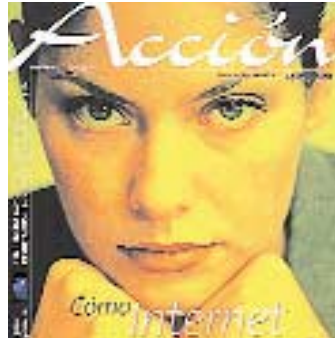


the culture of commitment

Telefónica has adopted a solid commitment to loyalty, transparency and good management in order to gain the confidence of all of those involved in its operations: customers, investors and shareholders, employees, and society in general.

Telefónica publishes a quarterly magazine «Action Telefónica» that is distributed to the shareholders



Telefónica's institutional values form the basis on which the company builds its relationship with all the groups of interest to it: customers, investors and shareholders, employees and society in general.

Confidence is defined in different ways for each of these groups. For the shareholder, confidence means profitability and transparency; for customers, quality and compliance; for employees, clarity in relationships and professional development; and for society, proximity and contribution, as proof of social responsibility.

Confidence is, therefore, the natural consequence of assuming and fulfilling specific commitments with those groups of interest to the company. Amongst these commitments, the following can be highlighted:

1 A Commitment to corporate Governance

Telefónica has made a firm commitment of loyalty and transparency to the Company's owners: its shareholders. At the Shareholder's Meeting held on 12 April 2002, the Chairman of Telefónica reiterated the Company's commitment to consolidate the best practice of Corporate Governance with the objective of placing Telefónica on the highest level of fulfilment in this area.

Accordingly, during 2002, new Internal Guidelines on Conduct towards the stock market were approved, and new responsibilities for the Board's control commissions were renewed and designated. The Annual Report of Telefónica's Corporate Governance, included in the appendix, includes

these and other similar initiatives that the Company has carried out during the financial year.

2 A Commitment to Corporate Responsibility

In addition to the Report on Corporate Governance, an Annual Report on Corporate Responsibility has been drawn up, also found in the appendix, whose aim is to identify, quantify and communicate to all groups (customers, employees, shareholders, investors, society) those non-financial assets of the Telefónica Group involved in the relationship between them.

The aim of this report is to incorporate standards for the reporting of information on intangible assets in public and private initiatives, such as the «Global Reporting Initiative». Moreover, during this financial year, an important step was taken towards what is known as socially responsible investment

Telefónica was included in the following indexes: FTSE4Good, Ethical Index Euro and Ethical Index Global. Additionally, it reaffirmed its participation in the Dow Jones Sustainability Index.

3 A Commitment to Transparency

Throughout 2002, the Telefónica Group continued in its efforts to develop and encourage initiatives aimed at transparency in its relations with society and with economic agents, by applying an active policy of internal and external communication.

Telefónica has complied thoroughly with the new demands in terms of transparency, which has been rewarded with recognition on the international level.

The «Parents of Internet» were awarded the Prince of Asturias award during their participation in the Great Hall of the «Escuela Superior de Ingeniería de Gijón»



In 2002, Grupo Telefónica promoted initiatives for transparency in its relations with society and with all economic agents

In 2002 and at the start of 2003, the financial journal «Institutional Investor» and Reuters ranked Telefónica as the second company in Europe in terms of transparency, as well as the quality, depth and speed of response in our investor relations. In July, the Company was awarded first prize by the Thomson Extel Survey for best performance in Relations with Investors in the European Telecommunications sector. MZ Consult, a Brazilian communications and financial services consultancy, awarded Telefónica S.A. a prize for the best online Annual Report in Spain and Portugal.

In the online sector, the Framework Plan to organise Telefónica's presence on the Internet came into effect, establishing the model to be used to guide the development and creation of communication and business areas via the Internet.

This model is based on the «telefonica.country» portals which organise Telefónica's presence on the Internet, and which serve as an entry point to its website.

In 2002 these portals received more than 40 million visitors, and the work put into their creation has been awarded several prizes, both for the site in Spain and in America.

A quarterly journal is published for small investors (Acción Telefónica) with more than 150,000 copies printed and distributed to shareholders on request.

4 Commitment to Innovation. Telefónica I+D

The commitment to innovation was channelled via Telefónica I+D, a research and development

centre of international relevance. In its centres in Madrid, Valladolid and Barcelona, together with the subsidiary recently created in Brazil, it develops management activity in advanced telecommunications; the most dynamic of the markets in which it operates.

The 1,502 projects undertaken in 2002 were incorporated into Telefónica's strategy for value creation via Broadband communications and services, and IP networks. At the same time, projects were developed to stimulate the Information Society, new services were prepared with UMTS capacities and new mobile terminals, and work was undertaken to identify emerging technologies at an early stage.

Interactive TV services received a special boost. The use of ADSL technology for TV service offerings, video-on-demand and Internet access, gave rise to Imagenio, currently a pilot programme. Additionally, market research was carried out on video consoles with ADSL access to provide network gaming, video content and audio *streaming* under different formats. Some very successful applications were also developed for Vía Digital, in connection with the Football World Cup.

Technological leadership continued to be one of the main competitive advantages for Telefónica I+D in 2002. With responsibility for the management of the European project Euro6IX, it played an important international role in defining new network structures based on IPv6 - the new Internet generation - and led its European deployment.

Domotic systems for intelligent homes were the major purpose of the innovation activities. In



Educared.net, is a Telefónica Foundation programme directed at primary and secondary education, promoting the educational use of Internet

2002 the digital home display was inaugurated in the centre of Madrid, emphasizing the benefits derived from the use of ADSL in homes. Also in 2002, effective deployment of information services over GPRS was carried out. Within the most advanced multimedia mobile services, work was undertaken to anticipate services based on UMTS possibilities.

Telefónica I+D devoted an important volume of its activity to look for new business opportunities, carrying out a detailed analysis of the telecommunications sector. The result of this activity is the Innovation Plan, with four fundamental pillars: diffusion of the Group's technological image (geographical expansion), control of the business (profitable growth), confidence management (customer care) and platforms and services.

5 A social Commitment The Telefónica Foundation

Activities of a non-profit and general-interest nature are entrusted to Telefónica Foundation, which serves as Telefónica's focal point for social and cultural operations in the countries where it is present.

The main objective of the Foundation is the development of applications for social, educational and health purposes (amongst others), based on the principle that new technologies are also a factor for social progress.

Considering the wide-ranging scope of the world of telecommunications, its operations cover such areas as education, remote medical services and remote

assistance, co-operation for development, art and culture. In the area of education *Educared.net* is worth mentioning, the main educational portal in Spanish and Portuguese, aimed at primary and secondary education which encourages the educational use of Internet. *Campusred.net*, is the first university portal in Spanish for the exchange of knowledge within the academic community, for on-line teaching and shared research projects

The Foundation promotes research and development of applications and services for disabled persons and specific groups. Alternative communication systems have thus been developed for those suffering from cerebral paralysis, for tele-assistance for abused women and the elderly, telemedicine, etc. It also facilitates access to culture using digitisation of archives and libraries or the virtual-reality recreation of Historic Monuments. There are also contemporary art exhibitions, with special attention to digital art.

But Telefónica's social commitment is carried out not only by the company, but also by the Group's thousands of employees. At the end of 2002, a Corporate Volunteer Programme was started, aimed at channelling and assisting voluntary social work carried out by employees, with non-governmental, not-for-profit organisations. As part of its social commitment, Telefónica publishes a Social Report of the Foundation and some Environmental Reports of Telefónica de España, Telefónica I+D and Telefónica Móviles on an annual basis.