Millions of Euros

	Nonconvertible Euro Debentures and Bonds	Corporate Promissory Notes	Total
Balance at 12/31/00	3,562.14	386.56	3,948.70
New issues	–	1,385.01	1,385.01
Redemptions	(1,131.86)	(1,146.77)	(2,278.63)
Adjustments and other variations	119.10	–	119.10
Balance at 12/31/01	2,549.38	624.81	3,174.19
New issues	–	1,403.17	1,403.17
Redemptions	(116.09)	(1,328.64)	(1,444.73)
Adjustments and other variations	75.92	–	75.92
Balance at 12/31/02	2,509.21	699.34	3,208.55
Maturity:			
Long term	2,509.21	–	2,509.21
Short term	–	699.34	699.34
Unmatured accrued interest	54.79	–	54.79

10.2 The detail of the debentures and bonds outstanding as of December 31, 2002, and of their main features, is as follows:

Debentures and Bonds	Type of Interest	Interest Rate	Maturity					Subsequent Years	TOTAL
			2003	2004	2005	2006	2007		
Debentures									
February 1990 SERIES B	Fixed	12.6000	—	—	8.22	—	—	—	8.22
February 1990 SERIES C	Fixed	12.6000	—	—	—	—	—	3.76	3.76
February 1990 SERIES E	Zero coupon	12.8532	—	—	59.19	—	—	—	59.19
February 1990 SERIES F	Zero coupon	12.5793	—	—	—	—	—	6.43	6.43
December 1990	Zero coupon	13.5761	—	—	554.55	—	—	—	554.55
October 04	Fixed	8.2500	—	69.24	—	—	—	—	69.24
April 99	Fixed	4.5000	—	—	—	—	—	500.00	500.00
June 99	Floating	4.4530	—	—	—	—	—	300.00	300.00
July 21, 99	Zero coupon	6.3700	—	—	—	—	—	37.11	37.11
March 2, 00	Floating	3.5063	—	—	—	—	—	50.00	50.00
April 00	Fixed	5.6250	—	—	—	—	500.00	—	500.00
Bonds									
March 98	Fixed	4.8414	—	—	—	—	—	420.71	420.71
Total Issues			—	69.24	621.96	—	500.00	1,318.01	2,509.21

10.3 The zero-coupon debentures and bonds are included in the balance sheet at issue value plus the related accrued interest.

The detail of the maturities and redemption values of these debentures and bonds is as follows:

Issue	Redemption Date	Redemption Rate (%)	Current Value	Redemption Value
Debentures				
February-90 Series E	02/26/05	613.338%	59.19	76.79
February-90 Series F	02/26/10	1,069.479%	6.43	15.04
December 90	12/28/05	675.000%	554.55	811.37
July 99	07/21/29	637.638%	37.11	191.29
Total			657.28	1.094.49

10.4 Debenture issues in 2002 and 2001

No debenture issues were launched in 2002 and 2001.

10.5 As of December 31, 2002, there was a series promissory note issue program outstanding, as follows:

Amount (Millions of Euros)	Method of Placement	Face Value	Maturity	Placement
2,000	Through auctions	g1,000	3, 6, 12, 18 and 25 months	Competitive auctions at least once a month
	Customized, intermediated by participating entities	g1,000,000	30 to 750 days	Specific transactions

10.6 The average interest rate on outstanding debentures and bonds was 6.81% in 2002 (7.11% in 2001), and the average interest rate on corporate promissory notes was 3.465% in 2002 (4.34% in 2001).

(11) Payable to credit institutions

11.1 The detail of the balances of this caption as of December 31, 2002 and 2001, is as follows:

	Millions of Euros							
	Average Interest Rate		Short Term	2002		Total	2001	
	2002	2001		Long Term			Short Term	Long Term
Promissory notes	13.52	13.52	7.09	106.56	113.65		7.23	113.65
Loans and credits	3.49	4.42	1,561.04	2,873.05	4,434.09		2,498.61	4,575.23
Foreign currency loans and credits	1.76	3.76	134.34	530.28	664.62		134.17	156.28
Total			1,702.47	3,509.89	5,212.36		2,640.01	4,845.16

11.2 These balances mature as follows:

	Maturity					Subsequent Years	Balance at 12/31/02
	2003	2004	2005	2006	2007		
Promissory notes	7.09	6.92	6.74	6.57	6.37	79.96	113.65
Loans and credits	1,561.04	860.04	829.21	949.55	112.55	121.70	4,434.09
Foreign currency loans and credits	134.34	355.86	114.03	60.39	—	—	664.62
Total	1,702.47	1,222.82	949.98	1,016.51	118.92	201.66	5,212.36

11.3 The “Loans and Credits” account includes a syndicated loan of g1,200 million arranged by the Company in 1999 with 38 financial institutions. This loan has a term to maturity of 5 or 7 years, chosen by each lending institution, and it will be repaid at one time on maturity of each tranche. The loan bears interest at a floating rate tied to Euribor.

On August 29, 2000, the Company arranged a syndicated renewable credit line for a maximum amount of g8,000 million, divided into two tranches: the first of up to g6,000 million or the equivalent thereof in other currencies at 364 days (renewed through 2003) and bearing interest tied to Euribor or Libor; and the second of up to g2,000 million or the equivalent thereof in other currencies at three years and bearing interest tied to Euribor or Libor. As of December 31, 2002, g1,145.04 million had been drawn down against this credit line.

In December 2001 a loan of US\$ 115 million maturing in July 2006 was arranged with BBVA.

In relation to the issue of 42 bearer promissory notes made with La Estrella, S.A. de Seguros and maturing on February 15, 2001, which carried a commitment to issue new promissory notes, on February 15, 2001, Telefónica, S.A. issued 74 bearer promissory notes with a par value of g126.29 million and maturing in February 2011.

11.4 Credit facilities available

The loans and credits accounts reflect only the amounts drawn down.

As of December 31, 2002, the undrawn credit facility balances amounted to g4,528.00, which sufficiently covers the financing needs arising from short-term commitments.

The claimability of certain financing arranged by Telefónica may be subject to compliance with certain financial covenants. All the covenants were being complied with at the date of preparation of these financial statements.

(12) Payable to group and associated companies

12.1 The detail of this caption as of December 31, 2002 and 2001, is as follows:

Millions of Euros	2002			2001		
	Long Term	Short Term	Total	Long Term	Short Term	Total
Loans	12,238.53	5,662.07	17,900.60	9,221.69	7,923.12	17,144.81
Accounts payable to Group companies for purchases and services	–	217.01	217.01	–	79.88	79.88
Accounts payable to subsidiaries due to taxation on a consolidated basis	5,441.10	6.21	5,447.31	2,129.29	22.91	2,152.20
Total	17,679.63	5,885.29	23,564.92	11,350.98	8,025.91	19,376.89

12.2 The main loans obtained in 2002 and 2001 were as follows:

a) Loans from Telefónica Europe, BV of ¥30,000 million (maturing in 2003) and of ¥50,000 million and ¥22,000 million (maturing in 2002).

b) Also, in 2002 and 2001 Telefónica Europe, BV granted the following loans to the Company:

Year		
Grant	Maturity	Millions of Euros
2001	2003	150.00
2001	2004	34.30
2001	2004	1,000.00
2001	2006	1,000.00
2002	2004	80.00
2002	2005	50.00
2002	2003	96.02
2002	2012	2,000.00

The financing arranged in 2002 includes as an associated cost the commissions or premiums which are charged to the statement of operations in the period in which the financing is arranged (see Note 8).

These loans bear interest at market rates (Euribor plus a spread). The average interest rate in 2002 was 4.83%.

12.3 The detail of the short-term accounts payable to Group companies for purchases and services is as follows:

Millions of euros

	2002	2001
Telefónica de España, S.A.U.	84.93	66.83
Telefónica de Contenidos, S.A.	6.49	–
Telefónica Internacional, S.A.	56.04	–
Telefónica Móviles, S.A.	56.83	–
Telefónica Holding Argentina, S.A.	7.35	–
Other	5.37	13.05
Total	217.01	79.88

12.4 The long-term balance of the “Accounts Payable to Subsidiaries Due to Taxation on a Consolidated Basis” account includes basically the accounts payable to these companies for their contribution of tax losses to the tax group headed by Telefónica, S.A. The short-term balance relates mainly to corporate income tax installment payments made by the Group companies through Telefónica.

(13) Derivatives

In 2002 the Company continued to use derivatives both to limit interest rate and exchange risks on unhedged positions and to adapt its debt structure to market conditions.

As of December 31, 2002, the total outstanding balance of hedging transactions arranged to eliminate balance sheet exposure to interest and rate exchange risks was g38,717.54 million (g34,277.07 million as of December 31, 2001), of which g18,973.30 million related to interest rate risk and g19,367.19 million to exchange risk (g13,487.58 million and g20,340.64 million, respectively, as of December 31, 2001).

It should be noted that as of December 31, 2002, Telefónica had arranged swaps with financial institutions amounting to g8,553.30 million and g12,069.69 million (g1,419.15 million and g7,796.73 million as of December 31, 2001) to hedge interest rate and exchange risks, respectively, for Group companies. The balancing entries for these transactions were hedging transactions with identical conditions and maturities arranged with Group companies, and, accordingly, the transactions do not involve any risk for Telefónica.

Most of the derivatives transactions are assigned directly to individual asset or liability positions on the balance sheet. Also, there is a transaction portfolio hedging other financial risks of the Company. The net financial expense incurred in 2002 in relation to these transactions amounted to g81.90 million.

13.1 The detail of the portfolio by type of derivative as of December 31, 2002, is as follows:

Type of Risk	Equivalent Euro Value	2002		Telefónica Pays	
		Value	Currency	Value	Currency
Millions					
Euro interest rate swaps	5,390.62				
Fixed to floating	1,714.18	1,714.18	EUR	1,714.18	EUR
Floating to fixed	2,713.11	2,713.11	EUR	2,713.11	EUR
Floating to floating	963.33	962.95	EUR	963.33	EUR
Cross currency swaps	10,944.10				
Fixed to floating	6,310.84				
USD/USD	6,276.44	6,582.10	USD	6,582.10	USD
MXN/MXN	34.40	372.00	MXN	372.00	MXN
Floating to fixed	4,633.26				
USD/USD	4,475.88	4,693.85	USD	4,693.85	USD
GBP/GBP	122.98	80.00	GBP	80.00	GBP
MXN/MXN	34.40	372.00	MXN	372.00	MXN
Exchange rate swaps	19,221.60				
Fixed to fixed	702.52				
USD/EUR	70.61	65.00	USD	70.61	EUR
GBP/EUR	121.49	80.00	GBP	121.49	EUR
USD/JPY	132.29	136.00	USD	16,456.00	JPY
JPY/USD	129.68	16,456.00	JPY	136.00	USD
USD/BRL	100.65	155.00	USD	372.93	BRL
BRL/USD	147.80	372.93	BRL	155.00	USD
Fixed to floating	511.85				
EUR/USD	50.73	58.41	EUR	53.20	USD
USD/EUR	119.58	109.00	USD	119.58	EUR
JPY/EUR	113.90	12,400.00	JPY	113.90	EUR
BRL/EUR	96.99	288.17	BRL	96.99	EUR
BRL/USD	40.05	108.77	BRL	42.00	USD
PEN/USD	47.68	176.13	PEN	50.00	USD
MXN/USD	42.91	450.33	MXN	45.00	USD
Floating to fixed	1,603.57				
EUR/JPY	49.84	56.95	EUR	6,200.00	JPY
EUR/BRL	77.77	96.99	EUR	288.17	BRL
USD/EUR	1,357.18	1,247.73	USD	1,357.18	EUR
USD/BRL	29.35	42.00	USD	108.77	BRL
USD/PEN	47.78	50.00	USD	176.13	PEN
USD/MXN	41.64	45.00	USD	450.33	MXN
Floating to floating	16,403.67				
EUR/USD	6,025.93	6,229.20	EUR	6,319.40	USD
USD/EUR	8,949.64	8,753.25	USD	8,949.64	EUR
EUR/GBP	384.32	387.08	EUR	250.00	GBP
GBP/EUR	265.59	170.00	GBP	265.59	EUR
JPY/EUR	282.00	30,000.00	JPY	282.00	EUR
USD/MXN	245.87	262.50	USD	2,659.03	MXN
MXN/USD	250.31	2,659.03	MXN	262.50	USD
Forward transactions	145.59				
USD/EUR	38.67	37.61	USD	38.67	EUR
EUR/USD	102.51	111.14	EUR	107.50	USD
USD/CLP	2.26	2.26	USD	1,700.00	CLP
CLP/USD	2.16	1,700.00	CLP	2.26	USD
Subtotal	35,701.91				

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(14) Tax matters

14.1 Deferred tax assets and liabilities

The detail as of December 31, 2002 and 2001, of Telefónica's deferred tax assets and liabilities, and of the variations therein in 2002 and 2001, is as follows:

	Deferred Tax Assets Long Term	Deferred Tax Liabilities Long Term	Intercompany Deferred Tax Liabilities/(Assets) Long Term
Balance at December 31, 2000	35.04	312.45	8.48
Reversal	—	(312.32)	—
Arising in the year	55.99	3.74	33.91
Balance at December 31, 2001	91.03	3.87	42.39
Reversal	(36.06)	—	—
Arising in the year	20.22	—	4.78
Other variations	(16.01)	(3.87)	(12.46)
Balance at December 31, 2002	59.18	—	34.71

Telefónica's deferred tax assets relate mainly to employee long-service bonuses, and to accounting provisions recorded for investments in companies with negative underlying book values.

The deferred tax liabilities reversed in 2001 relate mainly to timing differences due to the reinvestment of extraordinary gains.

14.2 Taxes payable and taxes receivable

The detail of the "Taxes Payable" and "Taxes Receivable" captions as of December 31, 2002 and 2001, is as follows:

Millions of Euros

	Balance at 12/31/02	Balance at 12/31/01
Taxes payable:		
<i>Long-term taxes payable:</i>		
Deferred tax liabilities	34.71	46.26
<i>Short-term taxes payable:</i>		
Personal income tax withholdings	1.05	4.83
VAT	7.51	3.80
Withholdings from income from movable capital and other	2.32	0.02
<i>Corporate income tax:</i>		
Individual tax	—	137.66
Accrued social security taxes	1.28	1.49
Total	46.87	194.06

Millions of Euros			The detail of the adjustments for timing differences in 2002 is as follows:		
	Balance at 12/31/02	Balance at 12/31/01			
			Millions of Euros		
Taxes receivable:			Timing differences arising in the year:		
Long-term taxes receivable (Note 7):	4,932.90	435.28	Long-service bonuses	7.09	
Deferred tax assets	59.18	91.03	Investment valuation provisions	(52.35)	
Long-term tax loss carryforwards	4,873.72	344.25	Total	(45.26)	
Short-term taxes receivable:	45.41	84.71	In 2001 all the deferred income (g886.28 million) was reversed, in accordance with Transitional Provision Three of Law 24/2001 on tax administrative, labor and social security measures.		
Corporate income tax prepayments:			The taxes incurred abroad relate mainly to the corporate income tax borne by the permanent establishment in Argentina.		
Withholdings	6.27	3.62			
Corporate income tax refundable	2.67	54.57			
Taxes recoverable and other	0.11	–			
VAT and Canary Islands general indirect tax	36.36	26.52			
Total	4,978.31	519.99			
The increase in the balance of the “Long-Term Tax Loss Carryforwards” caption relates to the tax loss reported at year-end by the tax group headed by Telefónica.			14.4 On September 25, 2002, tax audits commenced at several of the companies included in tax group 24/90 of which Telefónica, S.A. is the parent company. The taxes subject to review are corporate income tax (for the years from 1998 to 2001) and VAT and tax withholdings and prepayments relating to personal income tax, tax on income from movable capital, property tax and nonresident income tax (1998 to 2001). No material liabilities are expected to arise as a result of the reviews currently being performed by the tax inspection authorities		
14.3 Reconciliation of the loss per books to the tax base and determination of the corporate income tax revenue and net tax refundable.					
The corporate income tax revenue and the net tax refundable for 2002 and 2001 are as follows.					
Millions of Euros			(15) Other nontrade payables		
	2002	2001	The balance of this caption relates mainly to compensation payable and to other payables relating to fixed asset purchases.		
Loss before taxes per books	(5,766.30)	(619.09)			
Permanent differences	2,747.13	(315.28)	(16) Revenues and expenses		
Timing differences:			16.1 Operating revenues		
Arising in the year	57.78	103.41	The revenues from sales and services in 2002 and 2001 related to sales to Group companies and, principally, to the management contract with Telefónica de Argentina, S.A.		
Arising in prior years	(103.04)	886.28	In November 1990 Telefónica and Telefónica Argentina, S.A. entered into a management contract expiring in 2003 regulating the compensation for selling services rendered by Telefónica and the price thereof. The revenues received in this connection in 2002 and 2001 amounted to g29.90 million and g140.50 million, respectively, and these amounts are recorded under the “Net Sales to Group Companies” caption in the accompanying statements of operations.		
Tax base	(3,064.43)	55.32	16.2 Personnel expenses		
Gross tax payable	(1,072.55)	19.36	The detail of the personnel expenses is as follows:		
Tax credits capitalized pursuant to ICAC resolution (Note 4-k)	(85.61)	–	Millions of Euros		
Other tax credits and tax relief	(152.25)	–	2002		
Corporate income tax payable (receivable)	(1,310.41)	19.36	2001		
Timing differences	15.84	(346.38)	Compensation, incentive schemes, etc.		
Corporate income tax accrued in Spain	(1,284.57)	(327.02)	Pension plans (Note 4-h)		
Foreign taxes	5.06	62.45	Employee welfare expenses and other		
Other	1.90	(0.34)	Total		
Total income tax	(1,287.61)	(264.91)	90.06		
The tax credits recorded were taken basically for reinvestment of gains and for double taxation.			80.23		
The permanent differences relate mainly to the investment valuation provisions recorded by the Group companies included in the consolidated corporate income tax group in order to avoid duplication, since these companies have recorded the tax asset in their own individual financial statements, to dividends received from tax group or foreign companies taxed at source and to nondeductible provisions.					

The “Compensation, incentive schemes, etc.” caption includes the period expense for 2002 and 2001 relating to the Telefónica stock option plan (TOP) allocable to Company personnel, amounting to g7.09 million in both years.

16.3 Average number of employees

Category	2002	2001
University graduates and other line personnel	574	514
Junior college graduates and technicians (draftsmen)	7	6
Supervisors and data processing assistants	160	136
Operators	21	18
Building and services personnel	7	6
Total	769	680

The total number of employees as of December 31, 2002, was 799 (727 in 2001).

Compensation systems tied to share market price

Telefónica currently has in place two compensation systems tied to the market price of its shares, one of which (the TOP Plan) is aimed exclusively at executive personnel, including the executive directors of Telefónica, while the other (the TIES Program) is aimed at all the personnel of Telefónica and its Spanish and foreign subsidiaries. Both systems were approved by the Stockholders’ Meeting held on April 7, 2000.

Following is a detailed account of each of these two plans:

a) TOP Plan

At its meeting on May 26, 1999, Telefónica, S.A.’s Board of Directors approved a compensation system tied to the market price of the Company’s shares (the “TOP Plan”), through the grant of options on the Company’s shares. The term of this plan is four years and three months from the launch date (June 28, 1999).

The implementation of the Plan and the exercise and sale of the related stock option rights were approved by the aforementioned Stockholders’ Meeting of Telefónica, S.A. on April 7, 2000.

The approval and implementation of this incentive Plan were notified to the Spanish National Securities Market Commission (CNMV) and published in the Complete Prospectus, which was verified and registered in the CNMV’s Official Register on June 29, 1999; in the Continued Prospectus, which was verified and registered on June 23, 2000; and in the Specific Prospectus on the compensation systems tied to the market price of Telefónica, S.A. shares in force prior to January 1, 2000, which was verified and registered in the CNMV’s Official Register on April 18, 2000. This prospectus included a clear description of the main features of the program and of the procedures for the assignment, exercise and settlement of the options.

Also, the CNMV was notified in due time and form of the assignment of options derived from this compensation system to executive directors, general managers and persons of a similar rank of Telefónica, S.A.

The TOP Plan, which is targeted at approximately 500 beneficiary executives of several Telefónica Group companies, consists of the grant to each beneficiary covered thereby of ten type-A options and ten type-B options on Telefónica, S.A. shares for every Telefónica, S.A. share assigned by each beneficiary to the Plan and which the beneficiaries must keep throughout the term of the Plan. The beneficiaries may exercise the stock option rights from the second year of the term of the Plan onwards at a rate of one-third of the total number of type-A options and one-third of the type-B options in arrears, i.e. in three equal portions in the second, third and fourth year of the Plan; the Company reserves the right to settle the Plan at each of the aforementioned maturity dates by paying the beneficiaries the result of the settlement in the form of shares or in cash. One share equals one option.

At the launch date, the exercise price of the options granted was as follows: for the type-A options, the exercise price was established on the basis of the market price of the shares when the compensation system was introduced (g46.18 per share); whereas the exercise price for the type-B options was set at the same price plus 50% (g69.27 per share). These figures related to the par value of the Telefónica, S.A. shares when the Plan was launched and, accordingly, prior to the three-way share split, consisting of three new shares for every old share, carried out in July 1999. Therefore, following this split and taking into account the antidilution clauses in the Plan, the type-A and type-B option exercise prices were g15.09 and g22.63 as of December 31, 2000, respectively; g14.50 and g21.75 as of December 31, 2001, respectively; and g13.94 and g20.91 as of December 31, 2002, respectively.

Originally 411 Telefónica Group executives were the beneficiaries of the TOP Plan (including four executive directors and nine general managers and persons of a similar rank). Consequently, although initially the TOP Plan was only partially awarded, it was established that if all the executives (approximately 500) targeted by the Plan had availed themselves of it, the total number of shares assigned to the Plan would have been 270,237 and, consequently, the total number of options granted would have been 5,404,740, prior to the aforementioned three-way share split carried out in July 1999.

Clearly, the TOP Plan provided for the possibility of assigning new options at dates subsequent to that on which it was introduced, particularly to cater for the needs which were disclosed as a result of the executive compensation policies and of new executive hirings. This possibility was expressly approved by the Stockholders’ Meeting of Telefónica, S.A. in a resolution adopted on June 15, 2001.

In October 2000 and February and April 2001 new options were assigned under the TOP Plan to a further three executive directors and to executives who had joined the Group after the launch of the Plan, or who, as a result of promotion, held positions of responsibility which carried a higher level of option assignments than that at which they joined the Plan.

The new option assignments made in October 2000 and February and April 2001 (which were expressly ratified through a resolution adopted by the Stockholders’ Meeting of Telefónica, S.A. on June 15, 2001) did not entail an extension of the TOP Plan, but rather in order to make these assignments, the remaining options that had been held by the Company throughout the term of the Plan were used.

Accordingly, the terms and conditions of the options assigned on the aforementioned dates are the same as those of the TOP Plan, except for the exercise price thereof. In the case of the type-A options the exercise price was set at the Telefónica, S.A. share market price when the new assignments were approved by the competent corporate governing body.

Also, on June 15, 2001, the Stockholders' Meeting of Telefónica, S.A. empowered the Board of Directors to make, within the total volume of options under the TOP Plan, additional assignments of options to executive directors and general managers and persons of a similar rank, provided that the maximum number of options to be assigned to each director or senior executive did not exceed 175,000 type-A options or 175,000 type-B options. In no case could the exercise price for the type-A options be lower than the market price of the Company shares when the options were granted, and in no case could the exercise price of the type-B options be lower than that amount increased by a percentage of between 25% and 50%.

On December 31, 2001 (taking into account the fact that by that date the Board of Directors had not exercised the powers granted to it, as mentioned above, by the Stockholders' Meeting on June 15, 2001), there were 453 beneficiaries of the TOP Plan (including five executive directors of Telefónica, S.A. and ten general managers or persons of similar rank), who held a total of 14,966,640 purchase options on Telefónica, S.A. shares.

Subsequently, because, effective January 2, 2002, certain beneficiaries of the TOP Plan who work for subsidiaries of Telefónica Móviles, S.A. were included under the latter's stock option plan known as the MOS Program, which was set up after the TOP Plan, which led to their automatic exclusion from the latter Plan because of the total incompatibility of the two Plans, the number of beneficiaries of the TOP Plan and the number of options assigned thereunder was significantly reduced. Therefore, as of that date (January 2, 2002) there were 335 beneficiaries of the TOP Plan (including four executive directors of Telefónica, S.A. and ten general managers or persons of similar rank), who held a total of 12,158,820 purchase options on Telefónica, S.A. shares.

In January 2002 the Board of Directors, exercising the powers granted to it by the aforementioned Stockholders' Meeting on June 15, 2001, resolved to assign options under the TOP Plan to several Telefónica Group executives, for which purpose unassigned options included within the total volume of options initially approved for the Plan were used. The beneficiaries of this assignment included three general managers or persons of similar rank.

At 2002 year-end, there were 324 beneficiaries (participants) of the TOP Plan, who held a total of 13,066,516 purchase options on Telefónica, S.A. shares. These TOP Plan beneficiaries (participants) included 4 executive directors of Telefónica, S.A. and 13 general managers and persons of similar rank.

In order to cover the risks and economic obligations derived from the TOP Plan, the Group arranged hedging contracts with BBV and Argentaria, at a maximum total cost for the Telefónica Group of g72.12 million. g13.70 million of this cost have not yet been taken to income (see Note 8).

b) TIES Program

On February 23, 2000, the Board of Directors of Telefónica, S.A. approved the establishment of a new compensation system tied to the market price of the Company's shares, with the grant of options on Company shares, known as the TIES Program. This Program is aimed at all the employees of Telefónica, S.A. and its Spanish and foreign subsidiaries who meet the requirements established in the rules governing the Program and who are not participating in any other similar stock or stock option plan.

The aim of the TIES Program is identical to those achieved by other similar programs implemented in the past by Telefónica, S.A. or its subsidiaries and is broadly similar to programs which have been introduced in several European countries and in the U.S. Its main purpose is to introduce a system of global incentives and to reward the past and future services of all the employees of Telefónica, S.A. and its subsidiaries in the coming years. The TIES Program will basically motivate all its beneficiaries by giving them access to Telefónica, S.A. shares under highly favorable terms and conditions.

In order to achieve the purposes of the Program, on April 7, 2000, the Stockholders' Meeting of Telefónica, S.A. approved two capital increases with disapplication of pre-preemptive subscription rights for a par value of g1,197,880 and g31,504,244, respectively, through the issuance of 1,197,880 and 31,504,244 new shares, respectively of g1 par value each, with additional paid-in capital of 400% of the par value.

The main features of the TIES Program are as follows:

1. Number of shares offered for initial acquisition by the beneficiaries: 1,197,880.
2. Issue price: g5.
3. Maximum no. of shares under option assigned to beneficiaries: 31,504,244. This figure, which is the maximum amount necessary to cover the total rights carried by the shares initially assigned, also includes a reserve for new beneficiaries of the Program equal to 4.5% of the initial beneficiaries.
4. Method of assignment of shares under option: depends on the appreciation of Telefónica, S.A. shares with respect to an initial reference value to be set by the Board of Directors and on the number of shares of Telefónica, S.A. initially acquired. The initial reference value is set at g20.5 per share.
5. Exercise price: g5.

At its meeting on June 28, 2000, the Board of Directors of Telefónica, S.A. resolved to commence implementation of the TIES Program (the features and general terms of which had been established on February 23, 2000, by the Board of Directors' Meeting that approved the creation of the Program), and established the requirements to be met by the employees of the subsidiaries of Telefónica, S.A. in order to become beneficiaries of the TIES Program.

Subsequently, on November 29, 2000, the Board of Directors of Telefónica, S.A. adapted to the date on which the Program was ultimately launched the conditions and requirements to be met by the

employees of the companies participating in the Program in order to become beneficiaries of the Program and the reference value initially set.			The detail of exchange gains credited to income is as follows:		
				2002	2001
On February 14, 2001, the notarial deed of formalization and execution of the first capital increase at Telefónica indicated above was executed. The par value of the capital was increased by g1,123,072, through the issuance of an equal number of common shares with additional paid-in capital of g4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by the beneficiaries of the TIES Program.			Repayment of loans maturing in the year	21.23	–
			Adjustment of loans	–	175.10
			Adjustment of foreign loans	1,013.88	–
			Recurring operations and derivatives	236.11	212.93
			Total	1,271.22	388.03
On February 20, 2001, the notarial deed of formalization and execution of the second capital increase at Telefónica to cater for the TIES Program was executed. The par value of the capital was increased by g31,504,244, through the issuance of an equal number of common shares with additional paid-in capital of g4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by BBVA (50%) and La Caixa (50%).			The increase in exchange gains and exchange losses in 2002 with respect to 2001 is due basically to the significant fluctuations in the US\$/euro exchange rate, offset by the effect of hedges arranged for this purpose.		
			16.6 Extraordinary revenues		
			The “Extraordinary Revenues” caption in the accompanying statement of operations relates to nonrecurring revenues obtained by the Company that were not material in 2002. As of December 31, 2001, it included g106.87 million relating to the decrease in the allowance for treasury stock, as indicated in Note 4-f.		
On December 31, 2002, 75,842 persons were participating in the TIES program, who held a total of 29,956,042 purchase options on Telefónica, S.A. shares. As of that date, 550 Telefónica, S.A. employees were participating in the Plan.			16.7 Extraordinary expenses		
16.4 Other interest on accounts payable and similar expenses and revenues from other equity investments and loans			The detail of the extraordinary expenses is as follows:		
				2002	2001
The detail of these captions is as follows:			Prior years' losses	6.21	–
			Provision for treasury stock (Note 9)	288.09	–
			Other extraordinary expenses	106.42	126.97
			Total	400.72	126.97
Debentures, bonds and other marketable debt securities			The “Other extraordinary expenses” account includes most notably the provisions of g34.62 million and g74.45 million recorded by the Company in 2002 and 2001, respectively, to cover the underlying book value of certain investees, which was negative as of December 31. These provisions are recorded under the “Provisions for Contingencies and Expenses” caption in the accompanying balance sheet.		
	2002	2001	Additionally, it includes g56.15 million relating to the guarantees provided by Telefónica, S.A. arising from third-generation wireless telephony (UMTS) licenses (Note 7.1).		
	213.69	267.96	16.8 Transactions with Group companies		
Euro loans and credits	763.63	751.07	Telefónica's main transactions in 2002 and 2001 with Group companies were as follows:		
Foreign currency loans	403.35	368.32		2002	2001
Total interest on accounts payable and similar expenses	1,380.67	1,387.35	Dividends received	881.96	1,114.82
Interest on loans to subsidiaries and associated companies	1,191.29	1,255.20	Accrued interest	1,285.82	1,254.88
Interest on financial investments in euros	18.20	62.46	Financial expenses (Note 16.4)	(900.23)	(836.53)
Interest on financial investments in foreign currencies	0.19	0.47	Acquisitions of goods and services from the Telefónica Group	(45.24)	(33.25)
Revenues from financial derivatives	104.55	5.89	Telefónica de Argentina management fee transferred to Telefónica de España	(1.49)	(6.81)
Total revenues from other equity investments and loans	1,314.23	1,324.02			
g900.23 million and g836.53 million of the expenses related to interest on accounts payable to Group companies in 2002 and 2001, respectively (see Note 16.8).					
16.5 Exchange differences					
The detail of the exchange losses charged to income is as follows:					
				2002	2001
Repayment of loans maturing in the year					
	122.46	39.77			
Potential losses in 2002 and subsequent years	502.17	242.45			
Recurring operations and derivatives	974.24	146.95			
Total	1,598.87	429.17			

<p>The dividends received in 2002 include most notably the dividend of g855.54 million paid by Telefónica de España, S.A.U. and that of g22.06 million paid by Telefónica Publicidad e Información, S.A. Those received in 2001 included most notably that of g820.58 million paid by Telefónica de España, S.A., that of g25.59 million paid by Telefónica Publicidad e Información, S.A. and that of g265.92 million paid by Telesp Participações, S.A.</p>		
	<p>Position</p> <p>Chairman</p> <p>Deputy Chairman</p> <p>Directors</p>	<p>2002</p> <p>60,101.23</p> <p>60,101.23</p> <p>60,101.23</p>
<p>The accrued interest in 2002 includes most notably that relating to Telefónica de España, S.A.U. (g516.50 million), Telefónica Móviles, S.A. (g302.29 million), Telefónica Internacional (g222.99 million), Telefónica de Contenidos, S.A. (g91.83 million) and Emergia, S.A. (g59.73 million). The accrued interest in 2001 included most notably that relating to Telefónica de España, S.A.U. (g557.22 million), Telefónica Móviles, S.A. (g304.68 million), Telefónica Internacional (g142.76 million), Telefónica de Contenidos, S.A. (g72.56 million) and Emergia S.A. (g75.15 million).</p>	<p>The directors do not receive any attendance fees for attending meetings of the Board of Directors or of the Standing Committee.</p>	
	<p>3. Other committees of the Board of Directors: total annual amounts for attending meetings of the advisory committees of the Board of Directors, received by all the directors.</p>	
<p>(17) Directors' compensation and other benefits</p> <p>The compensation of the directors of Telefónica, S.A. consists of a fixed monthly payment and of attendance fees for attending the Board of Directors advisory committee meetings. Also, the executive directors receive compensation for the executive duties discharged by them.</p> <p>In 2002 the members of the Board of Directors of Telefónica, S.A. earned g11,907,088.40 (g3,312,042.31 fixed monthly payment, including the payments receives for their membership on other Company Boards within the Telefónica Group; g76,416.29 of attendance fees for attending the Board of Directors advisory committee meetings; g8,405,975.34 of salaries and variable compensation of the executive directors; g69,537.84 of compensation in kind paid to the executive directors, which include life insurance premiums; and g43,116.62 of contributions paid by the Company, as promoter and for executive directors, to pension plans).</p>	<p>Committee</p> <p>Audit and Control</p> <p>4 directors</p> <p>Appointments and Compensation and Best Practice Corporate Governance</p> <p>4 directors</p> <p>Human Resources and Corporate Reputation</p> <p>4 directors</p> <p>Regulation</p> <p>4 Directors</p> <p>Service Quality and Commercial Service</p> <p>4 Directors</p>	<p>2002</p> <p>Attendance fee per meeting: g858.63</p> <p>Number of meetings: 8</p> <p>Total received: g24,041.08</p> <p>Attendance fee per meeting: g858.63</p> <p>Number of meetings: 8</p> <p>Total received: g26,616.91</p> <p>Attendance fee per meeting: g858.63</p> <p>Number of meetings: 3</p> <p>Total received: g10,303.32</p> <p>Attendance fee per meeting: g858.63</p> <p>Number of meetings: 4</p> <p>Total received: g11,161.93</p> <p>Attendance fee per meeting: g858.63</p> <p>Number of meetings: 2</p> <p>Total received: g4,293.05</p>
	<p>4. Executive directors: total amounts (in euros) received by the executive directors taken as a whole for the items indicated below:</p>	
<p>The breakdown of the compensation and benefits received by the directors in 2002 is as follows:</p> <p>1. Board of Directors: annual amount of the fixed payment received by each director (in euros):</p>		
	<p>Position</p> <p>Chairman</p> <p>Deputy Chairmen</p> <p>Directors (1):</p> <p>Executive directors</p> <p>Nominee directors</p> <p>Independent directors</p>	<p>2002</p> <p>4,096,718.50</p> <p>4,309,256.78</p> <p>69,537.84</p> <p>43,116.62</p> <p>90,151.82</p> <p>150,253.03</p> <p>90,151.82</p> <p>90,151.82</p> <p>90,151.82</p>
<p>(1) Two independent directors, one of whom left the Board in December 2002, receive an additional annual payment of g60,101.21 each, because their experience and work in relation to Latin America is of special interest to the Company.</p> <p>2. Standing Committee: annual amount of the fixed payment received by each director (in euros):</p>	<p>The executive directors César Alierta Izuel, Fernando Abril-Martorello, Hernández, Antonio J. Alonso Ureba and Antonio Viana-Baptista, in their capacity as directors of the Telefónica Group, are beneficiaries of the compensation plan linked to the share market price of the shares of Telefónica, S.A. targeted at the Telefónica Group's executive directors (the "TOP Plan") discussed in Note 16.3; the cost for Telefónica of the aforementioned compensation plan, with respect to the executive directors participating in the plan, amounted to g1.2 million in 2002 and g1.26 million in 2001.</p>	
	<p>Additional notes:</p> <p>a) The nonexecutive directors do not receive any compensation in the form of pensions or life insurance, and they do not participate in the compensation plans linked to share market price.</p> <p>b) In 2002 the Company did not grant any advances, loans or credits to the directors.</p>	

(18) Other information			
Financial guarantees			
	2002	2001	
Guarantees provided for financial transactions	14,292.94	13,722.65	
The "Guarantees Provided for Financial Transactions" account relates mainly to guarantees provided by Telefónica to third parties to secure the transactions of its subsidiaries and investees, mainly Telefónica Europe, B.V.			By filing this new complaint contesting the corporate resolutions, the objective of Javier Sotos García is to have the resolutions adopted by the Stockholders' Meeting in relation to the following items on the Agenda set aside by the Court: item I (approval of the 2000 financial statements and of the conduct of business by the Board of Directors in that year); item X (capital increase for the acquisition of the shares of various Mexican cellphone companies owned by Motorola); and item XII (capital increase to cover the Company's stock option plan for Endemol employees).
No significant losses are expected to arise for the Company in connection with these commitments.			The aforementioned proceeding is based on the purported contravention of the contesting stockholder's right to information and on the purported contravention of the legal rules for disapplication of preemptive rights of subscription in capital increases.
The amount indicated for guarantees provided by Telefónica S.A. includes most notably the guarantee provided to certain credit institutions to cover the obligations of Ipse 2000, S.p.A. arising from the deferral of payment for the third-generation wireless telephony license in Italy. These guarantees are in turn counterguaranteed by the Group's subsidiaries that own the investment in Ipse 2000, S.p.A.			The Company is convinced that the outcome of the aforementioned court proceeding will also be wholly satisfactory for the Company.
Litigation			Also, it should be noted that the complaint filed against the aforementioned resolutions adopted by the Stockholders' Meeting on June 15, 2001, does not in any way signify holding in abeyance the possible implementation of those resolutions.
Telefónica, S.A. and its Group companies are party to numerous lawsuits which are currently in progress in the law courts and the arbitration courts of the various countries in which the Telefónica Group is present. These lawsuits cover substantially all areas of law.			3. Complaint filed by IDT against Telefónica, S.A., Terra Networks, S.A. and Lycos, Inc.
However, Telefónica, S.A. considers it reasonably certain that any adverse outcome of these lawsuits will not materially affect the Group's economic and financial position or solvency. These lawsuits include most notably the following:			International Discount Telecommunications Corporation (IDT) filed a complaint with the State Courts of New Jersey (U.S.) against Telefónica, S.A., Terra Networks, S.A., Terra Networks U.S.A., Inc., and Lycos, Inc., seeking the payment of damages amounting to approximately US\$ 6,600 million.
1. A court proceeding contesting the resolutions adopted by the Special Stockholders' Meeting of Telefónica, S.A. on February 4, 2000.			This complaint is based on the purported breach of the joint venture agreement entered into between IDT and Terra in October 1999, on purported nonperformance of the obligations deriving from the agreement to terminate the aforementioned agreement, on purported fraud and contravention of the legislation regulating the issuance of securities (Federal Securities Exchange Act), and on purported fraudulent concealment of information.
The stockholder Javier Sotos García, who owns 300 shares of the Company, has filed a complaint contesting the resolutions adopted by the Special Stockholders' Meeting on February 4, 2000, based on the purported contravention of the rules regulating the holding of the Meeting and on the purported contravention of the rules for disapplication of preemptive rights of subscription in capital increases.			After the complaint had been filed, IDT modified its complaint by eliminating all express references to a claim for damages of a specific amount, since this contravenes the U.S. legislation applicable to the claim. Accordingly, the lawsuit is for an unspecified amount, without prejudice to the possibility of the damages being specified and quantified in the course of the proceeding.
The Company is convinced that the outcome of the aforementioned court proceeding will be wholly satisfactory for the Company and, since there has been no court decision in this connection, the complaint filed does not in any way signify holding in abeyance the implementation of the corporate resolutions approved by the Stockholders' Meeting and contested in that court proceeding.			In May 2002 the State Courts of New Jersey decided to dismiss counts X and XI of the complaint, relating to the purported breach of the joint venture agreement.
2. A court proceeding contesting certain resolutions adopted by the Annual Stockholders' Meeting of Telefónica, S.A. on June 15, 2001.			Recently IDT added a new claim to the "second modified complaint" alleging the liability of Telefónica, as a control person, for the alleged fraud against Terra in its negotiations with IDT, which culminated in the termination agreement. Telefónica has filed objections to this claim, which are being considered by the Court.
The aforementioned stockholder, Javier Sotos García, has also filed a complaint contesting some of the resolutions adopted by the Company's Annual Stockholders' Meeting on June 15, 2001.			Legal counsel for the defendants consider that the defendants have a sound defense with respect to the complaint filed against

<p>them and, accordingly, Telefónica is convinced that the outcome of the aforementioned lawsuit resulting from the complaint filed by IDT will not be unsatisfactory for Telefónica or for Terra and that, if it were, the economic and financial impact on the Telefónica Group should not be material.</p>	<p>the contract dated December 30, 1998, in which a debt of g21.35 million was recognized due to the sale of the shares of Sintel to Mastec Internacional, S.A. and the amounts paid by Sintel, which in the aforementioned contract appeared as a joint and several guarantor of the fulfillment of these payment obligations.</p>
<p>4. Notice of arbitration filed by IDT against Telefónica Internacional, S.A.</p> <p>International Discount Telecommunications Corporation (IDT) filed a notice of arbitration against Telefónica Internacional, S.A. (Sole-Stockholder Company) at the American Arbitration Association (AAA).</p>	<p>Telefónica filed an ancillary complaint in which it proposes that the effects of the bankruptcy be backdated to a date closer to that of the bankruptcy order, so that the contract dated December 30, 1998, is not affected. The representatives of the employee filed a counterclaim proposing that the effects of the bankruptcy be backdated to the date of the sale of the Sintel shares (April 1996).</p>
<p>The notice of arbitration is based on the purported breach of a memorandum of understanding entered into by IDT and Telefónica Internacional on August 11, 1999. IDT is seeking in its statement of claim damages by reason of the breach of not less than US\$ 2,000 million, as well as the performance of the aforementioned memorandum of understanding.</p> <p>In turn, Telefónica Internacional, S.A. (Sole-Stockholder Company) filed a counterclaim against IDT for damages amounting to US\$ 3,500 million.</p> <p>Telefónica, S.A. is convinced that the outcome of the arbitral proceeding resulting from the notice of arbitration filed will not be unsatisfactory for Telefónica Internacional and that, if it were, the economic and financial impact on the Telefónica Group should not be material.</p>	<p>The two criminal proceedings which commenced recently are as follows:</p> <p>Expedited proceeding 273/2001, in relation to which, on September 24, 2002, Telefónica, S.A. and Telefónica de España, S.A. appeared before Central Examining Court nº. 1 filing a civil suit against parties suffering loss, against the directors of Sintel and of Mastec Internacional, S.A. Leave was given for them to appear as parties to the proceeding.</p> <p>Preliminary proceeding 362/2002, which was commenced on October 23, 2002, by the Central Examining Court for a possible offense of extortion. This proceeding arises from the preceding one, concerns the possible commission of an offense of extortion in the assumption by Sintel of joint and several liability with Mastec for the obligation to pay the related sale price.</p>
<p>5. Preliminary proceedings conducted by Central Examining Court nº. 1 of the Audiencia Nacional (National Appellate Court).</p> <p>Central Examining Court nº. 1 of the National Appellate Court is conducting preliminary proceedings in relation to charges pressed in October 2000 by Juan Francisco Franco Otegui against certain ex-directors of Telefónica, S.A., and against the partner of the Company's audit firm, in relation to certain conduct and corporate resolutions alleged by Mr. Otegui to be acts constituting corporate offenses. To these preliminary proceedings was joined an investigation by the Special Public Prosecutor's Office for Combatting Corruption-Related Financial Crime in relation to the acquisition by Telefónica of the Dutch company Endemol.</p>	<p>Commitments</p> <p>Agreements with Portugal Telecom (Brazil)</p> <p>On January 23, 2001, Telefónica, S.A. and its subsidiary Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Moveis, SGPS, S.A., on the other, entered into an agreement in order to group together all the wireless telephony businesses in Brazil and, accordingly, they undertook to contribute all their wireless telephony assets in Brazil to a joint venture, which subject to the obtainment of the necessary regulatory authorizations, would be a subsidiary of the two groups, and in which they would each have a 50% ownership interest. Also, under the terms of this agreement, the two parties expressed their interest in increasing their reciprocal ownership interests, subject to compliance with the applicable regulatory and bylaw conditions.</p>
<p>6. Sistemas e Instalaciones de Telecomunicación, S.A.U. (Sintel).</p> <p>As a result of the voluntary bankruptcy proceeding being conducted at Madrid Court of First Instance nº. 42, case number 417/2001, which is the continuation of the petition for Chapter 11-type insolvency filed by the director of Sintel on June 8, 2000, two criminal proceedings have commenced which affect Telefónica, S.A.</p> <p>Under the bankruptcy order, inter alia, the effects of the bankruptcy were backdated to June 8, 1998. As a result of the backdated effects of the bankruptcy pursuant to the order, the related bodies sent Telefónica a payment demand for g22.87 million, which represents the total amount paid for Sintel, since they consider null and void as a matter of law the involvement of Sintel in</p>	<p>On October 17, 2002, Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Móveis SGPS, S.A. on the other, entered into the definitive agreements (Stockholders Agreement and Subscription Agreement) that implement the aforementioned agreement signed in January 2001. On December 27, 2002 (after having obtained the necessary authorizations), the two groups' holdings in their respective Brazilian wireless telephony operators were contributed to a Dutch joint venture, Brasilcel N.V., in accordance with the provisions of the aforementioned Subscription Agreement.</p> <p>In accordance with the aforementioned definitive agreements, Telefónica Móviles, S.A. and the Portugal Telecom Group will have the</p>

<p>same voting rights at Brasilcel, N.V. This equality in voting rights will cease to exist if, as a result of capital increases at Brasilcel, N.V., the percentage of ownership of either of the parties falls below 40% during an uninterrupted period of six months. In this event, if the group with the reduced interest were the Portugal Telecom Group, it would be entitled to sell to Telefónica Móviles, S.A., which would be obliged to buy (directly or through another company), all of Portugal Telecom's ownership interest in Brasilcel N.V. This right expires on December 31, 2007. The price for the acquisition of the Portugal Telecom Group's holding in Brasilcel, N.V. would be calculated on the basis of an independent appraisal (in the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. Subject to certain conditions, the payment could be made, at Telefónica Móviles' choice, in (i) cash, (ii) Telefónica Móviles S.A. shares and/or Telefónica, S.A. shares, or (iii) a combination of the two. This sale option would be exercisable in the 12 months subsequent to the end of the aforementioned six-month period, provided that the Portugal Telecom Group had not increased its ownership interest to 50% of the total capital stock of Brasilcel N.V.</p>	<p>México, S.A. de C.V. The Burillo Group can exercise its sale option in 2007 or 2008, or, if its holding in the company falls below 50% of its original ownership interest, on the date on which such decrease occurs. If the Burillo Group did not exercise its sale option, Telefónica Móviles could exercise its purchase option on the shares of the company owned by the Burillo Group. In this case, the purchase price for the shares will be determined on the basis of a valuation of the company on the date on which the rights were exercised. The agreements entered into envisage that a portion of the purchase price will be paid in cash, the amount of which will depend upon the Burillo Group's original investment in the company, to which interest will be added and from which any cash distribution received by the Burillo Group will be deducted. The remaining portion of the purchase price, if any, will be paid, at Telefónica Móviles' choice, in cash, in shares of Telefónica Móviles or a combination of the two.</p>
<p>Also, in accordance with the definitive agreements, the Portugal Telecom Group will be entitled to sell to Telefónica Móviles, S.A., which will be obliged to buy, its holding in Brasilcel, N.V. should there be a change in control at Telefónica, S.A., Telefónica Móviles, S.A. or any other subsidiary of the latter that held a direct or indirect ownership interest in Brasilcel N.V. Similarly, Telefónica Móviles, S.A. will be entitled to sell to the Portugal Telecom Group, which will be obliged to buy, its holding in Brasilcel, N.V. if there is a change of control at Portugal Telecom SGPS, S.A., PT Móveis SGPS, S.A. or any other subsidiary of either company that held a direct or indirect ownership interest in Brasilcel N.V. The price will be determined on the basis of an independent appraisal (in the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. The related payment could be made, at the choice of the group exercising the sale option, in cash or in shares of the wireless telephony operators contributed by the related party, making up the difference, if any, in cash.</p>	<p>Also, under the shareholders agreement entered into the Burillo Group has certain rights to veto agreements on the conversion of shares from one class to another, declarations of bankruptcy or Chapter 11-type insolvency proceedings, dissolution or liquidation, bylaw amendments which adversely affect the rights of the Burillo Group and mergers or corporate reorganizations which do not afford the Burillo Group the opportunity to maintain a given percentage of ownership.</p>
<p>Agreements for the acquisition of Pegaso (Mexico) In accordance with the agreements entered into by Telefónica Móviles, S.A. on April 26, 2002, with Sprint, Leap Wireless, Qualcomm and other financial investors, the acquisition by Telefónica Móviles, S.A. of 65% of the capital stock of the Mexican company Pegaso Telecomunicaciones, S.A. de C.V. (Pegaso) was definitively concluded on September 10, 2002.</p>	<p>Telefónica Internacional (Puerto Rico)</p> <p>1. On December 22, 1992, Telefónica International Holding B.V., which owns 14.9% of the shares of the Puerto Rican company Telecomunicaciones Ultramarinas de Puerto Rico (TUPR), entered into a stockholders agreement with the Puerto Rico Telephone Authority (PRTA) to acquire, through a reciprocal purchase-sale option, the shares representing the remaining 85.1% of the capital stock of TUPR.</p> <p>On May 21, 1999, Telefónica International Holding B.V. announced its intention to exercise this purchase option; however, the purchase transaction was never carried out.</p>
<p>Also, in compliance with the agreements adopted on that date Telefónica Móviles, S.A. and the Burillo Group, which owns 35% of the remaining capital stock of Pegaso, all the shares of Pegaso were contributed to a company formed for this purpose called Telefónica Móviles México, S.A. de C.V. Telefónica Móviles, S.A. also contributed to this new company the companies which it owned in northern Mexico. After these contributions, Telefónica Móviles, S.A. had a 92% holding in the new company.</p>	<p>On April 4, 2002, PRTA exercised its sale option, and notified Telefónica Internacional Holding B.V. of its decision to sell 85.1% of TUPR for a price, subject to a due diligence review, of US\$ 24.9 million.</p> <p>The due diligence review has not yet been completed, mainly because the information which should be supplied by ATPR has not been received.</p>
<p>Under the agreements entered into, the Burillo Group has certain mechanisms with which it can cease to be a stockholder, instrumented through an option to sell its holding in Telefónica Móviles</p>	<p>2. On February 4, 2000, Telefónica Larga Distancia de Puerto Rico (TLD) and ClearCom, L.P. entered into a joint venture agreement to carry on the cellular telephony business in Puerto Rico through a new company (Newcomm). Under this agreement, which was subsequently modified, TLD was granted an option to acquire a 50.1% holding in Newcomm, by converting promissory notes into shares representing 49.9% of Newcomm's capital stock and entering into a share purchase agreement for shares representing the remaining 0.2%.</p> <p>In line with the process of reorganization by line of business carried out by the Telefónica Group, TLD and Telefónica Móviles, S.A.</p>

<p>have agreed that the rights which the aforementioned agreement confers on the Telefónica Group will be transferred to Telefónica Móviles, S.A., and the related documents have already been prepared for presentation to the Federal Communications Commission (FCC), so that FCC can approve the transfer of licenses and the acquisition of a controlling interest in the company by Telefónica Móviles, S.A.</p>	<p>2. The agreements entered into by Sogecable, S.A., Telefónica, S.A. and Telefónica de Contenidos, S.A. (Sole-Stockholder Company) for the merger of Vía Digital into Sogecable are described in Note 19.</p> <p>3. The agreement referred to in the previous point establishes the commitment of Telefónica de Contenidos, S.A. (Sole-Stockholder Company) to Sogecable, S.A. to offer it or another Telefónica Group company the possibility of acquiring the rights which DTG Distribuidora de Televisión Digital, S.A. (Vía Digital) currently holds on the Soccer World Cup in Germany in 2006. In this regard, management of Vía Digital plans to start offering the aforementioned rights to other operators in the market with a view to obtaining an optimum price for them. In accordance with the accounting principle of prudence in valuation, a provision of g19.6 million was recorded in this connection with a charge to the accompanying statement of operations.</p>
<p>Telefónica CTC Chile-Sonda</p> <p>On September 26, 2002, Telefónica CTC Chile, S.A. granted a shareholder of Sonda S.A., Inversiones Santa Isabel Limitada, a purchase option to be exercised between July 26 and August 5, 2005, on 35% of the capital of the aforementioned company, currently owned by Telefónica CTC Chile; the exercise of this option can be brought forward to between July 26 and July 31, 2003 and 2004. The price will be determined in accordance with the process stipulated in the related contract, and will be paid in cash.</p>	
<p>Atento</p> <p>Within the framework of the strategic agreement entered into on February 11, 2000, by BBVA and Telefónica, on December 4, 2001, the two entities signed an agreement establishing the procedure and conditions for the integration in Atento, a Telefónica Group subsidiary, of the BBVA Group's Spanish and international call center business.</p>	
<p>The transaction agreed on consists of: (i) the initial contribution by Telefónica S.A. of all its call center business (now carried on by Atento Holding Inc.) to a newly-formed subsidiary (Atento N.V.); and (ii) the subsequent inclusion of the BBVA Group in the stockholder structure of Atento N.V. through various monetary and nonmonetary contributions of all the shares of the Spanish companies Procesos Operativos, S.A. and Leader Line, S.A. These contributions will entail the transfer to Atento of all the BBVA Group's Spanish and international call center business and the subscription by BBVA of up to 9% of the capital stock of Atento N.V.</p>	<p>Commitment of Telefónica de Contenidos with respect to Euroleague Marketing, S.L.</p> <p>Under a framework contract dated August 24, 2000 (amended on November 17, 2001), regulating the exploitation of economic rights (including mainly audiovisual, sponsorship and Internet rights, licenses, etc.) on the European basketball competition, the "Euroleague", Telefónica de Contenidos, S.A. (Sole-Stockholder Company), a subsidiary of Telefónica, S.A., has a commitment to pay Euroleague Marketing, S.L., a company in which Telefónica de Contenidos, S.A. (Sole-Stockholder Company) owns a 70% holding, the difference between the revenues obtained by Euroleague Marketing, S.L. from the exploitation of the aforementioned rights and a maximum of US\$ 25 million for the 2002/2003 season (a maximum of US\$ 20 million for the remaining two seasons).</p>
<p>The transaction also envisages the signing of various specific agreements for the provision to the BBVA Group by Atento of call center services in Spain and Portugal and in ten Latin American countries, for most of which contracts have already been signed. BBVA's ownership interest in Atento N.V. may be adjusted on the basis of whether these agreements are actually entered into and the volume of business actually contributed by the BBVA Group to Atento.</p>	<p>Commitments of Telefónica de Contenidos in relation to Audiovisual Sport</p> <p>Telefónica de Contenidos, S.A. (Sole-Stockholder Company), a subsidiary of Telefónica, S.A., has provided a guarantee, to secure payment of g74.5 million relating to 40% of the outstanding balance of the syndicated loan, originally amounting to g300.51 million, granted by several financial institutions to Audiovisual Sport, S.L., a 40%-owned investee of Gestora de Medios Audiovisuales Fútbol, S.L., which is a subsidiary of Telefónica de Contenidos, S.A.</p>
<p>Atento N.V. was incorporated on May 13, 2002. All Telefónica, S.A.'s call center business was contributed to it on that date. The contributions by the BBVA Group under the terms of the agreement discussed in this section had not yet been made as of that date, although this will foreseeably take place in the first quarter of 2003.</p>	<p>Also, it should be noted that the agreements relating to the merger of Vía Digital and Sogecable provide for a commitment to acquire the 40% holding that Telefónica de Contenidos, S.A. (Sole-Stockholder Company) owns in Audiovisual Sport, S.L.</p>
<p>Commitments relating to Vía Digital</p> <p>1. Telefónica has provided to third parties, including other stockholders of DTS Distribuidora de Televisión Digital, S.A. (Vía Digital), guarantees of the liquidity of the investments made which grant the beneficiaries a sale option and Telefónica, S.A. a purchase option, which can be exercised if certain conditions are met, including that relating to the statutory limitations of percentage of ownership of the capital stock. The total price of this purchase option would amount to approximately g143 million.</p>	<p>Commitment relating to Endemol shares</p> <p>As indicated in Note 9-a, the Company has a stock option plan with the employees of Endemol involving shares of Telefónica, S.A. (the EN-SOP Program). Under this plan in 2001 a total of 1,281,040 options were granted at an exercise price of g19.2898 per share. In 2002 1,933,504 options were granted at an exercise price of g12.63 per share.</p> <p>Other commitments in the form of performance bonds for concessions or licenses</p> <p>1. Telefónica de España, S.A. (Sole-Stockholder Company), a subsidiary of Telefónica, S.A., has provided counter-guarantees for 43 guarantees provided by Banco Santander Central Hispano and by</p>

the insurance company Zurich totaling approximately g100.9 million, relating to definitive guarantees provided by Telefónica Cable, S.A. (Sole-Stockholder Company), a subsidiary of Telefónica de España, S.A. (Sole-Stockholder Company), in relation to 43 concession contracts with the Spanish State for the provision of cable telecommunications services in 43 franchise areas.

These guarantees ensure performance by the concession-holder company of the obligations assumed under the concession contracts, in particular in relation to coverage of the services and the timetable for their implementation. The aforementioned guarantees were maintained after the concession deeds were converted into 19 individual B1-type licenses.

Through a Telecommunications Market Commission Resolution dated January 7, 2003, it was decided to propose to the Ministry of Science and Technology that 90% of the amount of the final guarantees provided by Telefónica Cable, S.A. (Sole-Stockholder Company) for the formalization of the aforementioned 43 contracts be reimbursed. The Ministry of Science and Technology has given notification of the commencement of the related cancellation proceeding, which must be completed within three months.

2. Telefónica Móviles, S.A., a subsidiary of Telefónica, S.A., has provided certain financial guarantees to the Spanish State amounting to g1,100 million, in relation to the grant to Telefónica Móviles España, S.A. (Sole-Stockholder Company) of a UMTS services license in Spain. These guarantees ensure fulfillment of the commitments assumed by the company awarded the license in relation to network deployment, job creation, investments, etc.

As of January 20, 2003, the guarantees amounted to g721 million, since g379 million were released as a result of fulfillment of certain of the objectives set. The release of a further g90 million has been requested, for which the Ministry of Science and Technology has yet to verify that the related commitments have been met.

Also, Telefónica Móviles España began conversations with the aforementioned Ministry, which have given rise to the commencement of an administrative proceeding, with a view to changing the current systems of guarantees, replacing all the guarantees in force by one or several guarantees, the overall amount of which, per the proposed resolution prepared by the Ministry, would not exceed g203 million. These new guarantees would also secure all the commitments assumed in relation to the UMTS license and, accordingly, the guarantees would have to be provided again should they be totally or partially executed due to failure to fulfill any of the commitments that they are securing. A Ministerial Order to regulate this administrative proceeding is pending approval.

3. In 1999 Telefónica de Argentina, S.A. provided guarantees to the Government of the Republic of Argentina for the fulfillment of obligations assumed by Telefónica Comunicaciones Personales, S.A. arising from the obtainment of its PCS licenses, amounting to US\$ 22.5 million individually and to US\$ 45 million on a joint and several basis with the other operator, Telecom. These guarantees are still in force, pending verification by the Argentine National Communications Commission of the fulfillment of the obligations secured by these guarantees.

The contingencies arising from the guaranties, lawsuits and commitments described above were evaluated when the financial statements as of December 31, 2002, were prepared, and the provisions recorded with respect to the commitments taken as a whole are not representative. Also, these commitments are not expected to give rise to additional material contingencies.

Fees paid to auditors

The fees paid in 2002 to Deloitte&Touche España, S.L., the auditors of Telefónica, S.A., amounted to g1.92 million.

The detail of the foregoing amount is as follows:

Millions of Euros

Audit of financial statements	0.41
Other audit services	0.84
Work additional to or other than audit services	0.67
Total	1.92

Environmental matters

Telefónica, S.A., as head of the Telefónica Group, engages in activities relating to the ownership of shares and the provision of financing and corporate counseling to various Group companies. In view of the business activities in which the Company engages, it does not have any liability, expenses, assets, or provisions and contingencies of an environmental nature that might be material with respect to its net worth, financial position and results of operations. Accordingly, specific disclosures relating to environmental issues are not included in these notes to 2002 financial statements.

(19) Subsequent events

Capital increase in progress with a charge to reserves

February 2003 saw the first of the Company's two capital increases with a charge to unrestricted reserves approved by the Stockholders' Meeting on April 12, 2002, which the Board of Directors resolved to carry out at its Meeting on December 18, 2002.

The capital increase was carried out through the issuance of 97,213,225 new common shares of the Company of g1 par value each, thereby increasing the capital stock by g97,213,225 to g4,957,874.511. These new shares were assigned free of charge to the stockholders in the proportion of one new share for every 50 shares already owned.

The deed of capital increase was executed on February 12, 2003, and registered at the Mercantile Registry on February 18, 2002.

Also, on February 12, 2003, the Standing Committee of the Board of Directors of Telefónica, S.A., making use of the powers granted to it by the Board of Directors on January 29, 2003, resolved to carry out the second capital increase with a charge to unrestricted reserves approved by the Stockholders' Meeting on April 12, 2002, through the issuance of 99,157,490 new common shares of the Company, of the same series and carrying the same rights as the outstanding shares, of g1 par value each, which will be assigned free of charge to

the stockholders in the proportion of one new share for every 50 shares already owned.	– Telefónica has stated that its present strategic plans envisage that the aforementioned ownership interest will not be disposed of for at least three years from the date of the exchange.
The period for the assignment free of charge of the shares relating to the second capital increase is scheduled to commence in the second half of March 2003, and the new shares will foreseeably be admitted to official listing in mid-April 2003.	– The representation of Telefónica, Prisa and Groupe Canal + on the Board of Directors of Sogecable, S.A. will be consistent with their respective ownership interests, and each of the aforementioned three entities will appoint five directors. The Chairman of the Board of Directors will be chosen from among the five directors appointed by Telefónica.
Merger of Vía Digital with Sogecable	– Prisa and Groupe Canal + will maintain their present shareholders' agreement, to which Telefónica will not be a party.
On May 8, 2002, Sogecable S.A. and Telefónica S.A. (the latter through its subsidiary Telefónica de Contenidos S.A. - Sole-Stockholder Company) entered into an agreement relating to the merger of DTS Distribuidora de Televisión Digital, S.A. (Vía Digital) with Sogecable.	– Each of the three major stockholders will grant a ten-year participating loan of g50 million earning interest at 11%.
The transaction was ratified by the Board of Directors of Telefónica de Contenidos S.A. (Sole-Stockholder Company) and Sogecable S.A. in May 2002, subject to the authorization of the relevant public authorities, which was granted on November 29, 2002, through the adoption by the Council of Ministers of certain resolutions authorizing the merger provided that certain conditions were met.	– Sogecable, S.A. will offer its shareholders the possibility of participating in a nine-year subordinated debt security issue of g175 million, the subscription of which will be underwritten by Telefónica, bearing interest at 10.28%. The remuneration for the subscribers will include the issuance of warrants equal, overall, to 1% of the capital stock of Sogecable, S.A.
On January 29, 2003, Sogecable S.A., Telefónica, S.A. and Telefónica de Contenidos S.A. (Sole-Stockholder Company) entered into an agreement whereby they deemed the contract terms established for the merger of Sogecable and Vía Digital to have been fully met. Also, Telefónica de Contenidos S.A. (Sole-Stockholder Company) and Sogecable S.A. agreed on the related detailed action plans and deadlines for the instrumentation of the conditions imposed by the Government in the aforementioned Council of Ministers resolutions. Through these plans, Telefónica de Contenidos S.A. (Sole-Stockholder Company) and Sogecable S.A. accepted the conditions established by the Government; however, they filed appeals for judicial review against certain of the conditions (obligation to distribute channels, joint marketing of commercial packages, price caps and prohibition of strategic alliances).	– The debt of Vía Digital and of Sogecable, S.A. as of April 30, 2003, must not exceed g425 million and g705 million, respectively.
The terms under which the transaction will be carried out in accordance with the agreements dated May 8, 2002 and January 29, 2003, are as follows:	Strategic alliance between Telefónica, Terra and Bertelsmann
– The transaction will be carried out through a capital increase at Sogecable, S.A. targeted at the stockholders of Vía Digital, who will be able to contribute their Vía Digital shares.	On February 12, 2003, Telefónica and Terra Networks, S.A. (Terra Lycos) entered into a Framework Strategic Alliance Agreement to replace the Strategic Agreement dated May 16, 2000, to which Bertelsmann AG was also a party (whereby, in the framework of the acquisition of Lycos, Inc. by Terra Networks, S.A., Telefónica, S.A. undertook to commission from Terra-Lycos, the portion of the advertising services committed by Bertelsmann that the latter did not commission from Terra Networks, S.A., up to a maximum amount of US\$ 675 million).
– If all the shareholders of Vía Digital subscribe to the capital increase, the percentages of ownership of Sogecable, S.A. after the capital increase will be 77% in the case of the present stockholders of Sogecable and 23% in the case of the present stockholders of Vía Digital.	Additionally, on February 12, 2003, Telefónica S.A., Terra Networks S.A. and Bertelsmann AG entered into a preferential interest agreement which will enable them to continue to explore opportunities for the mutual provision of communications, development and content services in the on-line market.
– After the exchange has been carried out, the Telefónica Group will have an ownership interest in the capital stock of Sogecable, S.A. equal to that of its two stockholders Prisa and Groupe Canal + after the dilution arising from the share exchange, which, if all the capital stock of Vía Digital is exchanged, would represent 16.38% of the capital stock of Sogecable, S.A. With this ownership interest, Telefónica would not exercise such voting rights carried by the shares received in the exchange as might exceed the aforementioned percentage.	The term of the Framework Strategic Alliance Agreement entered into on February 12, 2003, is six years, ending on December 31, 2008. The Agreement is automatically renewable for one-year periods unless it is expressly terminated by the parties.
	The main features of this Framework Strategic Alliance Agreement are summarized as follows:
	1. Strengthening of the Terra Lycos Group as:
	– The exclusive provider of essential portal elements, including brand image, and aggregator of the broad and narrow band Internet content and services targeted at the residential, SOHO and, when so agreed, SME market segments, for the Telefónica Group Companies' connectivity and ISP services.

<ul style="list-style-type: none"> – Preferential provider of audit, consulting, management and maintenance services for the country portals of the Telefónica Group companies. – Exclusive provider of Telefónica Group employee on-line training services. – Preferential provider of on-line integral marketing services with the Telefónica Group companies. 	<p>After the related procedural formalities had been carried out, on February 5, 2003, the transfer of the aforementioned shares was formalized, and, accordingly, as of that date, the guarantees provided to Banco Santander Central Hispano, S.A. were fully executed and fulfilled. The resulting ownership interest of the Telefónica Group was 59.24%.</p>
<ol style="list-style-type: none"> Guaranteed minimum volume of acquisitions of Terra Lycos Group on-line advertising space by Telefónica Group companies. Exclusive acquisition of connectivity and wholesale Internet access services by Terra Lycos Group companies from Telefónica Group companies under the legally permitted most-favored-customer conditions. Outsourcing by Terra Lycos Group companies to Telefónica Group companies of all or part of the services and/or operation of the Internet access elements for the provision of ISP services to its residential, SOHO and, when so agreed, SME customers under the legally permitted most-favored-customer conditions. Exclusive acquisition by Terra Lycos Group companies from Telefónica Group companies of the advanced broad and narrow band network and platform services required to construct the range of services to be offered to residential, SOHO and, when so agreed, SME customers under the legally permitted most-favored-customer conditions. <p>The Framework Strategic Alliance Agreement guarantees the generation for the Terra Lycos Group of a minimum annual value throughout the term of the Agreement of g78.5 million, as reflected in a study carried out by a third party. This amount is the difference between the revenues arising from the services provided under the aforementioned Framework Strategic Alliance Agreement and the costs and investments directly associated therewith.</p>	<p>Telefónica Europe, B.V. bond issue</p> <p>On February 6, 2003, Telefónica Europe B.V. launched two long-term bond issues underwritten by Telefónica S.A. The first issue, which matures on February 14, 2013, has a face value of g1,500 million and an annual coupon of 5.125%. The second issue, with a face value of g500 million, matures on February 14, 2033, and has an annual coupon of 5.875%.</p>
<p>Acquisition of shares of Antena 3 de Televisión, S.A.</p> <p>In 1997 and 2000 Telefónica provided guarantees to the entity that is now Banco Santander Central Hispano, S.A. to ensure the liquidity and value of the investments made by it in Antena 3 de Televisión, S.A. To execute these agreements, in 1999 Telefónica Media, S.A. (Sole-Stockholder Company) (now Telefónica de Contenidos, S.A. - Sole-Stockholder Company), a subsidiary of Telefónica, S.A., acquired shares representing 7.1395% of the capital stock of Antena 3 de Televisión, S.A. Additional acquisitions have yet to be formalized and the guarantee on certain of the shares has yet to be executed.</p> <p>On January 7, 2003, as a result of a change in the legal conditions applicable to the ownership of shares of television concession-holder companies, Telefónica, S.A. and its subsidiary Telefónica de Contenidos, S.A. (Sole-Stockholder Company) exercised vis à vis Banco Santander Central Hispano, S.A. purchase options on 17,365,125 and 2,167,500 shares of Antena 3 de Televisión, S.A., which, taken as a whole, represent 11.719% of the capital stock of Antena 3 de Televisión, S.A. The shares were to be acquired by the Telefónica, S.A. subsidiary Corporación Admira Media, S.A. (Sole-Stockholder Company).</p>	

(20) Statements of changes in financial position

Application of funds	2002	2001	Source of funds	2002	2001
– Funds applied in operations	–	–	– Funds obtained from operations	182.42	1,168.35
– Start-up and debt arrangement expenses	187.04	86.08	– Capital increase	–	163.15
– Fixed asset additions:			– Deferred tax assets	–	–
a) Intangible assets	18.57	29.54	– Long-term deferred tax liabilities	–	–
b) Property, plant and equipment	3.67	6.43	– Long-term debt	5,136.29	3,490.15
c) Long-term investments	8,452.53	6,090.16	– Fixed asset disposals:		
– Long-term deferred tax liabilities	11.55	274.96	a) Intangible assets	2.53	6.29
– Deferred revenues	0.91	16.12	b) Property, plant and equipment	2.20	2.52
– Transfer to long -term of short term loans	3,438.55	–	c) Long-term investments	1,642.54	30.51
			– Transfer to short term of loans		
			to Group companies	–	1,594.77
Total funds applied	12,112.82	6,503.29	Total funds obtained	6,965.98	6,455.74
Funds obtained in excess of funds applied	–	–	Funds applied in excess of funds obtained	5,146.84	47.55
(Increase in working capital)	12,112.82	6,503.29	(Decrease in working capital)	12,112.82	6,503.29

Exhibit I

Detail of subsidiaries, associated companies and investees as of December 31, 2002

Detail of subsidiaries, associated companies and investees as of december 31, 2002 (amounts in millions of Euros)

Subsidiaries	% of ownership	Capital	Reserves	Interim dividend	Income (loss)	Gross book value
Telefónica de Contenidos, S.A. (SPAIN) (1) (9) <i>Organization and operation of activities and businesses relating to multimedia services</i> <i>Paseo de la Castellana, 141 - 28046 Madrid</i>	100,00%	3.003,63	(1.358,15)	–	(669,15)	2,241.88
Telefónica Datacorp, S.A.U. (SPAIN) (1) (9) <i>Provision and operation of telecommunications services</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	2.228,63	(616,39)	–	(464,70)	1.330,55
Telefónica de España, S.A.U. (SPAIN) (1) (9) <i>Telecommunications services in Spain</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	1.023,68	2.228,56	(715,93)	807,93	3,033.88
Taetel, S.L. (SPAIN) (1) <i>Acquisition, holding and disposal of shares and other equity interests in other companies</i> <i>Beatriz de Bobadilla, 3 - 28040 Madrid</i>	100,00%	28,25	11,23	(0,83)	0.924	28,25
Lotca Servicios Integrales, S.L. (SPAIN) <i>Ownership and operation of aircraft and the lease thereof</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	16,92	–	–	–	16.92
Telefónica Consultora de Proyectos, S.A. (SPAIN) (2) <i>Value-added services and telessistance</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i>	100,00%	10,82	(2,43)	–	(0,78)	9,10
Inmobiliaria Telefónica, S.L. (SPAIN) (1) <i>Purchase, sale and lease of real estate</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	10,04	92,64	–	9,97	103,44
Telefónica Capital, S.A. (SPAIN) (3) <i>Financial company</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	7,00	38,01	–	(0,62)	18,12
Telefónica Gestión de Servicios Compartidos, S.A. de C.V. (MEXICO) (1) <i>Provision of management and administration services</i> <i>Bldv. Díaz Ordaz Pte N 123 2º, Col. Santamaria - 6465 Monterrey</i>	100,00%	6,76	(0,17)	–	(2,24)	6,76
Atento Servicios Corporativos, S.A. (SPAIN) (1) <i>Holding company</i> <i>C/ Gran Vía, 28 - 28013 Madrid</i>	100,00%	6,12	43.71	–	(7,16)	107.58
Telefónica Investigación y Desarrollo, S.A. (TIDSA) (SPAIN) (3) <i>Telecommunications research activities and projects</i> <i>Emilio Vargas, 6 - 28043 Madrid</i>	100,00%	6.01	35,64	–	13,26	6.01
Corporación Admira Media, S.A. (SPAIN) (1) <i>ISP</i> <i>Jorge Manrique, 12 - 28006 Madrid</i>	100,00%	6.01	–	–	(1,21)	6,08
Communicapital Inversiones, S.A.U. (SPAIN) (1) <i>Global telecommunications fund</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	6,00	(75,71)	–	(1,27)	6,00
Compañía Española de Tecnología, S.A. (SPAIN) (3) <i>Promotion of business initiatives and disposition of marketable securities</i> <i>Villanueva, 2 duplicado planta 1ª Oficina 23 - 28001 Madrid</i>	100,00%	3,99	(0,21)	–	(0,08)	10,13
Casiopea Reaseguradora, S.A. (LUXEMBOURG) (3) <i>Reinsurance</i> <i>73, Rue du Fort Neipperg - L-2230 Luxembourg</i>	100,00%	3,60	6,64	–	41,49	2,99

Subsidiaries	% of ownership	Capital	Reserves	Interim dividend	Income (loss)	Gross book value
Zeleris Soluciones Integrales, S.L. (SPAIN) (3) <i>Provision of national and international mail, directory and parcel distribution services</i> <i>Paseo de Gràcia, 81 1º - Barcelona</i>	100,00%	3,40	(2,04)	–	0,91	6,49
Telefónica Finanzas, S.A. (TELFISA) (SPAIN) (3) <i>Integrated cash management, counseling and financial support for Group companies</i> <i>Gran Vía, 30 - 4ª Plta. - 28013 Madrid</i>	100,00%	3,01	5,46	–	2,30	12,61
Venturini España, S.A. (SPAIN) (2) <i>Printing, graphic arts and direct marketing</i> <i>Avda. de la Industria, 17 Tres Cantos - 28760 Madrid</i>	100,00%	3,01	(0,03)	–	0,33	3,60
Telefónica Procesos y Tecnología de la Información, S.A. (SPAIN) (3) <i>IT services</i> <i>José Abascal, 4 - 28003 Madrid</i>	100,00%	3,00	4,16	–	0,63	3,01
Telefónica Gestión de Servicios Compartidos, S.A. (SPAIN) (1) <i>Provision of management and administration services</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	2,08	6,77	–	(5,37)	11,86
Urbana Ibérica, S.A. (SPAIN) (3) <i>Debt collection and management of the cash generated on the sale of land and buildings</i> <i>C/ Gran Vía, 30 4ªPta. - 28013 Madrid</i>	100,00%	1,59	(0,25)	–	(0,01)	0,09
Playa de Madrid, S.A. (SPAIN) (4) <i>Distribution of all manner of goods and operation of sporting and hospitality facilities</i> <i>Complejo Deportivo y Social Playa de Madrid, Km. 1,700 carretera de El Pardo - 28035 Madrid</i>	100,00%	0,24	0,82	–	0,27	0,33
Atento N.V. (NETHERLANDS) (1) (9) <i>Telecommunication services</i> <i>Locatellikade, 1 - 1076 AZ Amsterdam</i>	100,00%	0,09	116,63	–	(90,43)	282,71
Communicapital Gestión, S.A.U. (SPAIN) (1) <i>Global telecommunications fund</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	0,06	(0,01)	–	(0,02)	0,06
Telefónica Europe, B.V. (NETHERLANDS) (1) <i>Fund raising in capital markets</i> <i>Aert van Nesstraat 45, 4º 3000 AM Rotterdam - P.O. Box 548</i>	100,00%	0,05	4,74	–	1,32	0,05
Telefónica North America, Inc. (U.S.A.) (3) <i>Financial intermediation</i> <i>1209 Orange Street, 19.801 Wilmington/New Castle County Delaware</i>	100,00%	0,01	–	–	–	0,01
Telefónica USA, Inc. (USA) <i>E-commerce</i> <i>1221 Brickell Avenue - Miami - Florida 33131</i>	100,00%	0,01	(2,25)	–	(2,08)	0,01
Telefónica B2B Licensing, Inc. (U.S.A.) (1)	100,00%	0,01	0,41	–	(4,14)	0,01
Telefónica B2B, Inc. (U.S.A.) (1) <i>B2B e-commerce</i> <i>1001 Brickell Bay Drive - Miami, Florida 33131</i>	100,00%	–	–	–	–	0,01
Telefonica Gestao de Serviços Compartilhados do Brasil, Ltda. (BRAZIL) (1) <i>Provision of management and administration services</i> <i>Rua Do Livramento, 66 Bolco Ibirapuera - Sao Paulo</i>	99,99%	8,45	(4,27)	–	(1,46)	5,00
Telefónica Gestión de Servicios Compartidos, S.A.C. (PERU) (1) (9) <i>Provision of management and administration services</i> <i>Shell, 310 - Miraflores</i>	99,99%	3,40	0,14	–	0,90	3,00
Telefónica Gestión de Servicios Compartidos, S.A. (ARGENTINA) (1)	99,99%	N/D	N/D	N/D	N/D	0,01
Katalyx, Inc. (U.S.A.) (1) (9) <i>Administrative management services</i> <i>1221 Brickell Avenue - Miami, Florida</i>	99,90%	138,25	(105,70)	–	(30,02)	138,23

[illegible]

Associated companies	% of ownership	Capital	Reserves	Interim dividend	Income (loss)	Gross book value
Aliança Atlântica Holding B.V. (NETHERLANDS) <i>Holder of 5,225,000 Portugal Telecom, S.A. shares</i> <i>Strawinskylaan 1725, 1077 XX Amsterdam</i>	50,00%	40,00	N/D	N/D	N/D	21,97
Telefónica Factoring Establecimiento Financiero de Crédito, S.A. (SPAIN) (1) <i>Loans and credits (consumer and mortgage loans and commercial transactions)</i> <i>Pedro Teixeira, 8 - 28020 Madrid</i>	50,00%	5,11	2,95	–	1,27	2,64
Torre de Collçerola, S.A. (SPAIN) (2) <i>Operation of a telecommunications mast and technical assistance and consulting services</i> <i>Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona</i>	42,00%	12,02	0,38	N/D	N/D	5,08
Telefónica Factoring Do Brasil, Ltd. (BRAZIL) (1) <i>Development of the factoring business</i> <i>Avda. Paulista, 1106</i>	40,00%	2,41	(1,35)	–	0,69	0,97
Sistemas Técnicos de Loterías del Estado, S.A. (SPAIN) (2) <i>Operation of a gaming terminal system for the Spanish State Gaming Organization</i> <i>Manuel Tovar, 9 - 28034 Madrid</i>	31,75%	12,02	41,67	N/D	N/D	3,82
Amper, S.A. (SPAIN) (1) (9) <i>Development, manufacture and repair of telecommunications systems and equipment and related components</i> <i>Torrelaguna, 75 - 28027 Madrid</i>	6,10%	27,91	71,66	–	(22,37)	11,83
Portugal Telecom, S.G.P.S., S.A. (PORTUGAL) (1) (9) <i>Holding company</i> <i>Avda. Fontes Pereira de Melo, 40 - 1089 Lisbon</i>	3,95%	1.254,29	2.543,73	–	(311,70)	361,58
Rem Infográfica, S.A. (8)	N/D	N/D	N/D	N/D	N/D	0,94
Investees	% of ownership	Capital	Reserves	Interim dividend	Income (loss)	Gross book value
Banco Bilbao Vizcaya Argentaria, S.A. (ESPAÑA) (1) (9) <i>Banking</i> <i>Gran Vía, 1 - 48001 Bilbao (Vizcaya)</i>	1,13%	1.565,97	9.928,89	(862,89)	1.719,00	555,62
Catalana D'Iniciatives, C.R., S.A. (SPAIN) <i>Promotion of non-finance companies</i> <i>Passeig de Gracia, 2 - 2ºB - 08007 Barcelona</i>	5,99%	30,86	N/D	–	N/D	2,82
Nexus Capital, S.A. (SPAIN) <i>Passeig de Gracia, 2 - 2ºB - 08007 Barcelona</i>	5,99%	15,43	N/D	–	N/D	0,95
I-CO Global Communications (HOLDINGS) Limited (U.K.)	N/D	N/D	N/D	–	N/D	6,03
Other holdings	N/A	N/A	N/A	–	N/A	0,23
Total subsidiaries (note 7)						22.806,83
Total associated companies (note 7)						408,83
Total investees (note 7)						565,65
(1) Company audited by Deloitte & Touche. In Spain, Deloitte & Touche España, S.L.						
(2) Company audited by PriceWaterhouseCoopers.						
(3) Company audited by K.P.M.G. Peat Marwick.						
(4) Company audited by B.D.O. Audiberia.						
(8) Company in liquidation.						
(9) Consolidated figures.						
(10) Inactive company.						
Provisional figures for associated companies and investees.						
N/D No data.						
N/A Not applicable.						

<p>Management report Telefónica, S.A. 2002</p>	
<p>Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.</p>	<ul style="list-style-type: none"> – Financial income of g405.05 million, 57.84% lower than that obtained in 2001, due mainly to the effect of the exchange differences recorded in the statement of operations.
<p>Organizational structure of the Telefónica Group</p>	<ul style="list-style-type: none"> – The combination of the two aforementioned effects gave rise to an income from ordinary activities of g116.498 million in 2001, a figure which was lower than the g778.43 million reported in 2001.
<p>In 2002 the Telefónica Group continued its organization by line of business, each of which is headed by a subsidiary: wireline telephony in Spain (Telefónica de España), wireless telephony in Latin America (Telefónica Latinoamérica), wireless telephony (Telefónica Móviles), data (Telefónica Data), media and content (Telefónica de Contenidos), Internet (Terra Lycos), directories (TPI), call centers (Atento) and capacity (Emergia). Telefónica S.A. heads the Group and gives it cohesion by identifying synergies, centralizing the management of financial resources and purchases and developing horizontal initiatives aimed at reducing costs and expenditure, such as t-gestiona to concentrate support activities and for the standardization of processes and systems, Inmobiliaria Telefónica to optimize the Group's real estate assets and Zeleris to manage the logistics line of business by reducing the cost base in relation to assets and inventories.</p>	<ul style="list-style-type: none"> – The Company incurred an extraordinary loss of g5,882.79 million in 2002, as compared with the extraordinary loss of g1,397.53 million in 2001. This difference was due to the investment valuation provisions of g5,484.78 million recorded for subsidiaries in 2002, as compared with the g1,384.38 million recorded in 2001.
<p>Noteworthy was the creation of a business unit, Telefónica International Wholesale Services (TIWS), which manages the business activities carried on by Emergia and the international units of the Group's wireline telephony operators and the international wholesale voice, IP, data and capacity services and the network supporting them, whose aim it is to become a leading wholesale telecommunications operator worldwide.</p>	<p>Investments</p>
<p>In addition, in order to concentrate all the Group's consulting and business solution activities, Telefónica Soluciones, initially made up of the four companies that engaged in these business activities (Telefónica Sistemas, Katalyx, Art Media and Telefónica Mobile Solutions) was created in 2002.</p>	<p>The most significant investments made by Telefónica, S.A. in 2002 were as follows:</p>
<p>In May 2002 the Board of Directors of the Admira Group decided to spin it off into two separate business lines: a media division, "Corporación Admira Media", and a division grouping together all the investments in content and pay TV, "Telefónica de Contenidos". At year-end the spin-off had not been formally completed.</p>	<ul style="list-style-type: none"> – Acquisition of 99% of the shares of HighwayOne, GmbH for g637.07 million.
<p>In this structure, Telefónica, S.A. is the Corporate Center heading the Group whose main mission is to seek synergies and lend cohesion to the Group.</p>	<ul style="list-style-type: none"> – In 2002 Telefónica, S.A. subscribed to g32.69 million of the capital increase carried out at Seguros de Vida y Pensiones Antares, S.A. through the increase in the par value of this company's shares. As of December 31, 2002, the amount thus subscribed had not been paid. Additionally, in December Telefónica, S.A. acquired from its Luxembourg subsidiary Casiopea Reaseguradora, S.A. 110,000 shares of Seguros de Vida y Pensiones Antares, S.A. for a total amount of g172.01 million through the disbursement of g59.63 million. The remaining amount (g112.38 million has not yet been paid). Following this transaction, Telefónica owns 142,000 shares of Seguros de Vida y Pensiones Antares, S.A. representing 94.67% of its capital stock.
<p>Earnings</p>	<p>Financing</p>
<p>In 2002 the Company incurred a loss of g4,478.69 million, as compared with the loss of g354.18 million reported in 2001.</p>	<p>The principal financing transactions in 2002 were as follows:</p>
<p>The most salient events reflected in the 2002 statement of operations are as follows:</p>	<p>On February 13, 2002, the first capital increase with a charge to unrestricted reserves authorized by Telefónica's Stockholders' Meeting on June 15, 2001, was carried out. Capital was increased by g93,438,317 through the issuance of 93,438,317 new shares, which were assigned to the Company's stockholders at a ratio of one new share for every 50 shares held by them.</p>
<ul style="list-style-type: none"> – An operating loss of g288.56 million, 58.2% greater than in 2001, as a result of the 48.1% reduction in revenues and a 3.54% increase in expenses. The decrease in revenues related mainly to the effect of the devaluation of the Argentine peso on the management contract with Telefónica de Argentina, S.A. 	<p>On April 12, 2002, the second capital increase with a charge to unrestricted reserves authorized by Telefónica's Stockholders' Meeting on June 15, 2001, was carried out. Capital was increased by g95,307,084 through the issuance of 95,307,084 new shares, which were assigned to the Company's stockholders at a ratio of one new share for every 50 shares held by them.</p> <p>On April 12, 2002, Telefónica's Stockholders' Meeting resolved to carry out three capital increases, two with a charge to unrestricted reserves to remunerate stockholders and the third to cater for the compensation scheme tied to the market value of Telefónica, S.A. shares targeted at Endemol Group employees (on December 18, 2002, the Board of Directors of Telefónica, pursuant to the power granted to it, ultimately decided not to implement the last of these</p>

resolutions, and opted for a different means of covering the stock options).	The capital increase was carried out through the issuance of 97,213,225 new common shares of the Company of g1 par value each, thereby increasing the capital stock by g97,213,225 to g4,957,874.511. These new shares were assigned free of charge to the stockholders in the proportion of one new share for every 50 shares already owned.
On April 19, 2002, Telefónica Europe BV issued (underwritten by Telefónica S.A.) a structured bond under the EMTN program for g50 million. This bond matures on April 19, 2005, and bears interest tied to Euribor plus a spread of 40 basis points.	
On June 18, 2002, Telefónica Europe BV issued (underwritten by Telefónica S.A.) a bond under the EMTN program with a face value of g80 million. This bond matures on June 18, 2004, and bears interest tied to EONIA plus a spread of 0.30%.	The deed of capital increase was executed on February 12, 2003, and registered at the Mercantile Registry on February 18, 2002.
On July 11, 2001, Telefónica Europe BV issued (underwritten by Telefónica S.A.) a bond under the EMTN program with a face value of g100 million, issued at a discount at an annual discount rate of 4.0807% and maturing on April 11, 2003.	Also, on February 12, 2003, the Standing Committee of the Board of Directors of Telefónica, S.A., making use of the powers granted to it by the Board of Directors on January 29, 2003, resolved to carry out the second capital increase with a charge to unrestricted reserves approved by the Stockholders' Meeting on April 12, 2002, through the issuance of 99,157,490 new common shares of the Company, of the same series and carrying the same rights as the outstanding shares, of g1 par value each, which will be assigned free of charge to the stockholders in the proportion of one new share for every 50 shares already owned.
Lastly, on December 30, 2002, Telefónica Finance USA LLC, a wholly-owned subsidiary of Telefónica Europe B.V., issued preferred shares totaling g2,000 million (underwritten by Telefónica S.A.). This amount was lent in full to Telefónica Europe B.V. through a ten-year loan.	The period for the assignment free of charge of the shares relating to the second capital increase is scheduled to commence in the second half of March 2003, and the new shares will foreseeably be admitted to official listing in mid-April 2003.
Treasury stock	
At the beginning of 2002 Telefónica held treasury stock representing 0.97264% of capital stock, i.e. 45,440,901 shares with a book value of g14.85, giving a total of g674.73 million and a par value of g45.44 million.	Merger of Vía Digital with Sogecable On May 8, 2002, Sogecable S.A. and Telefónica S.A. (the latter through its subsidiary Telefónica de Contenidos S.A. - Sole-Stockholder Company) entered into an agreement relating to the merger of DTS Distribuidora de Televisión Digital, S.A. (Vía Digital) with Sogecable.
In 2002 the Company acquired for consideration 55,169,765 shares of treasury stock (representing 1.135% of capital stock and with a par value of g55.17 million) at an average price of g9.49 per share, and 1,819,821 shares were assigned to it in the capital increases at no cost to the stockholders. Also, 799,411 shares (representing 0.016% of capital stock and with a par value of g0.80 million) were used to acquire from Iberdrola, S.A. holdings in Brazilian telephony companies, and 10,000,000 shares (representing 0.2057% of capital stock and with a par value of g10.00 million) were sold for an average price of g8.67 per share, giving rise to a loss of g1.79 million.	The transaction was ratified by the Board of Directors of Telefónica de Contenidos S.A. (Sole-Stockholder Company) and Sogecable S.A. in May 2002, subject to the authorization of the relevant public authorities, which was granted on November 29, 2002, through the adoption by the Council of Ministers of certain resolutions authorizing the merger provided that certain conditions were met.
As a result of these transactions, 91,631,076 shares (1.88516% of capital stock) of treasury stock were held at year-end, acquired at an average price of g11.65, giving a total of g1,067.94 million and a par value of g91.63. As indicated in Note 4-i, pursuant to current accounting legislation, these shares of treasury stock were valued at their underlying book value and, consequently, a provision of g733.38 million was recorded.	On January 29, 2003, Sogecable S.A., Telefónica, S.A. and Telefónica de Contenidos S.A. (Sole-Stockholder Company) entered into an agreement whereby they deemed contract terms established for the merger of Sogecable and Vía Digital to have been fully met. Also, Telefónica de Contenidos S.A. (Sole-Stockholder Company) and Sogecable S.A. agreed on the related detailed action plans and deadlines for the instrumentation of the conditions imposed by the Government in the aforementioned Council of Ministers resolutions. Through these plans, Telefónica de Contenidos S.A. (Sole-Stockholder Company) and Sogecable S.A. accepted the conditions established by the Government; however, they filed appeals for judicial review against certain of the conditions (obligation to distribute channels, joint marketing of commercial packages, price caps and prohibition of strategic alliances).
Subsequent events	
The most significant events which have occurred since year-end are as follows:	
Capital increase in progress with a charge to reserves February 2003 saw the first of the Company's two capital increases with a charge to unrestricted reserves, approved by the Stockholders' Meeting on April 12, 2002, and which the Board of Directors resolved to carry out at its Meeting on December 18, 2002.	The terms under which the transaction will be carried out in accordance with the agreements dated May 8, 2002 and January 29, 2003, are as follows:

<ul style="list-style-type: none"> – The transaction will be carried out through a capital increase at Sogecable, S.A. targeted at the stockholders of Vía Digital, who will be able to contribute their Vía Digital shares. 	<p>ment which will enable them to continue to explore opportunities for the mutual provision of communications, development and content services in the on-line market.</p>
<ul style="list-style-type: none"> – If all the shareholders of Vía Digital subscribe to the capital increase, the percentages of ownership of Sogecable, S.A. after the capital increase will be 77% in the case of the present stockholders of Sogecable and 23% in the case of the present stockholders of Vía Digital. 	<p>The term of the Framework Strategic Alliance Agreement entered into on February 12, 2003, is six years, ending on December 31, 2008. The Agreement is automatically renewable for one-year period unless it is expressly terminated by the parties.</p>
<ul style="list-style-type: none"> – After the exchange has been carried out, the Telefónica Group will have an ownership interest in the capital stock of Sogecable, S.A. equal to that of its two stockholders Prisa and Groupe Canal + after the dilution arising from the share exchange, which, if all the capital stock of Vía Digital is exchanged, would represent 16.38% of the capital stock of Sogecable, S.A. With this ownership interest, Telefónica would not exercise such voting rights carried by the shares received in the exchange as might exceed the aforementioned percentage. 	<p>The main features of this Framework Strategic Alliance Agreement are summarized as follows:</p>
<ul style="list-style-type: none"> – Telefónica has stated that its present strategic plans envisage that the aforementioned ownership interest will not be disposed of for at least three years from the date of the exchange. 	<p>1. Strengthening of the Terra-Lycos Group as:</p> <ul style="list-style-type: none"> – The exclusive provider of essential portal elements, including brand image, and aggregator of the broad and narrow band Internet content and services targeted at the residential, SOHO and, when so agreed, SME market segments, for the Telefónica Group companies' connectivity and ISP services.
<ul style="list-style-type: none"> – The representation of Telefónica, Prisa and Groupe Canal + on the Board of Directors of Sogecable, S.A. will be consistent with their respective ownership interests, and each of the aforementioned three entities will appoint five directors. The Chairman of the Board of Directors will be chosen from among the five directors appointed by Telefónica. 	<ul style="list-style-type: none"> – Preferential provider of audit, consulting, management and maintenance services for the country portals of the Telefónica Group companies. – Exclusive provider of Telefónica Group employee on-line training services. – Preferential provider of on-line integral marketing services with the Telefónica Group companies.
<ul style="list-style-type: none"> – Prisa and Groupe Canal + will maintain their present shareholders' agreement, to which Telefónica will not be a party. 	<p>2. Guaranteed minimum volume of acquisitions of Terra Lycos Group on-line advertising space by Telefónica Group companies.</p>
<ul style="list-style-type: none"> – Each of the three major stockholders will grant a ten-year participating loan of g50 million earning interest at 11%. 	<p>3. Exclusive acquisition of connectivity and wholesale Internet access services by Terra Lycos Group companies from Telefónica Group companies under the legally permitted most-favored-customer conditions.</p>
<ul style="list-style-type: none"> – Sogecable, S.A. will offer its shareholders the possibility of participating in a nine-year subordinated debt security issue of g175 million, the subscription of which will be underwritten by Telefónica, bearing interest at 10.28%. The remuneration for the subscribers will include the issuance of warrants equal, overall, to 1% of the capital stock of Sogecable, S.A. 	<p>4. Outsourcing by Terra Lycos Group companies to Telefónica Group companies of all or part of the services and/or operation of the Internet access elements for the provision of ISP services to its residential, SOHO and, when so agreed, SME customers under the legally permitted most-favored-customer conditions.</p>
<ul style="list-style-type: none"> – The debt of Vía Digital and of Sogecable, S.A. as of April 30, 2003, must not exceed g425 million and g705 million, respectively. 	<p>5. Exclusive acquisition by Terra-Lycos Group companies from Telefónica Group companies of the advanced broad and narrow band network and platform services required to construct the range of services to be offered to residential, SOHO and, when so agreed, SME customers under the legally permitted most-favored-customer conditions.</p>
<p>Strategic alliance between Telefónica, Terra and Bertelsmann</p> <p>On February 12, 2003, Telefónica and Terra Networks, S.A. (Terra Lycos) entered into a Framework Strategic Alliance Agreement to replace the Strategic Agreement dated May 16, 2000, to which Bertelsmann AG was also a party (whereby, in the framework of the acquisition of Lycos, Inc. by Terra Networks, S.A., Telefónica, S.A. undertook to commission from Terra-Lycos, the portion of the advertising services committed by Bertelsmann that the latter did not commission from Terra-Lycos, up to a maximum amount of US\$ 675 million).</p>	<p>The Framework Strategic Alliance Agreement guarantees the generation for the Terra Lycos Group of a minimum annual value throughout the term of the Agreement of g78.5 million. This amount is the difference between the revenues arising from the services provided under the aforementioned Framework Strategic Alliance Agreement and the costs and investments directly associated therewith.</p>
<p>Additionally, on February 12, 2003, Telefónica, S.A., Terra Networks, S.A. and Bertelsmann AG entered into a preferential interest agree-</p>	

Acquisition of shares of Antena 3 de Televisión, S.A.

In 1997 and 2000 Telefónica provided guarantees to the entity that is now Banco Santander Central Hispano, S.A. to ensure the liquidity and value of the investments made by it in Antena 3 de Televisión, S.A. To execute these agreements, in 1999 Telefónica Media, S.A. (Sole-Stockholder Company) (now Telefónica de Contenidos, S.A. - Sole-Stockholder Company), a subsidiary of Telefónica, S.A., acquired shares representing 7.1395% of the capital stock of Antena 3 de Televisión, S.A. Additional acquisitions have yet to be formalized and the guarantee on certain of the shares has yet to be executed.

On January 7, 2003, as a result of a change in the legal conditions applicable to the ownership of shares of television concession-holder companies, Telefónica, S.A. and its subsidiary Telefónica de Contenidos, S.A. (Sole-Stockholder Company) exercised vis-à-vis Banco Santander Central Hispano, S.A. purchase options on 17,365,125 and 2,167,500 shares of Antena 3 de Televisión, S.A., which, taken as a whole, represent 11.719% of the capital stock of Antena 3 de Televisión, S.A. The shares were to be acquired by the Telefónica, S.A. subsidiary Corporación Admira Media, S.A. (Sole-Stockholder Company).

After the related procedural formalities had been carried out, on February 5, 2003, the transfer of the aforementioned shares was formalized, and, accordingly, as of that date, the guarantees provided to Banco Santander Central Hispano, S.A. were fully executed and fulfilled. The resulting percentage of ownership was 59.24%.

Telefónica Europe, B.V. bond issue

On February 6, 2003, Telefónica Europe B.V. launched two long-term bond issues underwritten by Telefónica S.A. The first issue, which matures on February 14, 2013, has a face value of g1,500 million and an annual coupon of 5.125%. The second issue, with a face value of g500 million, matures on February 14, 2033, and has an annual coupon of 5.875%.

