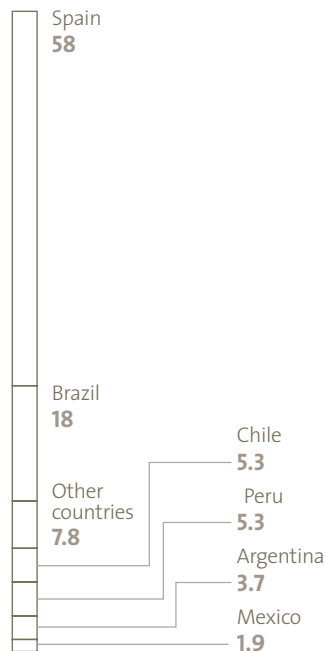


society

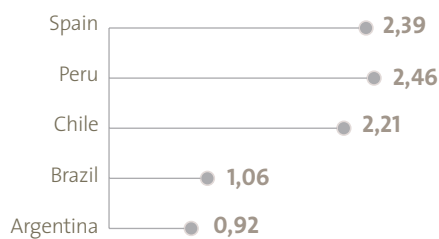
contribution and proximity

1 Telefónica is a multidomestic company...

Distribution of revenue by country
Revenue of Telefónica Group in 2002
(data in percentages)



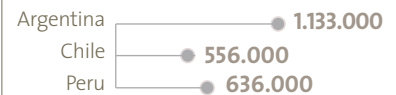
Contribution of Telefónica Group's revenue to the GDP of each country
(data in percentages)



2 ... at the service of society

2.1 Democratisation of communications

Users subscribed to low-income products



2.2 Fundación Telefónica

Impact of 2002 projects

→ 20,749
Organisations receiving support

→ 14,684,198
Individual beneficiaries

2.3 Sponsorships offered by Telefónica

→ 508
Sponsorships in 2002

2.4 Emergency response

→ 11,803,689
messages whose income was gifted to Galic New Years' Eve (Telefónica Móviles)

2.5 Collaborations with international organisations

2.6 Support to the Spanish language

3

Telefónica Group takes the lead in the development of the Information Society...

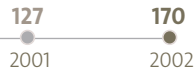
3.1

Infrastructure development
Telefónica Group, ADSL connections
(data in thousands)



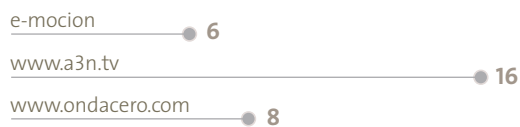
3.2

Development of new applications and services
New products launched by Telefónica de España and Telefónica Móviles España



3.3

Development of new contents for the information society
(data in millions)



3.4

Research, development and innovation

500 million euros invested in R&D in 2002

3.5

Collaboration with Universities

19 Telefónica chairs
2000 grants

3.6

Studies on the Information Society

4

... respecting the values of the communities in which Telefónica operates

4.1

Removing barriers to handicapped people

Number of bills printed monthly in Braille

→ **979**
in Spain

→ **194**
in Argentina

4.2

Collaboration in the fight against crime

- Child pornography on the Internet
5,000 personal web pages removed from Terra España
- Theft of mobile phones
18,093 stolen phones blocked in Spain

4.3

Emergency assistance

→ **3,581,811**
calls to 112 from the Movistar network

4.4

Supporting health and sanitary care projects

4.5

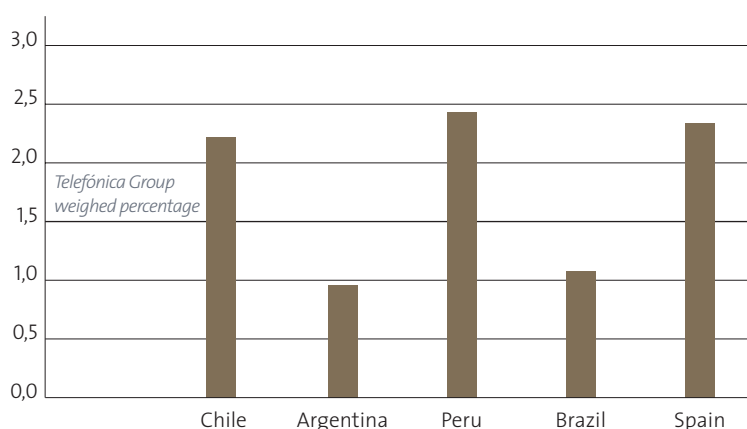
Contents of social interest

→ **980**
hours of news broadcast on Antena 3 in 2002

society

contribution and proximity

Contribution of Telefónica Group's revenues to the GDP of each country
(data in percentages)



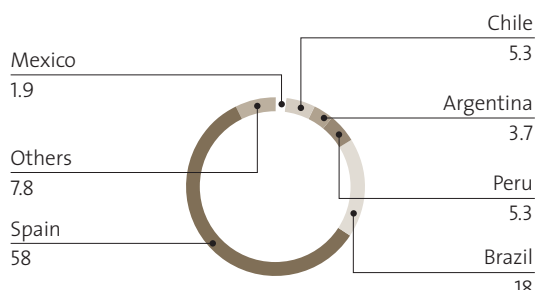
1 Telefónica is a multidomestic company...

Telefónica is a multidomestic company because it adapts to the reality and peculiarities of each of the countries in which it operates, and because it is the operator of reference in the Spanish and Portuguese-speaking markets. 41% of the Group's income comes from non-Spanish markets, led by Brazil (18%), Chile (5%), Peru (5%), Argentina (3.7%) and Mexico (1.9%), reaching a total of more than 40 countries.

The contribution of the income created by the Telefónica Group in each country represents an average of 1.5% of the Gross Domestic Product, particularly in the cases of Peru, Spain and Chile, where represents more than 2%. In Brazil, given that Telefónica does not operate in the whole country, this rate is over 1%. In 2002, Telefónica accounted for 0.92% of Argentina's GDP, a significant percentage bearing in mind that Telefónica's rates were frozen.

Distribution of revenue by countries

(data in percentages)



2 ... at the service of society

2.1 Democratisation of communications

Fully aware of the important role that communications play in the development of the societies in which it operates, Telefónica Group collaborates in the democratisation of its services. In order to achieve this, it has established a series of initiatives aimed at extending its service geographically, and facilitating access to communications to all levels of society.

2.1.1 Extending the service geographically...

In Latin America, Telefónica's fixed telephone companies collaborate with government initiatives to make the service more universal, reaching all geographical and social sectors.

As regards Brazil, Telefónica has met the challenging objective of making the service universally accessible by December 2001, two years earlier than the terms and conditions fixed in the award (fixed for December 2003).

In Argentina, the Universal Service Fund (formed with provisions of 1% from the operators involved) is currently awaiting the creation of the management body that will regulate its operations. Despite this, Telefónica has been offering for some time now subsidised services, that are included amongst the proposals of the Universal Service Regulations as «Initial Programmes», including local areas with a high level of investment and maintenance.

In Chile, apart from the initiatives developed by the Telecommunications Development Fund, Telefónica

Universal Service Funds in Latin America

Country	Fund	Amount
Argentina	«Fondo de Servicio Universal» (pending constitution)	1% of turnover (pending constitution of Board)
Brazil	«Fondo de Universalización de Servicios de Telecomunicaciones» (FUST)	1% gross turnover (minus tax)
Chile	«Fondo de Desarrollo de las Telecomunicaciones» (FDT)	Public budgets
Peru	«Fondo de Inversión de Telecomunicaciones» (FITEL)	1% turnover

has developed a series of highly successful initiatives aimed at encouraging the expansion of the service.

- Rural telephony: covering nearly 100% of the country.
- Internet educational network: connecting more than 5,500 educational centres.
- More than 12,000 community lines provide the Basic Telefónica Service to those who do not have it in their homes.
- 25 beneficial entities use the «Línea 700» service to receive donations.

In Spain, Telefónica de España offers communications to communities in rural areas at the same price as those for urban areas. Today more than 260,000 families make use of this service. In Spain there are also 61,795 telephone cabins and 9,406 public telephones installed in small businesses.

Telefónica Móviles offers coverage levels in the countries where it operates that are far superior to those stipulated by their licences, making constant efforts to optimize coverage and effectively manage geographic and demographic conditions and seasonal variations.

2.1.2 Making communications available to all social levels

Throughout 2002, Telefónica designed numerous products taking into account social and economic conditions of the areas in which it operates, in order to attend to the needs of sectors that do not have access to telecommunications services for economic reasons.

Together with the Spanish «Ministerio de Fomento», Telefónica de España offers its «Abono Social», designed to enable customers with economic difficulties to have access to basic telecommunications services in Spain. It involves paying 70% of the actual

connection charge and the price of installing network equipment (PTR), and 95% of the monthly line charge (without any maintenance charge). In December 2002, the service had a total of 451,646 customers.

In Latin America, prepayment billing schemes, with public telephones and lines with restricted services, formed the foundations of the services that Telefónica offers for low-income customers.

Several initiatives were introduced in Argentina to prevent the 2002 economic crisis from causing a rise in disconnections due to customers failing to pay their bills. Among the products designed to meet those needs are:

- «Líneas Control»: a product that allows customers to have a line with limited credit, in order to make calls. Once this limit has been used up, the customer may only receive calls or make calls using prepaid phone cards. By the end of 2002 a total of 531,900 customers used this service.
- «Línea Recupero»: designed for clients with more than one outstanding bill, who may continue with the line in operation, but only make calls using prepaid cards.
- Offering facilities for customers using contract lines to transfer to prepaid lines. At present there are more than one million lines of this type (23.6%).
- «Seguro Cuenta Telefónica Garantizada», insurance offering residential customers coverage for call costs for a period of up to 12 months in the case of involuntary unemployment, total disability or death of the contract holder.

These initiatives were complemented by the use of telephones for public use (TUP) that represented 9% of Telefónica de Argentina's revenues in 2002, with more than 14.4 million cards sold.

Spain

260,000

rural telephones

451,646

«Abono Social» customers

Public telephones

(percentage of revenues)

18%

Telefónica del Perú

Public call cards sold

(data in millions)

14.4

Argentina

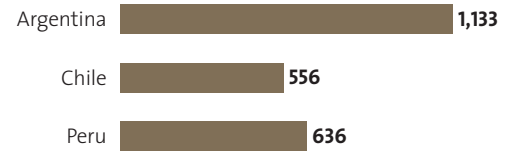
117.6

Brazil

12.2

Chile

Number of customers subscribed to low-income products
(data in thousands)



Distribution of Telefónica Móviles prepaid/contract customers
(data in percentages)

■ prepaid ■ contract



In Brazil, the use of public telephones registered satisfaction levels of 79% amongst low-income users. Over 117.6 million prepaid cards were sold for use in public telephones in 2002.

In Chile, there are currently more than 556,000 users who take advantage of programmes aimed at providing communications services to the lowest income sector. The most important product is «Bajo Consumo», that includes the installation of a line to receive calls and make a pre-determined number of local calls within the monthly charge. The line also allows users to make additional calls with prepaid cards. Public telephones complement these initiatives, with more than 12,250,000 cards sold.

In Peru, Telefónica has now been introducing similar initiatives for several years, including: public telephones (18% of Telefónica del Peru's income in 2002), 323,858 lines with limited consumption, 180,911 'popular' telephone lines, 116,061 Fonofácil/Línea Cero lines, and 17,099 flat rate Internet lines.

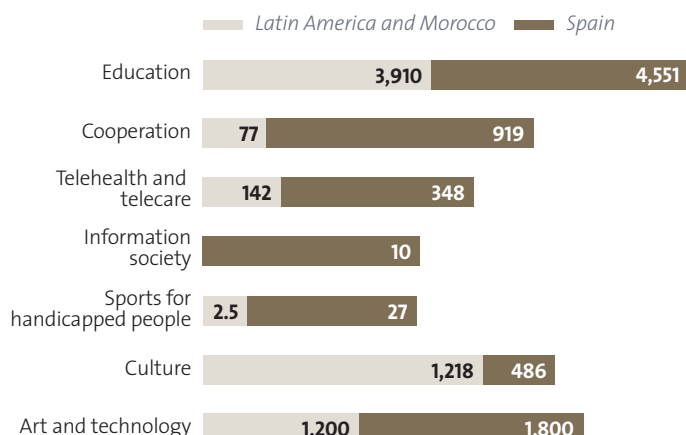
Mobile telephony

The rapid expansion of the use of mobile telephones in all sectors of society has been encouraged by billing methods adapted to the realities of each particular country. In particular, the introduction of the prepayment billing schemes system has received a warm welcome. This payment method allows access to the service by new sectors of the population, including young people, immigrants, job-seekers or elderly people who wish to be reachable at all times.

In the wake of the Argentine crisis, Telefónica Unifón has developed a range of products designed to help

Individual beneficiaries of projects led by Fundación Telefónica

(data in thousands)



customers control their expenditure. As a result of this policy, «Unifón Ahorro» (mix of prepay and contract) gained popularity and was the only product to increase its customer base.

Spain: evolution of prices

Communications are the only part of the «Retail Price Index» that have a positive impact year after year. Variations in the Mail and Communications section of this index were calculated at -5.1% for 2002.

Telefónica de España's call rates were reduced three times in 2002: in January, March and October, amounting to a 8.1% global cut, within the «Price Cap» set for 2002.

In March 2002, Telefónica Móviles España did away with monthly fees by including them as part of a minimum bill amount. Additionally a series of price adjustments were made for calls during business hours, both for prepay and subscription.

2.2 Fundación Telefónica

Telefónica carries out an active series of social and cultural events through its «Fundación», currently present in Spain, Argentina, Brazil, Chile, Peru and Morocco. Doing so, the Company assumes a compromise with the integral development of the countries in which it operates. Fundación Telefónica, as part of a telecommunications group, destines its efforts to fully developing the social applications of technology, in collaboration with other social organisations in each of these countries. It operates on the basis of local and transnational projects in the following areas:

2.2.1 Education and Culture

Fundación Telefónica has developed a series of projects to support development and learning in Latin American countries:

- «EducaRed.net» is a platform aimed at promoting the educational use of the Internet. In Spain, the

Average evolution of nominal tariffs in Spain

-8.1%

Telefónica de España

Evolution of nominal tariffs from Telefónica de España

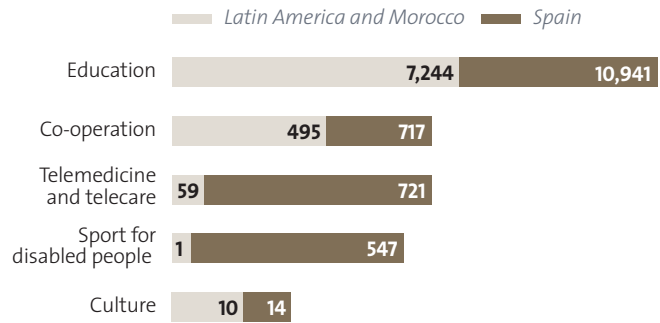
(data in percentage)

	Normal	Reduced
Provincial	-31.88	-34.44
International	-35.20	-34.44
International (calls to USA)	-32.66	-32.66
Fixed to mobiles (MoviStar and Vodafone)	-16.30	-14.79
Fixed to mobiles (Amena)	-8.22	-8.22
Connection quota for individual lines and connections	-37.70	n.a.
National telephone enquiries number (1003)	18.59	18.59
Monthly fees	11.48	n.a.



Fundación Telefónica's website
www.fundacion.telefonica.com

Organisations receiving support from projects led by Fundación Telefónica
(data in units)



academic year 2001-2002 ended with 10,000 schools, 3,500,000 students and 350,000 teachers connected. In Argentina, over 3,000 educators and students joined the project in the first four months of operation. In Brazil, more than 6,000 teachers and students have joined since March 2002, with an average of 25,000 monthly visits. In Chile, the portal received over 10,000 visits in its first month of operation.

- «CampusRed.net»: the second largest educational website of Fundación Telefónica, aimed at university communities (see description in section 3.5).
- «Aulas Unidas», an international initiative linking schools and schoolchildren in Argentina, Brazil, Chile, Spain, Morocco and Peru. In 2002, computer centres were installed in 99 schools, facilitating the participation of 2,800 schoolchildren.
- «Aulas Interactivas»: over 3000 first and second grade schoolchildren in public and private schools in Argentina have learned to use the Internet.
- «Internet nas Escolas» in Brazil has connected more than 750 schools in São Paulo to the Internet using broadband technology.
- «Internet Educativa» in Chile offers free access and use of the Internet to all of the country's schools. Today, more than 90% of Chilean schoolchildren have access to the Internet.
- «Aulas hospitalarias» has been operating in Peru since 1999, with computer rooms installed in children's hospitals throughout the country.

Among the cultural initiatives undertaken in 2002 are:

- Internet portal for «San Millán de la Cogolla», a focal point for the study of the origins and evolution of Castilian Spanish, including the digitalization of its library.

- «Escoles al Palau», a programme to bring music to schoolchildren, incorporating its contents within a website, together with automatic inscriptions for students over the Internet.
- Fundación Telefónica is a technological partner of major Spanish cultural institutions, including «Fundación Príncipe of Asturias», «Círculo de Bellas Artes» or «Casa de América», carrying out numerous projects to modernise infrastructures, equipment and services that foster a wider reach to their cultural contents.

2.2.2 Social application of Information Technologies

Fundación Telefónica collaborates in numerous social projects to encourage the use of technology in fields such as:

Social use of telecommunications

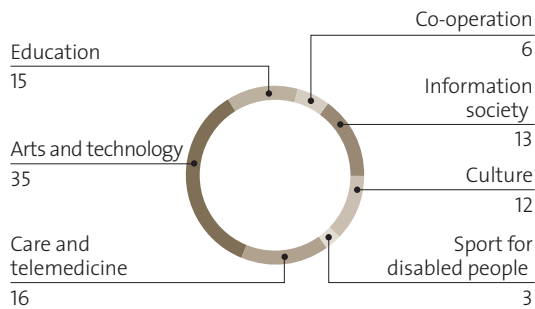
- Modernising infrastructures of organisations that use the telephone as a way of dealing with and helping people. The IV Assembly for Subsidies for Telephone Services for Social Purposes provided support to 156 organisations. Individual projects were also supported including «Fundación de Ayuda contra la Drogadicción», «Coordinadora estatal de minusválidos físicos de España», or «Asociación Española del Teléfono de la Esperanza».

Training and Employment

- Merc@dis: a Service Portal to help handicapped people to find employment, including a virtual job market, a Service Centre for Special Employment Centres, and an electronic news service. The portal was also launched in Chile in 2002.
- Collaboration in the «Think» project, a teleworking initiative created by the European Union to offer support and teleworking technology for handicapped.

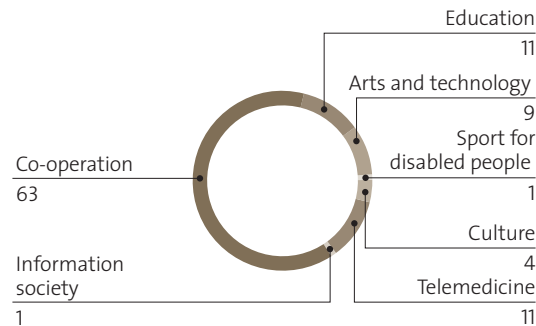
Distribution of projects in Spain

(data in percentages)



Distribution of the 502 partner organisations in Spain

(data in percentages)



- The project to Support the Integration of Women into the Workplace in Brazil, fosters the incorporation of women who are heads of families with children of less than 18 years of age.

Access to the Information Society

- Demonstration Unit for Adapted Equipment installed in the «Centro Estatal de Autonomía Personal y Ayudas Técnicas», including computer equipment specially adapted for the disabled.
- Fundación Telefónica in Chile has helped instruct 800 physically disabled persons in the use of the Internet, facilitating the integration into work.
- ATI Project: Creation of a teletraining and teleworking centre for spine damage sufferers in the new headquarters of the «Fundación para la Rehabilitación del Lesionado Medular».
- Fundación Telefónica has completed the first version of an alternative languages communicator for persons with cerebral palsy (SICLA Project), and another for temporary patients at the intensive care unit of the Severo Ochoa Hospital in Madrid.

Telephone helplines

- Helplines for women who suffer from physical and mental abuse. Currently there are several projects under development in several Spanish regions, in collaboration with their local governments.
- In Peru, the Children's and Teenagers' Telephone Helpline gives complete information about social, legal and psychiatric issues. The service received more than 36,000 calls in 2002.
- Experience of domestic helpline for patients at the «Residencia Asistida de la Tercera Edad» in Vigo, Spain.

Health and quality of life

- Children's Cancer Institute in Brazil

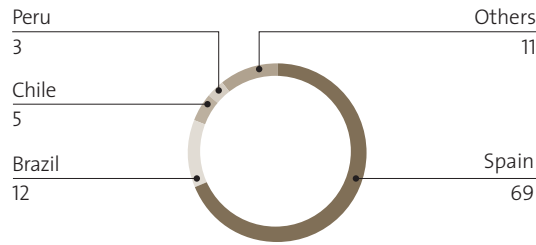
- Pioneering experience in the care of patients at risk from heart disease using GSM to transmit electrocardiograms, constantly connected to Doctors at the «Fundación Jiménez Díaz» and «Hospital Gregorio Marañón», both in Madrid.
- Portals related to chronic illnesses of social importance, such as cancer www.feloc.org, Chron-Colitis www.ua-cc.org, back problems www.espalda.org and diabetes www.fundaciondiabetes.org.

2.2.3 Community co-operation and development

- The Risolidaria Portal (International Solidarity Network) www.risolidaria.org, created by the Telefónica Foundation to offer tools to help associated NGO's in the social work.
- «Juntos por África»: technological support for the project to collect coinage in pesetas that was not exchanged for euros in the process of transition between both currencies.
- Communications for Spanish volunteers working in humanitarian projects outside of the country, as an essential instrument to help with their work.
- Free communication services at Christmas for the direct family members of Spanish religious and volunteers working on humanitarian projects in the third world.
- «Voluntariado Corporaivo» is particularly important in Argentina, aimed at co-ordinating community support programmes carried out by current and retired employees, and which helped more than 6,800 people in 2002. In the same year, the «Regional Microentrepreneurs» self-management programme was launched in Spain, aimed at offering workshops to help form small co-operatives and provide them with resources for their integral development.
- In Brazil, support programmes are underway to defend the rights of children and teenagers, sup-

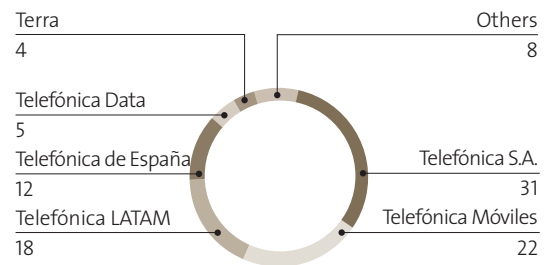
Sponsorship distribution by countries

(data as percentages)



Sponsorship distribution by business lines

(data in percentages)



porting nearly 100 institutions in 2002, and offering help to more than 4,000 people.

2.2.4 Art and Technology

- Art Galleries in all the countries where Fundación Telefónica is present, fostering exhibitions related to contemporary art and new technologies.
- Managing, maintaining and exhibiting Telefónica's Art Collections, in particular, the «Figuración renovadora» and «Telos» collections.
- The Telecommunications Museum, offering visitors an overview of the growth and development of telecommunications.
- «Ars Virtual» www.arsvirtual.com; a representation of artistic and historical monuments using virtual reality, including cathedrals and other Royal places, offering the possibility for visitors to go on a virtual «tour».

2.3 Sponsorship offered by Telefónica

By means of sponsorship, Telefónica is present in numerous social activities, particularly the following:

- Sport: motor sports (Dakar 2003, motorcycling events, rallies, Telefónica World Series, Daniel Pedrosa, Toni Elías, Joan Olive, Carlos Sainz, Fco. Javier García Vico, Javier Ramón Ferreiros, Alejandro Villégas, Jeremias Israel, «Chaleco» López, etc.), cycling (Vuelta a España), Tennis (Juan Carlos Ferrero, Conde de Godó, Madrid Tennis Masters, Luis Horna, Ivan Miranda, Leonardo Ramírez, Luis Felipe Noriega, etc.), golf, athletics (Yago Lamela), gymnastics (Almudena Cid and Jesús Carballo).
- Music: MoviStar Activa concerts (Garbage, Vanesa, Pop de los 80, Maná and Alex Ubago), Julio Iglesias' tour, classical (Promúsica, Canaries Philharmonic, Rostropovich).

- Art and culture: Exhibitions, Salamanca 2002, Spanish Royal Theatre, Liceo, Djehuly Project, museums and publications.
- Society: projects developed by Fundación Telefónica.

The commercial sponsorships carried out by Telefónica Group are detailed on each of the websites in the respective countries where it operates.

2.4 Emergency response

2.4.1 Involvement in society in situations of economic crisis

- «PYMES exportadoras Argentinas»: a programme supported by Telefónica Group in Argentina to promote Argentine exports.
- Telefónica Móviles' social compromise in Argentina (Unifón) has taken shape in numerous collaborations and donations reaching more than 25 academic and health institutions, children's feeding centres, etc.
- Telefe embarked on a charitable project called «dar es dar»; a campaign was launched during the Christmas period together with other organisations to collect gifts. 10,000 toys, 60,000 nappies and 5,000 litres of milk were donated as part of the campaign.

2.4.2 Disaster relief

In order to help in reducing the impact of the oil slicks produced by the sinking of the tanker «Prestige», Telefónica Móviles España donated the total value of all short messages sent between 10.00 pm on New Year's Eve 2002 and 2.00 am on January 1 2003 to Galicia (a total of 11,803,689 messages). In addition, Telefónica Móviles sent 12 mobile units to the areas affected by the oil slick to provide coverage in areas where cleaning-up

Some collaborations to raise funds for social projects

- Argentina** Atento Argentina offered infrastructures and technology to receive calls from 3 national campaigns carried out by «Red Solidaria» (solidarity network) to gather food, clothing, footwear and school materials throughout 2002. 79,000 calls were answered in 112 days of operations. Unifón made a freephone number available so that its customers could communicate with «Cáritas» Argentina and make donations with their credit cards.
- Brazil** Telefónica was responsible for the telephone connections and co-ordination of the 2002 Telethon in the state of São Paulo, an event that has been staged for the last 5 years to raise funds for the «Asociación de Asistencia a Niños Deficientes» (Help Association for Disabled Children). Preparations were made to receive 6,000 calls simultaneously, with a total of 2,500,000 calls received.
- Chile** Support for the 2002 Telethon, a foundation for the support and development of disabled children that stages a moneymaking event every two years. Grupo Telefónica Chile collaborated with human resources, technology and financial contributions in 2002.
- Spain** Onda Cero participated in the organisation of the «Contra la droga» Football Match led by Luis del Olmo, offering promotion for the event on the radio and logistical support. A total of 451,659 Euros were raised in 2002.
- Morocco** Atento Morocco offered teleoperators and infrastructure for 9 days in support of the Telethon to raise funds for the Casablanca Disabled Persons' Association, receiving 3,105 calls in 231 hours.
- Peru** Atento Peru set up automatic telephone donation services following the earthquake in the south of the country (25,600 calls), the fire in the «Mesa Redonda» market (14,899 calls), and severe frosts in the southern region (26,610 calls). It also took part in the «Todos por Amor» campaign (49,980 calls). Atento Peru has contributed by installing an automatic donation service for cancer patients at the «Instituto Nacional de Investigación de Enfermedades Neoplásicas» (INIDEN).
- Puerto Rico** Atento collaborated by receiving calls during the annual Telethon organised by the Muscular Dystrophy Association, making more than 60 positions available and receiving more than 4,700 calls.

operations were under way and enable efficient coordinations of the efforts.

In collaboration with Telefónica de España, Fundación telefónica supplemented the public telephony network by installing new equipment, provided volunteers with telephone cards and applied discounts to the telephone calls made by local fishermen's associations.

2.4.3 Socially responsible communications

- The Humanitarian Aid Telephone Service for Emergencies, is sponsored by Fundación Telefónica and managed by Atento. It includes a free helpline (900 502 502) 24 hours a day, 7 days a week, which centralises calls to organisations carrying out relief work.
- The Committee for National Emergencies in El Salvador set up a service -together with Atento- to coordinate the arrival of relief supplies to the areas affected by the earthquake of 13 January 2001. More than 50,000 calls were received by the service.
- During Spain's Presidency of the European Union, Telefónica was responsible for installing telecommunications services for the authorities in the 19 central

offices. In addition, specific security systems were implemented in each centre.

- Telefónica Móvil assisted the government of Chile in carrying out the national census by providing officers with mobile phones.

2.5 Collaboration with international organisations

Telefónica is actively involved with internationally renowned Associations and Organisations, including:

- ETNO (European Telecommunication Operators' Association), which includes 39 European operators.
- ITU (International Telecommunications Union) representing more than 190 countries and 650 non-state members.
- AHCIEET (Spanish-American Association of Investigation Centres and Telecommunications Companies).
- ETSI (European Telecommunications Standards Institute), which groups together over 800 companies.
- OMA (Open Mobile Alliance) with over 300 companies from the mobile sector.
- GSMA (GSM Association).

Telefónica Móviles' collaboration following the «Prestige» disaster

11,803,689

messages sent on New Year's Eve, whose total value was gifted to Galicia

12

mobile units sent to the region



The Information Society is a state of social development characterised by the ability of its members (citizens, companies and public administration) to instantly obtain and share any type of information from any location, in the format it chooses.

- ICC (International Chamber of Commerce).
- GeSI (Global e-Sustainability Initiative), which brings together players in the telecoms and information technology industry that are committed to sustainable development.

National Spanish level:

- COIT (Colegio Oficial de Ingenieros de Telecomunicación)
- ANIEL (Asociación Nacional de Industrias Electrónicas y de Telecomunicaciones)
- CEOE (Confederación Española de Organizaciones Empresariales)
- AUTEL (Asociación de Usuarios de Telecomunicaciones)
- SEDISI (Asociación Española de Empresas de Tecnologías de la Información)
- AECE (Asociación Española de Comercio Electrónico)
- COTEC (Fundación para la Innovación Tecnológica)
- N-ECONOMÍA (Centro de Predicción Económica)

2.6 Support to the Spanish Language

Telefónica makes special efforts to offer its complete collaboration with organisations that promote the use of the Spanish language throughout the world. It participates with the «Real Academia de la Lengua» and «Instituto Cervantes» in projects such as to bring information technology to the 20 National Academies in Latin American republics, create the «Diccionario Panhispánico de Dudas» with over 2,000 doubtful expressions included, develop the «Español al Día» service, promote the Office for Spanish in the Information Society, develop an automatic web page translator and multiplatform services to expand the use of Spanish language.

3 Telefónica Group takes the lead in the development of the Information Society...

According to the report produced at the Johannesburg Summit, *the digital revolution has the potential to spread access to knowledge, information and markets to people. Internet has increased people's connectivity power, strengthening their abilities to access information in the areas of education and health, democratic participation and economic activities. Telecommunications are changing the way in which business is carried out (let us think about mobile communications and Internet), increasing productivity in a similar way to the increase that took place during the first industrial revolution.*

3.1 infrastructure development

Broadband penetration has had a truly notable increase in all the countries where Telefónica offers its ADSL service. By the end of 2002 Telefónica Group was providing up to 1,413,340 ADSL lines, which means an increase of 127% as compared to the 621,735 lines in December 2001.

Telefónica is making a decisive move towards investment in broadband infrastructures in Latin America, which already represents 10% of its total investments in these countries.

In turn, with the aim of offering access to new technologies to the whole society, Telefónica offers «dial up» access to Internet via narrow band technology.

In order to offer the possibility of connecting to the Internet at high speeds in rural areas, Telefónica de España intends to gradually replace the existing

Accumulated investment¹
Telefónica Group in Latin America
(data in millions of US Dollars)

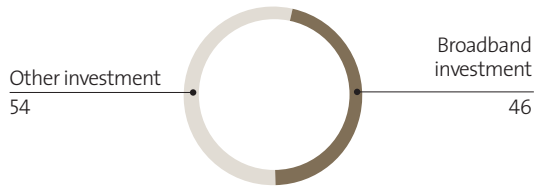
30,500
 in acquisitions

33,000
 in infrastructure

(1) as of September 2002

Telefónica de España 2002 investment distribution

(data in percentages)



technology (analogical TRAC) by different systems (GSM, LMDS, satellite, etc.).

In Peru, the number of Internet users has increased thanks to the appearance of «Cabinet» (an integral solution to install public Internet access cabins), and the Central Government’s «Huascarán» Project (sponsored by Telefónica), aimed at bringing Internet access to schools in remote parts of the country.

Similarly, the new 2.5G and 3G generations of mobile telephony are technological solutions that offer mobile broadband coverage. Telefónica Móviles already offers high speed services using 2.5G technology in Spain and Brazil.

Finally, the installation by Telefónica Móviles España of 750 third-generation UMTS network stations in 21 Spanish cities was completed on schedule.

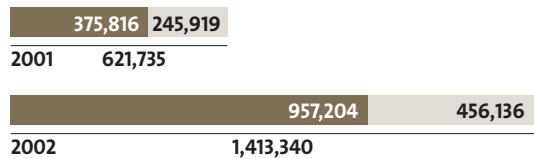
3.2 Development of new applications and services

Some of the new applications and services launched by the Group’s companies in 2002 include:

- *Hogar.es*: Telefónica I+D is developing a service platform to integrate the various household automation and internal and external networks.
- *eBA*: Telefónica Data has developed the value proposal for «eBA», aimed both at companies and public administration. It is based on broadband communications integrated with new applications and contents that contribute to increasing business efficiency.
- *Mobilhealth and m-to-guide*: through Movilforum, Telefónica Móviles España has started development work on two GPRS-technology-based services aimed at the health and tourism sectors, which have the support of the European Union.

Telefónica Group ADSL lines

Spain Latin America



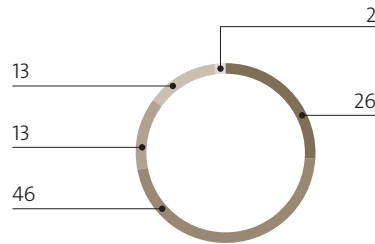
Percentage of average revenue per user (ARPU) generated by data and content services

12%
Telefónica Móviles España 2002

Distribution of technological innovation. Telefónica Group

(data in percentages)

- Research & development
- Equipment for new products and services
- Production design and planning and distribution of innovations
- Personnel training
- Other events and licences



Short Messages Service Telefónica Móviles España

8,400
million
of messages 2002

36%
related to content
distribution services

- *Public multimedia telephones*: Telefónica Telecomunicaciones Públicas is the first Spanish company to offer a range of services including sending messages to mobiles, e-mail, internet access and simultaneous voice and image transmission using ADSL technology.
- *Agencia de Certificación Electrónica (ACE/Electronic Certification Agency)*. ACE is committed to offering trustworthy services that guarantee secure electronic transactions, including the electronic signing of documents.

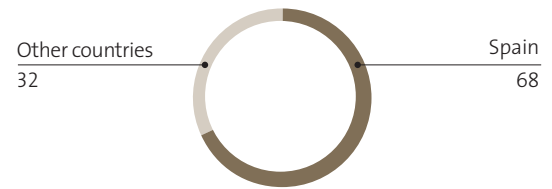
3.3 Development of new contents for the Information Society

Some of the contents offered by companies belonging to the Telefónica Group in 2002 include:

- *e-moción*: a menu for accessing Telefónica Movistar contents using WAP navigation services, voice or short messages. In 2002 more than six million Movistar users accessed e-moción.
- *Antena 3 Noticias* has converted its traditional television activities into a multimedia production, capable of broadcasting using different supports (www.a3n.tv, the news channel of telefonica.net, news and programmes from Imagenio, a 24 hour interactive news channel, news server via 303 in collaboration with Movistar, Antena 3 WAP, etc.) 16 million Internet users accessed the website of Antena 3 in 2002.
- *Onda Cero* is the most popular Spanish radio station broadcast over the Internet (7,994,481 listeners in 2002 in particular its «Radio a la carta» service, with more than 4.5 million items downloaded.
- *EducaTerra*: Terra's educational channel since last November; it recorded an average of 7,538 visitors per day at the start of 2003.

Telefónica's Accumulated (1999-2002) R+D activities distribution

(data in percentages)



- *Xtrazona*: In June, Telefónica Móviles España launched Spain's first service offering games that can be downloaded to mobile telephone.

3.4 Research, Development and Innovation

In 2002 Telefónica Group invested more than 1,300 million Euros in Technological Innovation. Of this amount, Telefónica investments in research and development (R&D) amounted to over 500 million Euros for 2002.

The majority of R&D work is carried out by Telefónica Investigación y Desarrollo (Telefónica I+D), a company wholly owned by Telefónica, that mainly works for the Group's business lines and participates in other research projects at both national and international level.

With the aim of encouraging technological advances in areas of development, Telefónica R+D has set up new centres in Castilla y León (an Objective 1 Region according to the European Union), and São Paulo (in Brazil) where the company «Telefónica Pesquisa e Desenvolvimento» was recently created.

In 2001 (no consolidated data is available for 2002), Telefónica's involvement in the R+D carried out in Spain amounted to 4.9% (9.4% if we consider R+D carried out by its companies). These operations provide employment for more than 4,800 people in Spain.

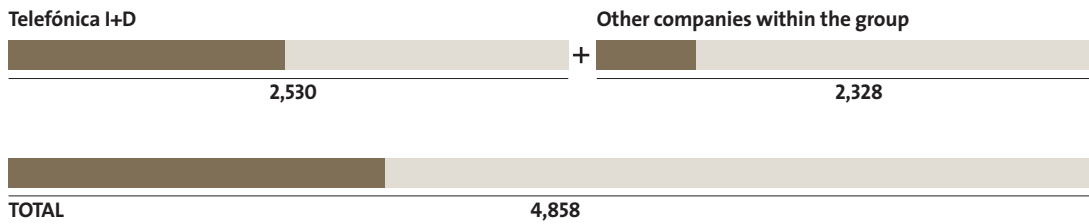
Telefónica I+D actively participates in more than 25 organisations and associations, both at national and international level, that support the investigation and exchange of experiences about the most advanced and novel technologies for the development of telecommunications services. In 2002, Telefónica I+D

(1) Technological innovation.
Data estimated according to
the definition provided by
«Instituto Nacional de Estadística». Spain

Employment created by Telefónica's investment in research and development

(number of workers)

■ Direct ■ Indirect



took part in 37 European Information Society Technologies projects.

This investment in R&D has made it possible to launch a large number of new products and services onto the market, and to have 2,185 patents and models, 735 registered intellectual properties, 2182 domain names and more than 7,700 registered trademarks.

Last but not least, Telefónica made a technical presentation to the «fathers of Internet» (Lawrence Roberts, Robert Kahn, Vinton Cerf and Tim Berners Lee) at «Príncipe de Asturias» Awards Ceremony. The event included the presentation of the Group's main technological advances.

3.5 Collaboration with Universities

Telefónica Group, fully aware of the importance of universities as a dynamic element within the Information and Knowledge Societies, signed 350 agreements with Spanish universities in 2002. The signing of these agreements was based on issues related to research, innovation and telecommunications, priority issues for Telefónica Group. The most significant data is:

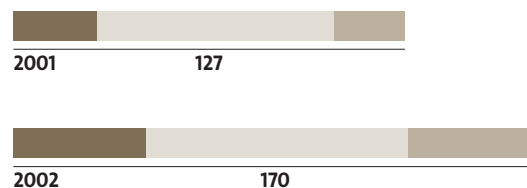
- 65 initiatives with 50 universities and two business schools.
- 280 agreements signed with universities for 2000 scholarships.

The Telefónica Chairs («Cátedras telefónicas») are an initiative to encourage the «leverage effect» of technological innovation, promoting basic and applied investigation, encouraging the training of future professionals, and helping small and medium sized enterprises to train in the application of new technologies, so that

New products launched by Telefónica de España and Telefónica Móviles España

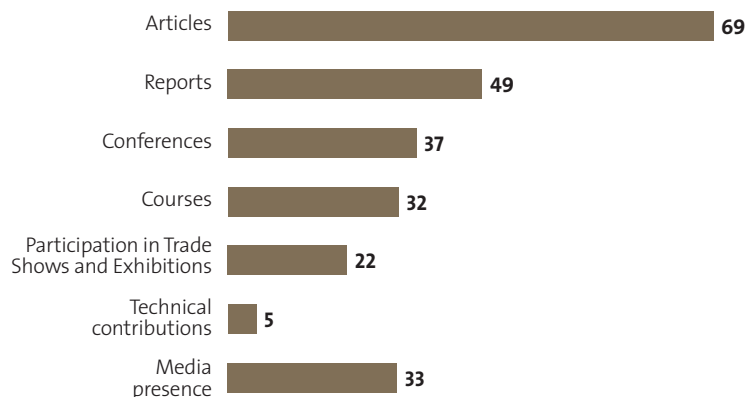
(data in units)

■ Mobile services ■ Voice market
■ Internet and broadband

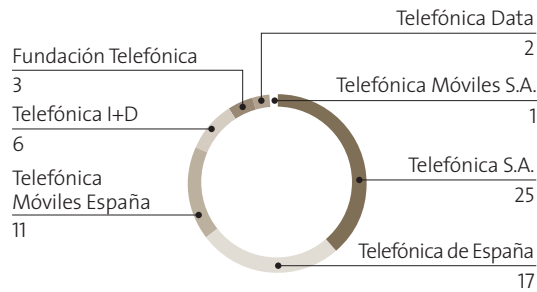


Telefónica I+D external technical presence in 2002

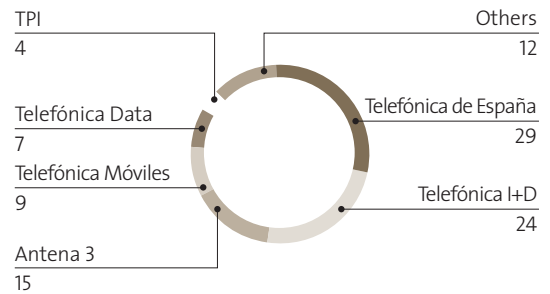
(number of activities)



Business line distribution of initiatives with Universities



Business line distribution of scholarships
(data in percentages)

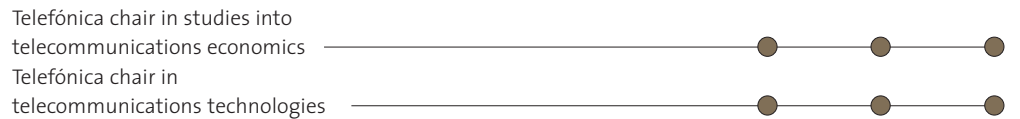


Telefónica Professorships

Universidad Politécnica de Madrid



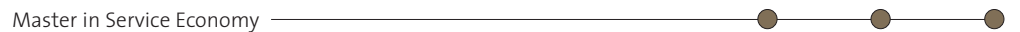
Universidad Carlos III de Madrid



Universidad de Alcalá



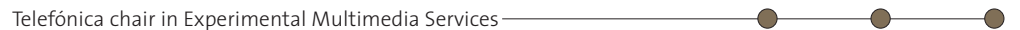
Universidad Autónoma de Madrid



Universidad Complutense de Madrid



Universidad de Las Palmas de Gran Canaria



Universidad La Laguna



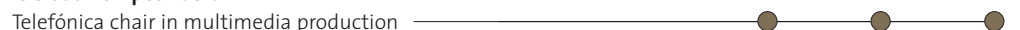
Universidad Politécnica de Valencia



Universidad Politécnica de Cataluña



Universidad Pompeu Fabra



Universidad Oberta de Cataluña



Universidad de Zaragoza



Universidad de Salamanca



Universidad de Oviedo



Universidad de Santiago de Compostela



they in turn may create more innovation and employment in the country's economic system. The results obtained by the Telefónica Chairs in 2002 include:

- 24 different types of technological innovation projects.
- 9 projects undertaken in partnership with companies of the Group.
- 48 courses given (34 on-site, six online and eight by videoconferencing) with a total of 1,350 students (930 on-site, 100 online, and 420 via videoconferencing).
- 791 hours of classes given (46% to first and second year university students, and 32% to post-graduate students, 14% to Professors, and 8% to SME's).
- 66 scholarships awarded (39% for end of course projects, 20% to pay for enrolment, 14% to finance doctoral theses, and 27% for other types of training and exchange scholarships).
- Participation in 21 meetings, conferences or encounters, seven prizes awarded, and three publications. Five chairs have their own websites.

www.campusred.net (an initiative of Fundación Telefónica) promotes the exchange of information and knowledge among Latin-American universities and caters for online teaching and shared management. In 2002 it received 335,953 visitors, with 3,591,821 pages viewed (50% by Spanish users and 50% by visitors from other countries).

Important collaborations at international level include those between Telefónica Data and universities in Germany, Brazil, Chile, Columbia, Mexico, Peru and the USA, and Telefónica Móviles in Argentina, Brazil and Peru.

3.6 Studies on the Information Society

In 2002, Telefónica carried out studies on the level of implantation of the Information Society in Europe,

Spain, Peru and Brazil. These studies were divided into two parts; a first which contained an analysis of the current situation of the Information Society in the countries being studied, and a second part with a prognosis of the evolution of the Information Society in the medium-term, based on expert opinions using the Delphi method.

4 ... respecting the values of the communities in which we operate

4.1 Removing barriers to handicapped people

Due to the fact that telecommunications reduce the need to use transport, they are particularly suited to help people who have some kind of disability to play an active role in society.

Detailed below are some of the initiatives put into practice by Telefónica Group in 2002 to make life a little easier for persons with disabilities of one kind or another.

- Telefónica Móviles España signed an agreement with CERMI (Comité Español de Representantes de Minusválidos) to improve access by disabled people to mobile services.
- Telefónica de Argentina started a service for hypoacoustic and speech-impaired users that allows them to converse through an operator by using a keyboard and monitor.
- Telefónica de España and the fixed telephone operators in Latin America offer the possibility to send telephone bills in special formats for people with impaired sight.

Services for hypoacoustic users Telefónica de Argentina

763
public installations

1,100
home installations

Special format bills (number of monthly bills)

979
Braille. Spain

632
large print. Spain

194
Braille. Argentina

- «Confederación Nacional de Sordos de España» (Deaf Spanish Confederation) gave their recognition to the work carried out to subtitle programmes broadcast by Antena 3 TV, with the «Juan Luis Marroquín» Award.
- «Onda Cero» Radio's programme «A world without obstacles» was awarded prizes from UNICEF, «Fundación Intrás» and «Colegio de Psicólogos», as well as the Inerso Award for the treatment of social issues.
- Telefónica I+D was awarded with an accesit in the II International «ONCE I+D» Awards, for a project that allows sight-impaired users read any type of document in any location using a special portable electronic assistant.
- Telefónica CTC Chile provides special telephone terminals with an oversized keypad for sight-impaired users or elderly users with poor sight. These telephones are commercially referred to as the «Teléfono Teclón», with around 120 units sold annually.
- The Voice Call Identification service (available from operators in Latin America) enables calls to be identified, producing a voice message indicating the name of the person calling.

4.2 Collaboration in the fight against delinquency

Telefónica considers that part of its responsibility is to collaborate with authorities in fighting against the use of technology for illegal means. The following actions were of particular relevance in 2002:

Child Pornography on the Internet

Child Pornography is one of the most actively pursued crimes at present, not only because of the difficulty in persecuting those involved through the Internet (as they use services offering free and anonymous personal

pages), but also because of the irreparable damage caused to the young victims of this type of crime. With the aim of assisting in the process of persecuting this type of offence, Terra España cancelled its service offering anonymous personal pages on the Internet, and launched a campaign on its portal requesting that users report any illegal activities contained on the site *abuse@terra.es*. This initiative was supported by more than 40 associations and NGO's, and led to the disappearance of more than 5,000 personal pages.

Theft of cables in Argentina

Due to the economic crisis in the country, the theft of telephone cables has become an easy way of obtaining US Dollars on the black market. In 2002, a total of 13,898 incidents were reported in Argentina; more than 240,685 km of copper cabling was stolen (weighing more than 625 tons).

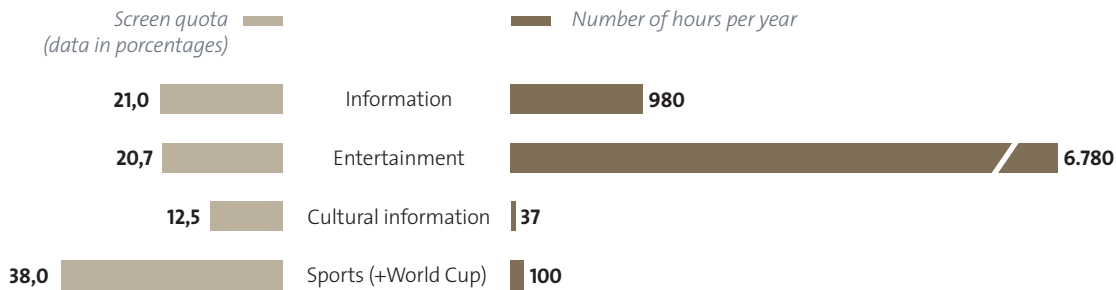
The number of customers affected rose to 300,000 in April. Telefónica managed to cut down on the number of incidents to 19,300 by the end of December. The first measures taken were to replace the stolen cables and conceal their position. Other preventative measures were then taken, including:

- Fitting alarms and monitoring the most problematic sections, and developing a siren system.
- Collaborating with the authorities to raise duties on the exportation of copper (from 5% to 25%) and requiring proof from sellers of where the copper had been obtained.

Theft of mobile telephones

Telefónica Móviles España works jointly with the «Ministerio de Ciencia y Tecnología» and the «Ministerio del Interior» and other national mobile operators in exchanging information about the identification of

Programmes on Antena 3. Contents of social interest



stolen telephones. To date, the number of stolen and blocked terminals amounts to 18,093. This project has been accompanied by a series of informative and preventative measures, and information about the correct use of mobile telephones.

Anti-delinquency plan in Chile

The «Cuadrante» anti-delinquency plan in Chile includes the installation of open community telephones for use in emergencies and communication services so that the police and security forces can deal with the situation adequately, providing more than 100 telephones.

4.3 Emergency assistance

112 Emergency calls service

Telefónica I+D has developed a new function whereby when a person calls 112 from a mobile telephone, the system identifies the geographical location of the caller, thus making it easier to deal with the emergency more efficiently. In 2002, the MoviStar emergency service received 3,581,811 calls.

4.4 Support for health and sanitary programmes

• Telefónica Móviles España, through Movilforum, has started work on the development of Mobilhealth, a pioneering service based on GPRS technology for the health sector, that has been supported by the European Union. It is also working on other projects, including: the localisation of Alzheimer sufferers, mobile electrocardiograms for controlling cardiovascular processes when mobile, and a mobile glucose indicator to send information about levels via mobile telephones.

- Experts from Atento Brazil collaborated in development and training services for setting up the Cancer Hospital's Attention Centre.
- Telefónica I+D is currently carrying out projects to develop specific medical teleassistance services, or electronic prescription services.

4.5 Contents of social interest

- In a move to avoid the viewing of violent or sexual material during prime-time hours, Antena 3 has moved a number of controversial programmes such as «South Park» and «Sex in New York» to a late-night slot (after midnight).
- Last October, Telefe -together with the sector's regulatory bodies in Argentina and other TV channels- undertook to implement the «basic broadcast content guidelines» governing the broadcasting of violent, discriminatory and obscene material.
- Onda Cero has dedicated airtime to promoting issues of social interest such as immigration (3.4% of airtime), health issues (6%) or the integration of the disabled (5%).
- Terra established a contents filter that limited access by minors to pages with pornographic or violent contents, as well as those covering issues such as the construction of explosive devices, drugs, sects or racism. This filter was installed as a pilot experience in the USA, after which it was installed in Latin America.

Child Pornography

5,000

personal pages removed by Terra España

40

collaborating associations and NGOs

Theft of mobile telephones

18,093

terminals stolen and blocked in Spain

Emergency assistance

3,581,811

calls to 112 from the MoviStar network