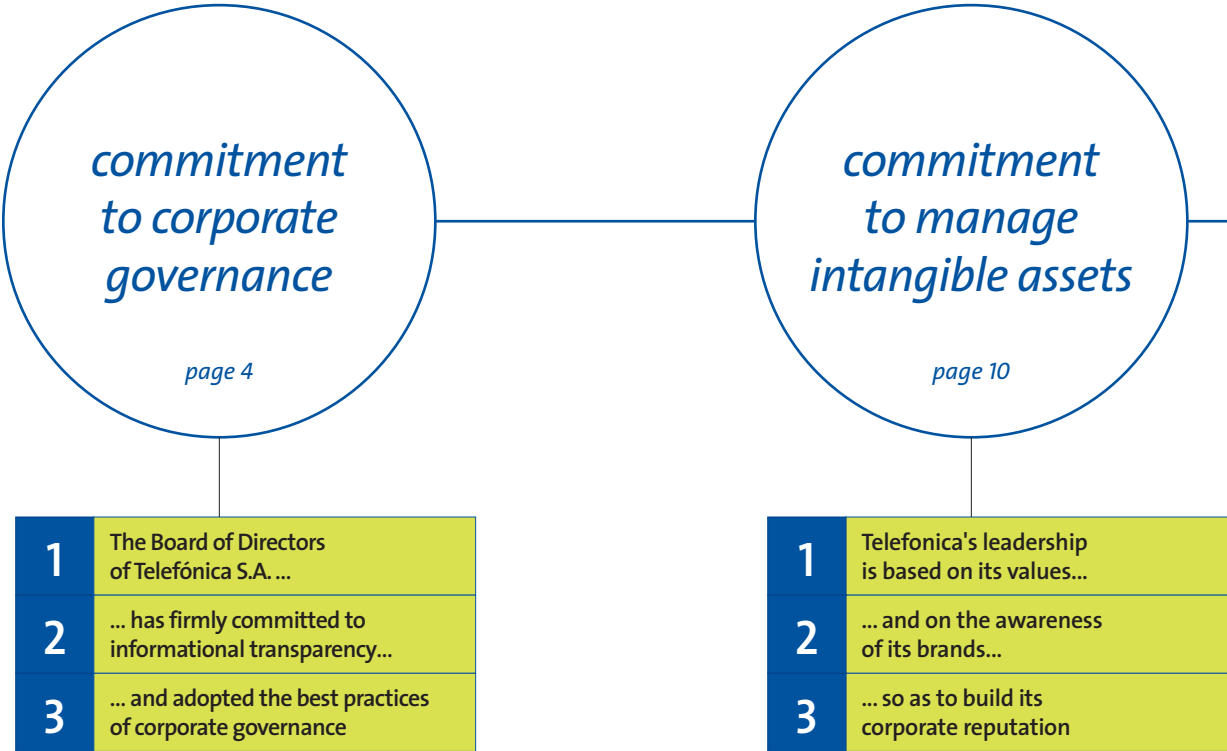


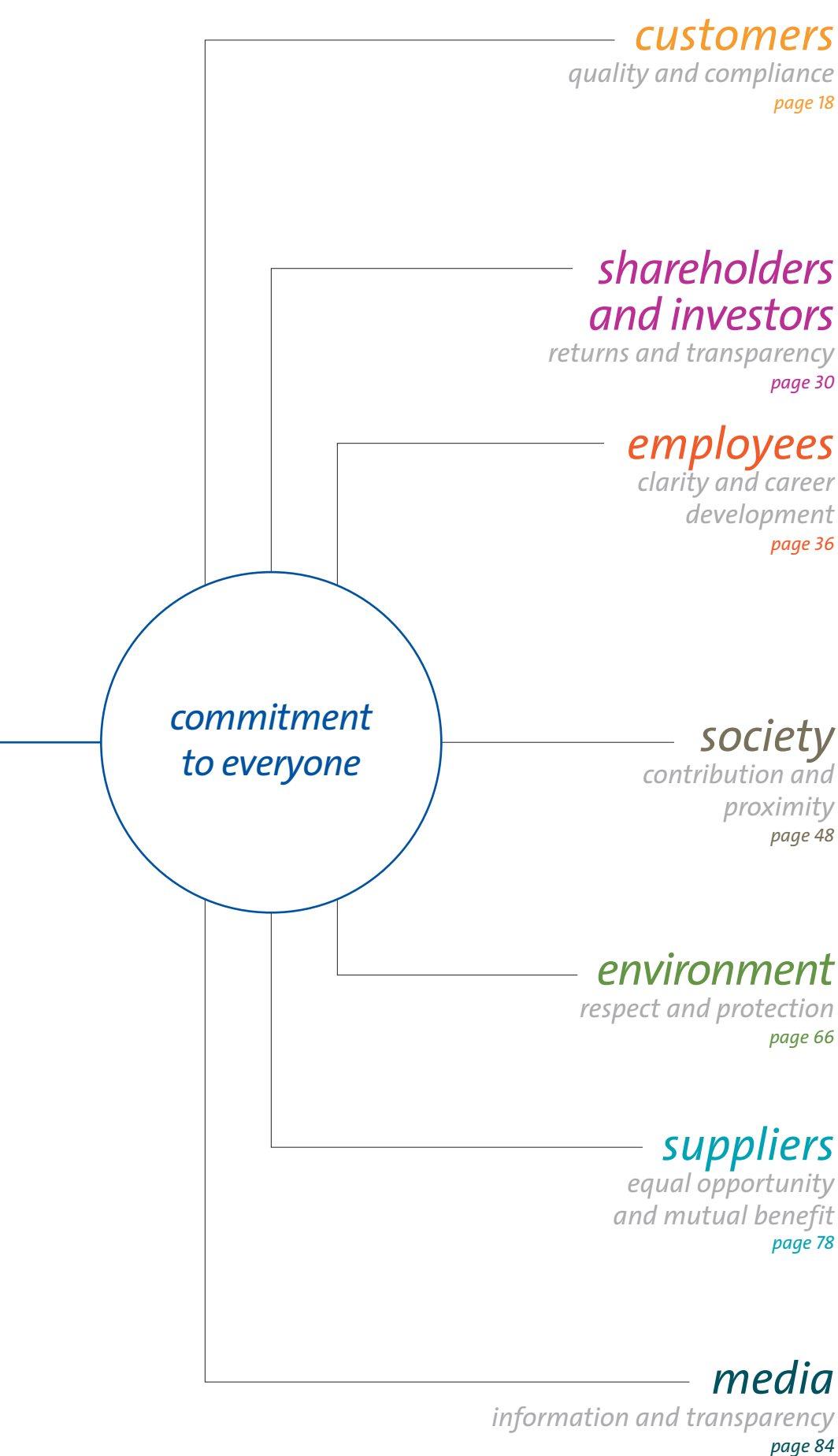
a year of commitments

graphic index and structure of document



This document includes commitments, performances and data from Telefonica in respect to corporate governance, intangible assets and its relations with customers, shareholders, employees, society, environment, suppliers and media. This information has been obtained from internal sources from the company. The data included in the document could be affected by later happenings and by evolution, and therefore its content could suffer modification.

This Corporate Responsibility Report is inspired on the GRI guidelines (Global Reporting Initiative). Developing a commitment to transparency, Telefonica will add new GRI indicators and guidelines in later publications



1	Telefónica strives for excellence in its service...
2	...based on its ability to listen to customers
3	All of its actions should be aimed at responding to the confidence its customers place...
4	... in a leading communications group like Telefónica
1	Telefónica sets up communication channels with its shareholders...
2	... and with the financial community...
3	... offering complete and transparent information
1	Telefónica's employees are the key to its leadership
2	Telefónica establishes a working environment that ensures respect for human rights...
3	... and cares about the health and safety of its employees
4	Telefónica strives to provide fair compensation to its employees...
5	... favoring employee training and professional development
1	Telefónica: a multidomestic company...
2	... at the service of society
3	The Telefónica Group takes the lead in the development of the Information Society...
4	... respecting the values of the communities in which we operate
1	Telefónica is committed to preserve the environment...
2	... and to minimise the environmental impact of its activities ...
3	... and to develop services which contribute to the protection of the environment
1	Telefónica works with a wide range of suppliers
2	The company endeavours to build relationships based on transparency and fair competition...
3	... for the mutual benefit of both ...
4	... seeking to foster ethical standards throughout the supply chain
1	Telefónica is aware of the public's interest in its activities...
2	... and provides transparent, up-to-date and rigorous information

corporate governance

1

The Board of Directors of Telefónica S.A.

Composition of the Board of Directors

➤ **75%**

Non-executive directors

➤ **45%**

Independent directors

➤

International representation

Workings of the Board

- Monthly meetings
- Attendance of the principal directors to discuss relevant issues
- Appointment of a Delegated Committee

Directors

- Age limit
- Appointments, Remuneration and Good Governance Committee

Board Committees

	Non-executive directors	Executive directors	Number of sessions
Audit and Control Committee	4		8
Appointments, Remuneration and Good Governance Committee	4		8
Human Resources and Corporate Reputation Committee	4		3(*)
Regulations Committee	3	1	4(*)
Service and Commercial Quality Committee	4		2(*)

(*) Since June 2002

The relations between Shareholders and the Board of Directors are based on three core values: loyalty towards the owners of the Company; enforcement of the resolutions and decisions taken by the General Meeting; and transparency in the management of daily affairs. Telefónica is at the forefront of companies applying the best practices in good corporate governance and its Regulations of the Board of Directors are proof of this. However, we want to go one step further in our commitment to corporate governance by extending Telefónica's best practices to all our stakeholders.

Chairman of Telefónica. General Shareholders' Meeting. 12 April 2002

2

... has firmly committed to informational transparency...

→ 1,698,326

registered minority shareholders
(as of 3rd March 2003)

Regulations applicable to records, disclosure and control of financial and accounting information

(28 November 2002)

Regulations governing the disclosure of information to the market

(in planning stage)

Annual Report on Corporate Governance

(included in this report)

Internet

www.telefonica.com/ir/esp/index_es.html
www.telefonica.es/accionista
www.telefonica.es/gobiernocorporativo

3

... and adopted the best practices of corporate governance

Internal Code of Conduct for securities markets issues

Renewal of the Control Committees of the Board of Directors

(26 June 2002)

Disclosure of directors' compensation

commitment to

corporate governance

«Corporate governance is the system by which companies are directed and controlled. Under this definition, good governance refers to a system which pursues the following aims: (a) strengthening the Board’s ability to supervise the management of the Company while, at the same time, ensuring that all shareholders are represented and their interests protected; (b) reinforcing the duty of loyalty required from members of the Board of Directors and Management Committee; and finally (c) improving the transparency and accessibility of the information provided to shareholders and investors»

Telefónica's Annual Report on Corporate Governance (attached to this document) provides complete information on Telefónica's corporate governance provisions, and the good governance initiatives adopted over last year.

Telefónica's fundamental rules of corporate governance are contained in the Company's Corporate Statutes and in the regulations of its Board of Directors, approved January 29, 1997, and modified July 22, 1998.

The principles inspiring Telefónica's corporate governance policies are:

- Maximization of the company's value in the interest of its shareholders.
- The essential role of the Board of Directors in the management and administration of the company.

- Organizational flexibility.
- Informational transparency in relationships with employees, shareholders, investors and clients.

1 The Board of Directors of Telefónica S.A. ...

Telefónica's Board of Directors meets the highest corporate standards within its sector as far as its composition, operation, member profiles, and relations with the Company and markets are concerned.

Composition of the Board

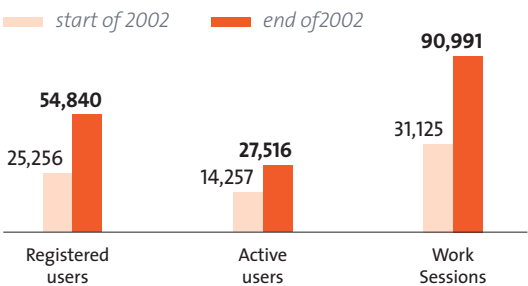
The Board of Directors of Telefónica S.A. shows the following characteristics :

- 75% non-executive members
- 45% independent members
- International presence

Operation of the Board and its Managing Committee

- The Board of Directors meets monthly in accordance with a preset annual calendar. There is a pre-established agenda for each meeting, which is forwarded to each board member in advance along with the necessary documentation.
- In order to provide any necessary information and clarification regarding the issues discussed, in 2002 the Group's highest-level executives attended all Board Meetings, so as to discuss those matters for which they are responsible.
- The existence of a Managing Committee provides the Board of Directors with greater operability and efficiency in the performance of its duties,

Evolution of the «a+» service



The Committees of the Telefónica S.A. Board of Directors

	Non-executive members	Executive members	Number of sessions
Auditing and Control Committee	4	–	8
Appointments, Compensation and Good Governance Committee	4	–	8
Human Resources and Corporate Reputation Committee	4	–	3(*)
Regulation Committee	3	1	4(*)
Service Quality and Business Services Committee	4	–	2(*)

(*) Since June, 2002.

with full respect for the principle of transparency in its relationship to the Board.

practices as the annual accounts, verified by the Auditing Committee.

Board Members

- Establishment of an age limit for performing duties.
- Formal, transparent selection procedure for Board Members, starting with a proposal from the Appointments, Retributions and Good Governance Committee.
- An adequate Board Member compensation policy, based on criteria of moderation. (Starting this year, specific information regarding such compensation will be released.)
- Regulation of the obligations arising from the members' duties to be diligent and loyal. Such loyalty obligations also apply to significant shareholders and high-level executives.

Board's Committees

- Existence of Advisory or Control Committees composed almost entirely of external members.
- The Board comprises a committee responsible for audit and control and a further committee whose responsibility it is to make appointments and set the remuneration policy.

Company's relationships with markets, shareholders and external auditors

- Existence of important communication channels through the shareholders office and the investor relationships area.
- Establishment of measures to ensure the independence of external auditors.
- Quick, accurate, reliable information to markets, and the establishment for this purpose of information communication procedures and controls.
- Periodic financial information prepared in accordance with the same principles and professional

2 ... has firmly committed to informational transparency...

Telefónica Group has firmly committed to ensuring that all Company owners, shareholders with significant numbers of shares, institutional investors, small shareholders (minority shareholders), etc. receive all necessary information at the right time, in the proper form.

Telefónica is the Spanish multinational with the greatest number of minority shareholders. In accordance with the information obtained from the «Servicio de Compensación y Liquidación de Valores» (the Spanish Central Securities Depository), at closing on March 3, 2003, the number of Telefónica shareholders was 1,698,326, in the light of individual records of natural persons and legal entities.

The Company has established different communication channels in order to transmit all information required by the different stakeholders, for markets and institutional investors as well as minority shareholders. These channels are constantly being improved, as shown by the recent launch of the shareholders' website, where Telefónica's minority shareholders are provided with the same information given to the Company's institutional investors via the Investor Relations website.

During 2002, Telefónica approved two sets of internal regulations about procedures and controls on recording, preparing and issuing both financial and non-financial information.

Stock Exchanges where Telefónica is listed

4 Spanish Stock Exchanges (Madrid, Barcelona, Bilbao and Valencia)

London Stock Exchange

Paris Stock Exchange

Frankfurt Stock Exchange

Tokyo Stock Exchange

New York Stock Exchange

Buenos Aires Stock Exchange

Lima Stock Exchange

Sao Paulo Stock Exchange

Included in the Stock Exchange Automated Quotation System (SEAQ International)

Regulations on records, communication and control of financial/accounting information

These regulations were approved by Telefónica's Board of Directors during the meeting held on November 28, 2002. They regulate the internal procedures and control mechanisms for preparing Company financial/accounting information, and are intended to ensure the application of homogeneous accounting practices and policies throughout the Group, and to establish a periodic evaluation system for the operation of this system.

Regulations on the release of information to markets

These internal regulations govern the basic operational principles of the processes and systems to control the release of company information, in order to ensure the priority, quality, and control of the information divulged to the bodies regulating stock markets, and markets in general. These regulations are now awaiting approval by the Board of Directors, having been approved by the Auditing and Control Committee and the Appointments, Retributions and Good Governance Committee.

These two sets of internal regulations meet the legal requirements in this area established by the legislation of the different markets on which the Company's securities are traded.

The preparation of an **Annual Report on Corporate Governance** provides further evidence of the Company's commitment to ensuring that markets, shareholders and investors receive complete information on the Company. This report contains in-depth information on Telefónica's corporate governance provisions and its good governance practices, providing specific information on how the company's management operates.

Also to be found on the Internet, on a specific section of the Company's website, there is complete information on Telefónica's corporate governance policies. This includes all relevant documents on Company regulations and internal operation (statutes, regulations of the Board of Directors, and the Internal Conduct Regulations), information on all corporate and management bodies, the Company's capital structure, etc.

3 ... and adopted the best practice of corporate governance which have placed Telefónica in the highest level of compliance in this field

At the beginning of 2002, Telefónica's Board of Directors set out to analyze the Company's corporate governance practices in order to make any necessary improvements, and to adopt the strictest standards now being imposed before they actually took effect.

For this purpose, the following measures were adopted during 2002:

Approval of new Internal Conduct Regulations concerning the stock markets

These regulations involve adopting new rules of conduct regarding the use of privileged information, such as making use of such information in order to purchase and/or sell Company securities.

Telefónica decided to make these regulations applicable to all persons who more frequently access to privileged information. This not only includes high-level company executives and members of the Board of Directors, but also personnel in some areas who frequently handle privileged information as part of their jobs.

Shareholders Office
www.telefonica.es/accionista

Corporate Governance
www.telefonica.es/gobiernocorporativo

Investor Relations
www.telefonica.com/ir



Gobierno Corporativo

Inicio | Participaciones | Relaciones con el | Estatutos y | English |
Auditor | Empleados | Auditor Externo | Reglamentos | Portuguese

Gobierno

Administración

Declarado en los Estatutos Sociales de Telefónica, la administración de la sociedad depende de la Administración, a su Presidente, a la Comisión Delegada y, en su caso, a los Consejeros Delegados.

La administración se compondrá de un mínimo de cinco y un máximo de veinte miembros por la Junta General de Accionistas. Los Consejeros ejercerán su cargo máximo de cinco años, y podrán ser reelegidos una o más veces por periodos de cinco años. Actualmente, el Consejo de Administración está integrado por veinte miembros, uno de ellos Vicepresidente y el resto Consejeros.

Composición | Derechos y Deberes | Funciones del Consejo | Composición

Relaciones con Inversores

Inicio | Información | Opinión de | Junta de | Protección | English |
Estructura y | Participantes | Buró de | Mercado | Accionistas | Española | Portuguese

mundo de Relaciones con Inversores de Telefónica.

y eventos

PERFECT

Resultados

Resultados Enero - Diciembre 2002: Telefónica S.A. hará públicos los resultados financieros al año 2002 el día 27 de febrero de 2003.

5

Incrementó la generación de caja el 62,2% hasta los 7.995,2 millones de la deuda neta en 6.405,3 millones

These regulations go further than strict requirements of current legislation by also prohibiting operations with Company securities one month before the Annual Accounts are presented by the Board of Directors, and before quarterly and biannual financial information is released by the Company.

In addition, the internal regulations set forth the principles to be followed in situations where there is a conflict of interests.

To ensure proper compliance with these regulations, an Enforcement Committee is being created, along with an Enforcement Unit in charge of enforcing compliance with the obligations described.

Renewal of the Board of Directors' Advisory and Control Committees

The duties of the Advisory and Control Committees provide support in the different areas handled by each Committee. Proper operation of these committees is important in order to constantly examine and monitor the areas that the Board has deemed especially relevant to good company governance.

Telefónica is well aware of the importance of these committees. For this reason, on June 26, 2002, the Board of Directors approved the reorganization of the Board's Control Committees, assigning new duties in the area of corporate governance to the Appointments and Retributions Committee, and in the area of corporate reputation to the Human Resources Committee.

In addition, in keeping with the most widespread good governance recommendations, the composition of these committees was renewed so that they are

almost completely composed of external and non-executive members.

Information on Board member compensation

One of the issues that markets increasingly demand, which is repeated on numerous questionnaires for inclusion in investment indexes, is whether the company provides individualized information on the compensation provided to Board members or not. This is a good governance practice widely demanded of large companies, and Telefónica has decided to provide this information, specified individually by position or title on the Board and its commissions.

Intangible assets

1

Telefonica's leadership is based on its values...

➤ **To shareholders and investors**

- Transparency
- Returns

➤ **To customers**

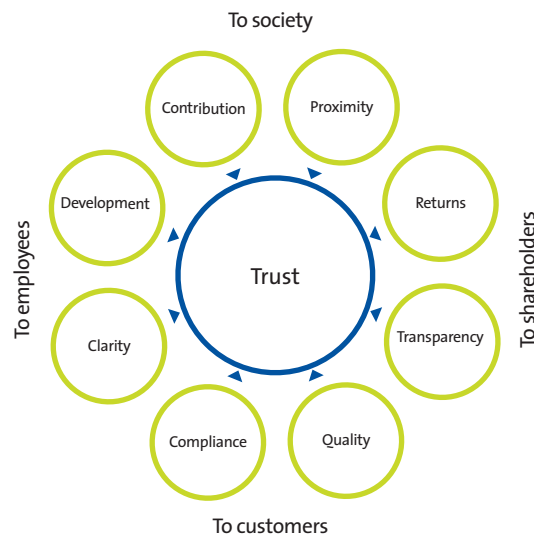
- Quality
- Compliance

➤ **To employees**

- Clarity
- Development

➤ **To society**

- Contribution
- Proximity



2

... and on the awareness of its brands...

2.1

Brand strategy and creation



2.2

Brand architecture

Telefónica

2.3

Brand management

Registered trademarks (December 2002)

→ 7.706

Registered domain names (December 2002)

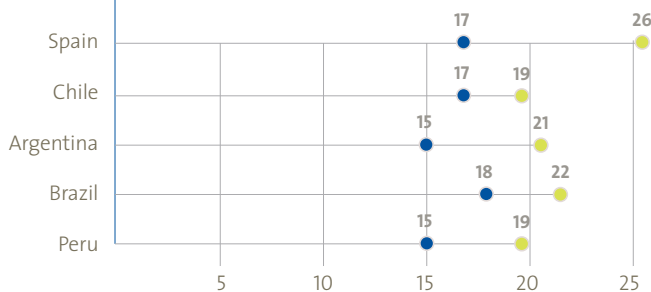
→ 2.182

2.4

Measurement systems

Contribution of Telefónica brand to the revenue generated (data in percentages)

● Mobile telephony operations ● Fixed-line telephony operations



3

... so as to build its corporate reputation

3.1

Integrated Corporate Reputation Model



3.2

Foro de Reputación Corporativa

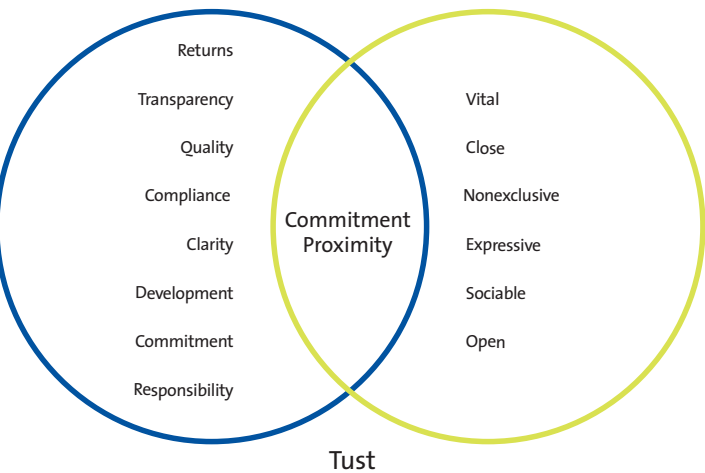


commitment to manage

intangible assets

Brand values and features

- Values shared by target public
- Brand attributes



Telefónica's leadership...

At Telefónica, our aim is that all of our customers, employees, shareholders and the communities in which we operate will trust our ability to deliver on our promises.

Based on this relationship of trust, Telefónica intends to build a new leadership approach that will enable it to be among the world's major telecom operators. The company aims to be acknowledged as a pre-eminent multidomestic group operating both on a global and local scale.

1 ... is based on its values...

Telefónica's leadership is based on the Group's values, which reflect its aim of winning its stakeholders' trust. These core values define the company's philosophy: proximity and commitment.

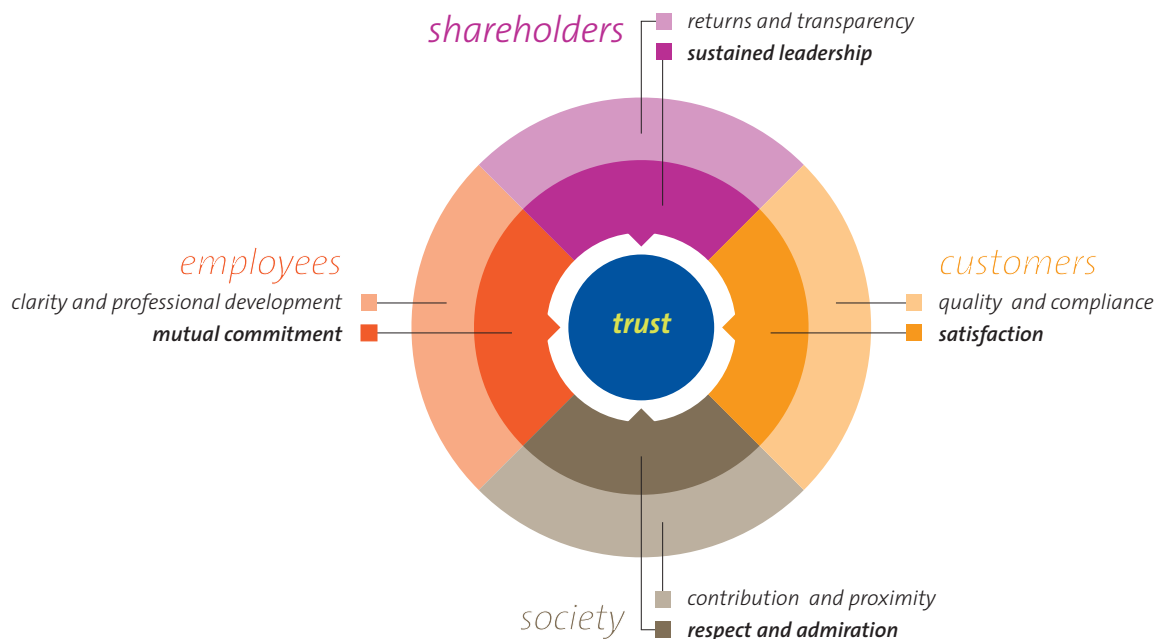
Telefónica's values are central to its relations with stakeholders. That is why the company is intends to achieve returns and transparency for shareholders; quality and compliance for customers; clarity in relationships and professional development for employees; and contribution and proximity in relation to society. Combined together, these values allow the Company to establish a relationship of trust with its stakeholders.

Telefónica is aware that talking about trust is one thing, but building trust day after day by making the right commitments and by meeting them consistently is another. In other words, Telefónica's aim is to show that it is capable of «walking the talk».

Telefónica Group values

(stakeholders)

■ ■ ■ ■ *What we do*
■ ■ ■ ■ *What we achieve*



To our shareholders and investors

- **Transparency.** Meeting our commitment to provide our shareholders, investors and other stakeholders with all the information they need.
- **Returns.** Deploying a robust and sustainable business model.

To our employees

- **Clarity.** Making sure that all employees of the Group are always provided with complete and quality information.
- **Professional development.** Ensuring that Telefónica's staff are offered the best career opportunities.

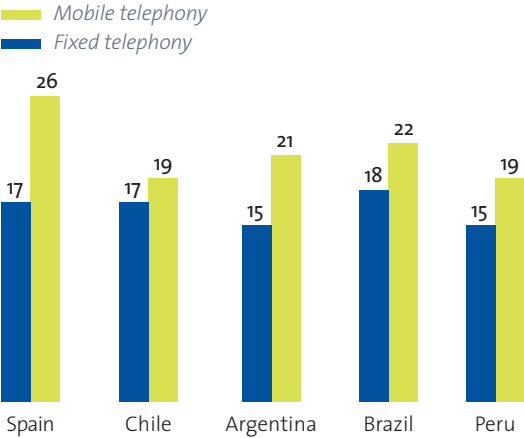
To our customers

- **Quality.** Ensuring that our products, services and customer service meet the highest standards.
- **Compliance.** Committing ourselves to delivering on our promises.

To society

- **Contribution.** Building a bond of trust with the communities it serves, based on its contribution to society through targeted policies in the field of social responsibility, environmental impact and integration.
- **Proximity.** Providing global services whilst endeavouring to meet the needs and unique circumstances of the communities in which it operates.

**Contribution of Telefónica's Brand
to Group's total revenue¹**
(data in percentage)



(1) Values are calculated annually by Telefónica's Corporate Marketing Department and by FutureBrand as an independent organisation. The values thus calculated may be in excess of the cost of acquiring such trademarks, should it be the case. Due to the nature and purpose of the indicator, and given that it does not result from any business combination -FAS 141 «Business Combinations» and/or IAS 38 «Intangible Assets»- the value cannot be taken into financial account. Should the trademarks be taken into financial account, the calculation must be adjusted in line with the requirements laid down by European regulatory bodies and by the competent Spanish authorities and/or with any international rules applicable to the presentation of Telefónica's results.

2 ... and on the awareness of its brand...

Telefónica's brand can be defined as a valuable strategic asset which conveys the Company's value statement; a symbol that can be readily identified by all our stakeholders and which creates value for the business.

Telefónica's brand portfolio is estimated to be worth 16,600 million¹. This calculation only refers to brands that are highly visible and which have been backed by a substantial marketing investment. This high value highlights the need to have an efficient strategy based on well-targeted management and control mechanisms. One of the methods used to calculate the value of a company's brand portfolio consists of determining its ability to create demand. Brands which include Telefónica as part of their wording account for approximately 90% of the total brand value. As regards their contribution to revenue creation, it ranges from 13% to 26% depending on the characteristics of each business and the scope of its direct customer base.

2.1 Brand strategy and creation

The brand has a global impact on all of the Group's operations, including its communication services marketing, the communications carried out by the company as a whole and its contacts with stakeholders. As a result the Group's brand strategy is designed to serve the interests of its overall business strategy, and it is developed by means of architecture, management and measurement systems.

Telefónica's brand strategy is primarily focused on ensuring that its products and services are identified, communicated and marketed in a clear, efficient and consistent manner, not only on a global scale but also on a local level.

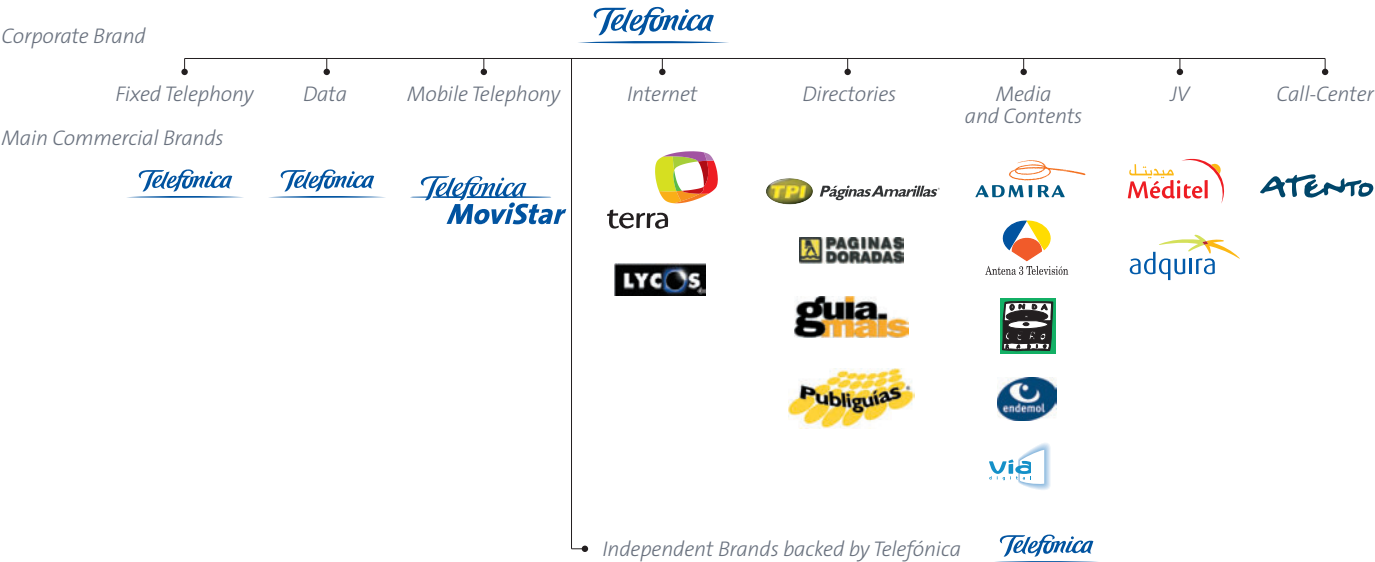
2.2 Brand architecture

Brand Architecture is designed to optimise the position of the corporate brand within the organisation. This is

The Brand Strategy is intended to boost the Business Strategy



Global Brand Architecture



achieved by setting a series of hierarchical relationships between the various brands, sub-brands and products and services, both on a local and global level.

The Group's Brand architecture includes brands that are directly connected or associated with Telefónica, on one hand, and independent brands, on the other, depending on the brand's connection with Telefónica's traditional activities, its degree of participation and the historical links between both organisations.

The evolution of the brand architecture over time reflects the evolution of the Company itself, which turned from being a leading telephony service provider in its domestic market to providing telecom services and achieving a global leadership position in the area of multimedia and multiplatform services and solutions.

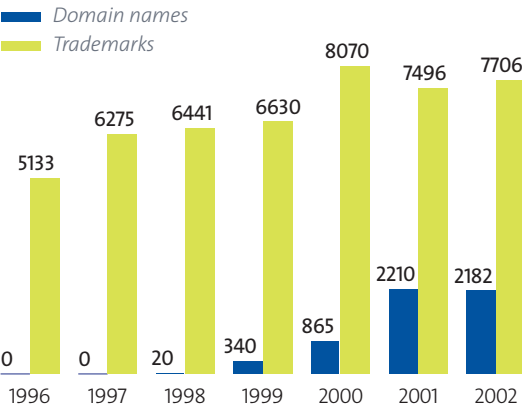
2.3 Brand management

Some of Telefónica's brands are leaders in their sectors and in the markets in which the company is present. As a result, the company needs a centralised system to manage its brand portfolio which enables it to produce guidelines, implement regulations and deploy tools for measuring the brand's image on a global scale. This Brand management is applied to its copyright and patent rights portfolio which includes up to 2,182 domain names and 7,706 trademarks.

2.4 Measurement systems

Telefónica is committed to maintaining and enhancing the brand's reputation, image, satisfaction and rela-

Telefónica's copyright and patent right portfolio



Brand Awareness on the fixed telephony market

Fixed Telephony	Spain	Chile	Argentina ¹	Brazil	Peru
Spontaneous awareness 2002	Telefónica	Telefónica CTC	Telefónica	Telefónica	Telefónica
Position	1 ^a	1 ^a	1 ^a	2 ^a	1 ^a
Top-of-mind awareness	79%	74%	52%	43%	92%
Number of people who mentioned the brand	98%	98%	95%	93%	99%

Source: «Tracking de publicidad y salud de marca». Millward Brown. (1) last data available for Argentina 2001.

Brand Awareness on the mobile telephony market

Mobile Telephony	Spain	Chile	Argentina	Brazil	Peru
Spontaneous awareness 2002	T. Movistar	T. Móvil	Unifón	T. Celular	T. Movistar
Position	1 ^a	1 ^a	2 ^a	1 ^a	1 ^a
Top-of-mind awareness	51%	24%	22%	34%	51%
Number of people who mentioned the brand	90%	68%	60%	62%	86%

Source: «Tracking de publicidad y salud de marca». Millward Brown.

Brand Awareness of Terra as an Internet portal

Internet	Spain	Chile	Mexico	Brasil
Position	1 ^a	1 ^a	2 ^a	3 ^a
Top-of-mind awareness	15,2%	14,4%	10,5%	8,8%
Number of people who mentioned the brand	24,4%	28,2%	25,2%	18,6%
Suggested awareness	99,5%	91,7%	93,2%	98%

Source: Brand Audit (December 2002). Ikerfeld.

tionship with the target public. To do this, the Company has developed a system to manage and assess the information shared by the various business lines and countries, which includes an array of processes, metrics and information systems that are applied consistently throughout the Group.

According to marketing surveys conducted in 2002, Telefónica is among the top two brands mentioned by customers in all the markets in which operates. The following studies provide information about the Company, which ranks first in terms of top-of-mind awareness and overall brand awareness (number of people who mentioned the brand) in all the markets and countries in which the company is established.

3 ... so as to build its corporate reputation

A Company of the size of Telefónica daily deals with millions of communications with its stakeholders, whether these have a direct or indirect interest in the business, such as customers, shareholders, investors, employees, partners, the media, suppliers, etc.

In the light of this, Telefónica has embarked on a Corporate Reputation Project with a twofold aim: firstly, to identify and draw up a list of all the contact points in its day-to-day relations with its stakeholders; and secondly, to put in place an efficient and consistent system for managing these contact points.

The analysis led to the following conclusions. First of all, more than 750 contact points were identified around six main themes (finance, communication, management, technology, social issues and legal mat-

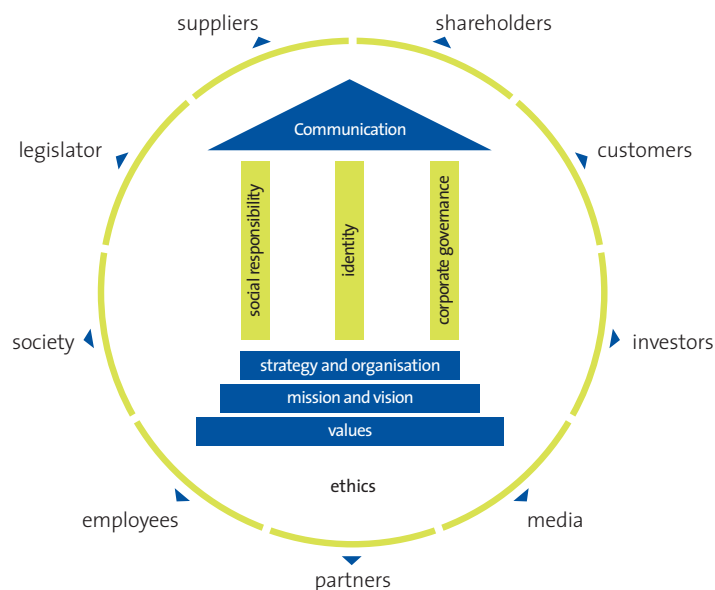
ters); out of these, over 150 points (20% of total) were considered «critical», not only because of the damage they can cause to the Company's reputation, but also because of the likelihood of such damage occurring. In a second stage, the 150 contact points were grouped together and divided into 8 groups representing the intangible assets that have an impact on corporate reputation: ethics, values, company mission and vision, strategy and organisation, corporate responsibility (social, environmental and working practices), identity, corporate governance and communication. In the third and final stage, Telefónica's aim is to design a series of procedures on the basis of each contact point that will be applied globally across the Group.

Integrated management of intangible assets: the Integrated Corporate Reputation Model (MIRC)

Telefónica has set up an Integrated Model of Corporate Reputation (MIRC) with the aim of integrating the management of non-financial assets so as to create more value for stakeholders in the long term. The MIRC can be defined as the guidelines to building reputation. It is composed of three different levels:

- The first level focuses on the variables that form the bedrock of corporate reputation: ethics; an essential foundation on which to build a relationship of trust; values; these outline the company's core philosophy and behaviour; vision and mission, which set out the company's ultimate goal; and organisation, which is critical to determining what steps must be taken in order to bring the Company's vision to fruition and the resources allocated to this objective.
- The second level is centred on the Company's philosophy, with the three main principles that are key to building a good corporate reputation: social responsibility, which includes social action, the Company's

Telefónica's Corporate Reputation Integrated Management Model



impact on society, working practices and environmental issues; corporate identity -the Company's backbone-; and corporate governance, which focuses on the mechanisms designed to ensure transparency and to control and monitor the Company's behaviour.

- The third and final level concerns communication with the target public within a consistent, coherent and transparent framework. The communication of all aspects of a company's activities, beyond purely financial issues, generates increased value.

Ultimately, Telefónica's Corporate Reputation Project seeks to establish the Group's reputation, ensuring that its relations with stakeholders are an opportunity to earn their trust.

Foro de Reputación Corporativa

In September 2002, Aguas de Barcelona, BBVA, Repsol-YPF and Telefónica created the Foro de Reputación Corporativa. Through this initiative, all four companies aim to share their knowledge and experiences in the field of corporate reputation management.

The Foro is co-ordinated by the Instituto de Empresa, which acts as Technical Secretariat, and aims to offer a place where people can meet to analyse and disseminate corporate reputation trends, tools and models to be applied to corporate management. To that end, the Foro is supported by a network of academics and business experts. Its main goal is to increase the value of the member companies by using intangible assets as a means of generating value. Its main lines of action are:

- To share research and disseminate knowledge in the field of corporate reputation.
- To analyse different models for managing corporate reputation.

- To evaluate intangible assets. To define indicators and develop corporate reputation measurement systems and other related methods that make it possible to quantify the impact of corporate reputation policies on business management.
- To study the influence of and interrelations between the main intangible variables of corporate reputation: ethics, social responsibility, identity, brand and corporate governance.

The Foro de Reputación Corporativa is committed to promoting private and public initiatives aimed at increasing confidence in the financial and business markets, with a view to protecting the interests of stakeholders as well as to responding to social concerns.

Foro de Reputación Corporativa



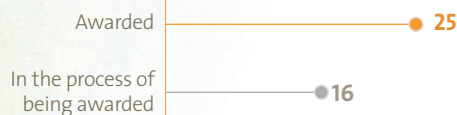
customers

quality and compliance

1 Telefónica strives for excellence in its service...

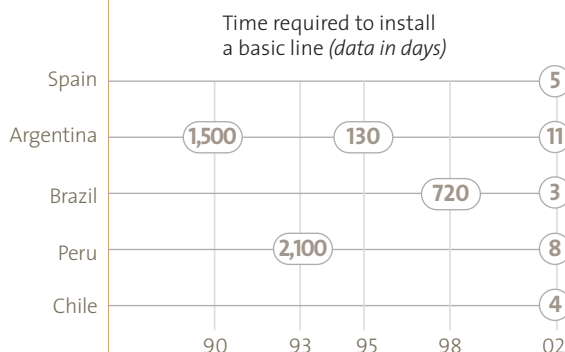
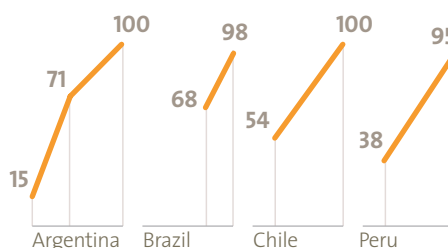
1.1 Quality Certificate

ISO 9000 Certificates



1.2 Service Parameters

Network digitalisation (data in percentages)



1.3 Quality improvement initiatives

Six Sigma Project



2 ... based on its ability to listen to customers

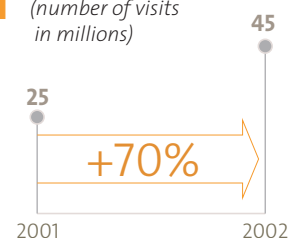
2.1 Through Telephone Customer Helplines

Calls to customer service centres (data in millions)

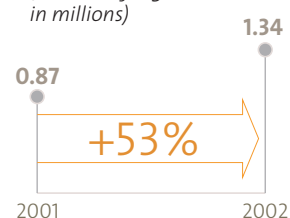


2.2 Through the Internet

www.telefonica.pais (number of visits in millions)



www.telefonicaonline.com (number of registered users, in millions)



2.3 Through Customer Associations

2.4 By listening to the audience

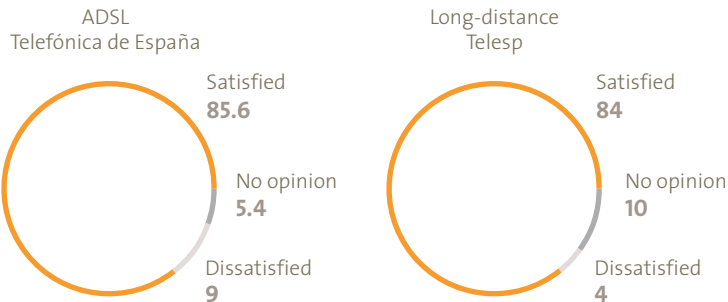
3

All of its actions should be aimed at responding to the confidence its customers place...

3.1

Telefónica pursues its customer satisfaction

Satisfaction regarding the new strategic services
(data in percentages)



3.2

Added Value Services

New users in 2002

	Spain	Latin America
Network answer phone	1,112,000	1,062,424
Caller identification	2,008,000	877,450
Servipack	-	3,550,139

→ **8,400 million**
short messages sent in Spain in 2002

3.3

Customer loyalty reward

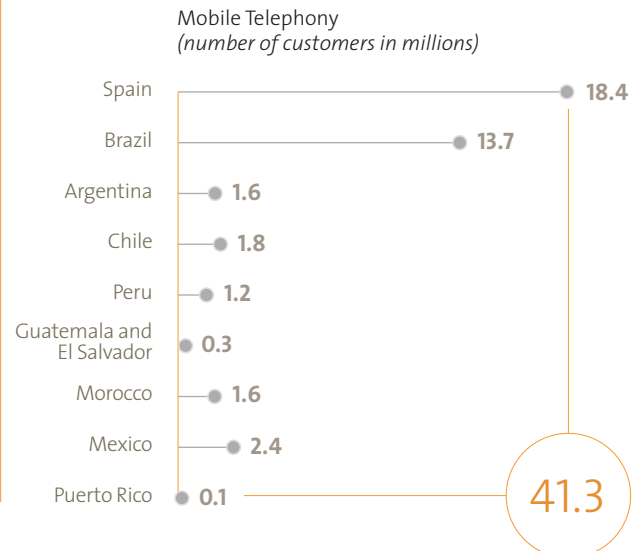
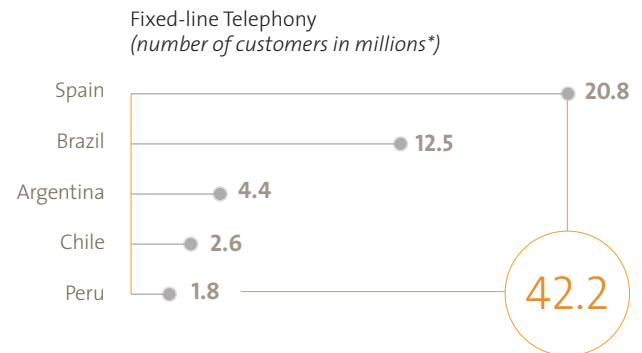
Churn rate
Telefónica Móviles España

→ **1%**

4

... in a leading communications group like Telefónica

Breakdown of customers by country of origin



(*)Telefónica Group will introduce a change in the calculation of Equivalent Lines in Service beginning with the 2003 fiscal year. This new criterion introduces a different treatment of ISDN Primary accesses and 2/6 accesses for PBX and Ibercom. This will be restated by accounting the number of channels per access instead of the extensions making use of them, as was used before.

customers

quality and compliance

The customer is the focal point of the activities of all of the business lines contained within the Telefónica Group. With the aim of encouraging and promoting the quality of its customer services and attention, in 2002 Telefónica's Board of Directors created the Quality of Service and Commercial Attention Commission, formed by four independent Directors. The duties of this Commission are, essentially, to examine, analyse and regularly follow-up the quality indexes for the main services offered by the companies from Telefónica Group.

This chapter details the quality target plans, improvement projects and parameters measured in connection with the work of the Commission, with the aim of offering solutions to customers' demands.

1 Telefónica strives for excellence in its service...

1.1 ISO 9000 Quality Certification

The efforts made by Telefónica Group to achieve excellence in each of the services it offers to its customers is reflected in the numerous procedures certified according to the strict ISO 9000 quality standards.

As part of the plan to develop strategies, policies and procedures carried out by Telefónica in 2002, an important feature was the launching of plans to oversee quality procedures in fixed telephony operators in Latin America, designed to help in the process of being awarded the above mentioned quality certification.

1.2 Service parameters

Each of the companies within Telefónica Group carries out systematic controls of its internal service parameters (installation time, number of faults, average repair time, availability of service) with the aim of gathering information about the quality of the service offered.

As a demonstration of its concern for the quality of telecommunications services, Telefónica participates together with regulatory bodies, users' associations, sectorial associations, trade unions and other operators in «Comisión de Seguimiento de Calidad» for the offering of telecommunications services, created in the «Ministerio de Ciencia y Tecnología».

The efforts and investments made in recent years have resulted in an important increase in quality. A significant example is the development of average times for offering service in TeleSP (Brazil), which decreased from 720 days in 1998 to three days in 2002.

1.3 Quality improvement initiatives

Some of the most interesting projects carried out by Telefónica Group in 2002 to improve quality are:

- **Six Sigma projects:** a quality method based on improving processes. Telefónica de España has concentrated its projects on customer attention, ADSL and improvements in infrastructures, with the active involvement of nearly 700 people. Terra Lycos has trained all of its employees in the countries in which it operates in these techniques.
- **ATIS Project:** a platform of processes and systems for customers in the areas of attention, billing and char-

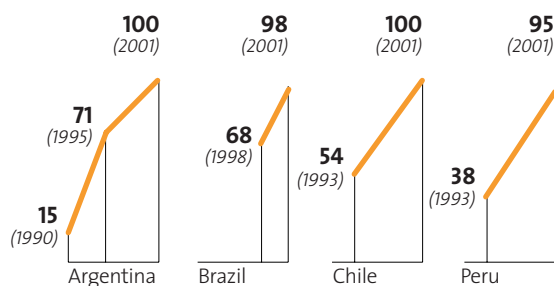
UN EN ISO 9001/9002 Quality certification

Business line	Country	Status
Atento	Argentina	✓
	Brazil	✓
	Central America	✓
	Chile	✓
	Colombia	✓
	Spain	✓
	Peru	✓
	Puerto Rico	✓
	Morocco	→
	Mexico	→
Telefónica Data	Chile	✓
	Spain	✓
	T. Sistemas (Spain)	✓
Telefónica de España	Spain	✓
Telefónica I+D	Spain	✓
Telefónica Latinoamérica	Argentina (TASA)	→
	Brazil (TeleSP)	→
	Chile (CTC)	→
	Peru (TdP)	→
Telefónica Móviles	Argentina	✓
	Brazil	✓
	Central America	✓
	Chile	✓
	El Salvador	✓
	Spain	✓
	Guatemala	✓
	Morocco	→
	Peru	→
	Puerto Rico	→
Terra (user attention centre)	Spain	→
	Brazil	→
	Mexico	→
TPI	España	✓
	Peru	✓
Zeleris	Spain	✓
	Brazil	→
	Chile	→
	Argentina	→
	Peru	→

✓ Certified → Planned

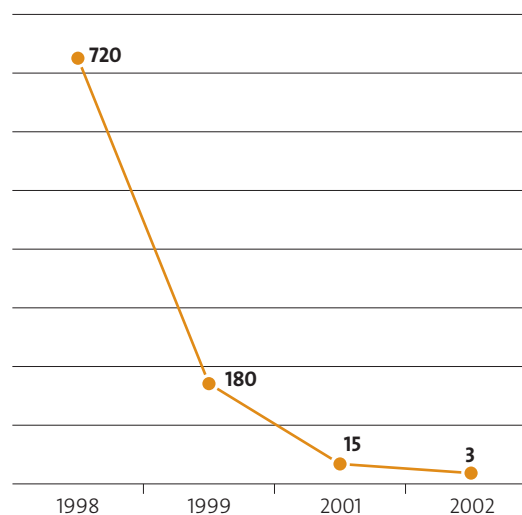
Digitalisation of fixed networks in Latin America since Telefónica entered the market

(data in percentages)



Evolution of average installation time for a line in TeleSP (Brazil)

(days)



Service parameters. Basic telephone service

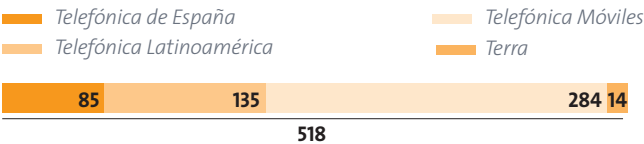
	Spain	Argentina	Brazil	Chile	Peru
Average installation time for telephone line (days)	5.2	11.61 ⁽¹⁾	2.9	4	8.16
Faults per 100 lines	1.42	2.2	2	3.4	2.6
Average time taken to repair faults (days)	0.625	6.29	0.46	1.7	0.3
Service availability (% time)	99.82	99.92	99.99	99.66	99.75

(1) The period for installing a telephone line in Argentina includes the average period for advance payment, as since 2002 customers have had to pay in advance to contract the service.

Service parameters. ADSL

	Spain	Argentina	Brazil	Chile	Peru
Average provision time (days)	11.04	14.19	9	6	8
Average time taken to solve ADSL incidents (days)	0.32		1	1.5	0.85

Calls received by Customer Attention Centres
(data in millions)



ging. It is gradually being implanted in fixed telephone operators in Latin America (Telefónica de Argentina, TeleSP in Brazil, Telefónica CTC Chile and Telefónica del Perú) as well as in Telefónica Data at worldwide level.

- **Hermes Project:** A distribution process to end-customers of Telefónica de España. Thanks to this project, developed in collaboration with the logistics department, customers are contacted immediately when incidents arise in the distribution process, thereby reducing incident-solving times by offering improved customer service.

for business customers, 1.8% for «MoviStar Plus» customers, and 3% for «Activa» customers.

The number of incidents reported by operators of Telefónica Móviles in Latin America, from a monthly average of 15 million contacts with customers, was lower than 3%. 90% of incidents are resolved in less than five days.

Telefónica Publicidad e Información (TPI)

In 2002, TPI received 1.92 incident reports per 1000 customers, which were solved on first contact in 99.21% of all cases, with an average time of 1.53 days taken to resolve the situation.

**2 ... based on its ability
to listen to its customers**

2.1 Through telephone customer helplines...

Fixed Telephony

Telefónica de España's customers mainly used the telephone (93.40% of all occasions) as a channel for consultations, information and incident reports («1004» and Business Customer Attention Centres).

More than 94.81% of calls received were picked up in less than 10 seconds (data for TASA, TeleSP, CTC, Telefónica del Perú). In Spain, this indication is given as the number of calls picked up in less than 20 seconds (84.4% in 2002).

Mobile telephony

In Spain, the percentage of incidents reported compared to all calls received in the Customer Relations Centres was 3% (average between September-December)

2.2 Through Internet...

Telefónica presents its offer of services in an integral and co-ordinated manner using its local www.telefonica.country portals in 8 countries (Spain, Argentina, Brazil, Chile, El Salvador, Guatemala, Mexico and Peru). A total of more than 45 million contacts were made with customers using these portals throughout 2002 (a 70% rate of growth compared to 2001).

The most successful sections of Telefónica's website are the online directories «Páginas Blancas», online billing information requested, «Páginas Amarillas» online, control of the mobile reward point system, and stores.

Throughout 2002, Telefónica's companies have developed a series of novel initiatives to improve customer attention services, by taking advantage of the popularity of the Internet.

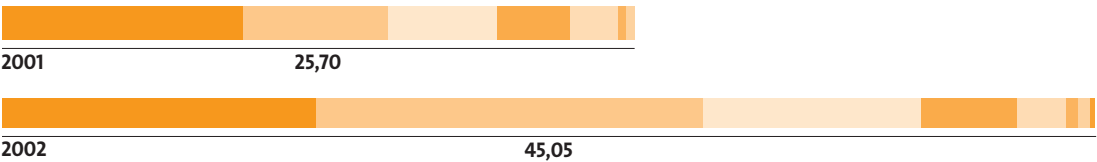
At the end of 2002, 18 companies within Telefónica Group had their own portals offering products and

94,81%
calls picked up in
less than 10 seconds,
Telefónica Latinoamericana

Contacts through telefonica.country

(data in million)

Spain Brazil Peru Chile Argentina
Guatemala El Salvador Mexico



services to their customers. The website of Telefónica de España www.telefonicaonline.com, with 1,339,062 registered users by the end of 2002 (a 53% increase over 2001) and 12,817,937 visitors, and TeleSP in Brazil, with a surge in sales over the Internet, were particularly important features.

In other countries, acceptance of the online service as a way of getting in touch with customers is still in its early stages; Argentina heads the list with 164,582 registered users, Peru with 54,830, and Chile 34,000.

Throughout 2002, different companies within Telefónica Group developed a series of new initiatives to improve customer attention, making use of Internet's popularity.

2.3 Through customers associations...

Telefónica Group constantly seeks to keep close and stable relations with customers associations and cybernauts in the countries in which it operates, to offer them collaboration and set up reciprocal information channels.

Telefónica considers that organisations of this type are an essential channel to complement information about customers' expectations, contribute to focusing on dealing with their demands, the attention given to them, and the information they are provided with.

2.4 Listening to its audience...

In 2002 Onda Cero Radio created an attractive and original proposal «Tema del día» interspersed throughout

286%

Surge in sales over the Internet
TeleSP

1,339,062

registered users of
www.telefonicaonline.com

Initiatives to improve the quality of customer attention

Company	Initiative
Telefónica Data España	«e-Atención», making it possible to view and open reports incidents, complaints and consultations about the state of services offered, and statistics on the traffic of services already offered.
Telefónica Data Perú	Data Online, created so that our customers have access to detailed information about services contracted, billed, owing or in the process of being installed, as well as measurement of the quality offered.
Telefónica de Argentina	«E-CREA» interactive contact centre, aimed at residential customers who have an ISP service or who generally use the web to contact Telefónica.
Telefónica Unifón Argentina	Detailed information about telephone bills on its website, allowing users to consult detailed information about calls made throughout the month.



two radio shows («Protagonistas» and «La Brújula»), whereby listeners can participate and express their opinions about current events.

3 All of its actions should be aimed at responding to the confidence its customers place...

3.1 Telefónica persuades customer satisfaction...

Fixed Telephony

Telefónica de España carries out regular studies on the levels of satisfaction amongst its customers. In December 2002, the levels of satisfaction measured were over 85%, both for Telefónica de España as a company, and for its ADSL service .

Telefónica del Perú also evaluates customer satisfaction, for its local and long-distance services.

In Brazil and Chile evaluations are carried out for different types of customers; general public, companies, satisfaction with public telephones, etc.

Telefónica Data, a company dedicated to offering integral communication and information services for large-scale businesses and institutions, evaluates customer satisfaction in every country where it is present.

Mobile Telephony

The majority of Telefónica Móviles' operators use satisfaction questionnaires to find out the opinions of its customers about the service they receive, their expectations and future needs.

Telefónica Publicidad e Información (TPI)

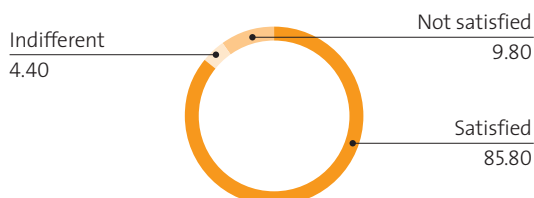
TPI evaluates customer satisfaction about the quality of the basic service offered, obtaining a level of 74% in 2002. Other aspects measured included service provision (84%) and technical assistance (79%).

Atento

Atento, as a company specialised in customer relationship, is responsible for managing customer care for numerous companies within Telefónica Group and other businesses, as well as for creating mechanisms to measure and monitor the satisfaction of its own customers in relation to the service provided. It has carried out polls about satisfaction in its services in Argentina,

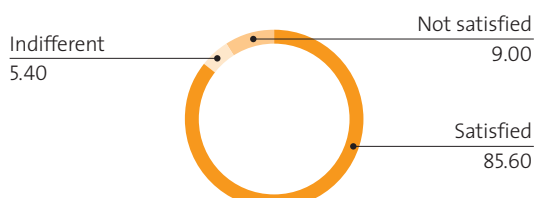
Satisfaction of Telefónica de España's customers

(data in percentages)



Satisfaction of Telefónica de España's ADSL customers

(data in percentages)



Brazil, Central America, Chile, Colombia, Spain, Morocco, Peru, Puerto Rico and Venezuela, in all cases being given a score of over 3.7 on a scale of 0 to 5.

Atento has been recognised for the quality of its services in managing customer relations.

- **Atento Brazil**
Atento Brazil was awarded the «Top de Qualidade» prize in 2001 and 2002, given by the Institute of Quality Studies and Questionnaires. In May 2002 it was awarded five prizes by the magazine «Consumidor Moderno».
- **Atento Peru**
The company was recognised by the industrial development centre of the National Industrial Society in 2002 for being at the forefront of quality investigations, published in the magazine «Calidad y Excelencia». It was awarded the prize for Creativity in Business awarded by the Peruvian University of Applied Sciences (UPC).
- **Atento Colombia**
Award for Continual Improvement awarded by McDonald's for the continuous modernization and handling of its order-taking and delivery service (November 2001).

3.2 Added Value Services

Fixed Telephony
Telefónica offers its customers additional value services including automatic network answering services, call identity services, call waiting or call diverting. In Spain in 2002 a total of 2,008,000 customers requested the call identity service, whereas the answerphone service increased by 1,112,000 customers.

Initiatives for measuring customer satisfaction with Telefónica Data

Country	Satisfaction measurement
Argentina	Global satisfaction study jointly co-ordinated with Tasa to determine global satisfaction amongst large-scale customers and Small and Medium sized businesses.
Brazil	Six-monthly customer satisfaction questionnaire, with a result of 64% satisfied customers in the second half of 2002.
Chile	Carrying out evaluations using a scale of 1 to 7, with 7 representing «Excellent», 22% of our customers qualify Telefónica Data's service as a whole with a 7.
Mexico	Satisfaction with the general aspects of the company rated at 8.5 on a scale of 5 to 10, with customer attention and service rated at 8.67 on the same scale.
USA	Two-monthly customer satisfaction questionnaire measuring tangible parameters (compliance with quality promises) and intangible parameters (customer's perception of the service offered).
Spain	Telefónica Sistemas. 85% of the questionnaires at the end of the projects carried out gave an average score of above 3 (on a scale of 1 to 5).

Percentage of users who recommend Terra channels

Country	Home	Work	Mail
Argentina	66.20	78.50	73.20
	Home	Radio	Invertia
Brazil	77.30	81.30	78.00
	Home		
Chile	71.50		
	Home	Invertia	Education
Spain	58.90	71.30	66.20
	Home	Work	Mail
Mexico	70.30	74.20	78.90

Network answering service (new users 2002)

1,112,000
Spain
1,062,424
Latin America

Call identification Service (new users 2002)

2,008,000
Spain
877,450
Latin America

Servipack (new users 2002)

3,550,129
Latin America

An important new service in Latin America was the «Servipack», a package of services including call waiting, party lines, call blocking and transfer, speed dialing or call barring. At present the «Servipack» has an average penetration of 67.8% in the total number of fixed telephone lines for customers in Argentina, Brazil, Chile and Peru. Other services that are highly appreciated by customers include the automatic network answering service (with a penetration of 40.8% in Latin America) and call identifying (15%).

In May 2002 Telefónica launched its international Long-Distance service from São Paulo, complemented by the arrival in July of the Long-Distance National interstate service, also from São Paulo. The service was widely accepted by TeleSP customers, reaching levels of 40% in the residential interstate service.

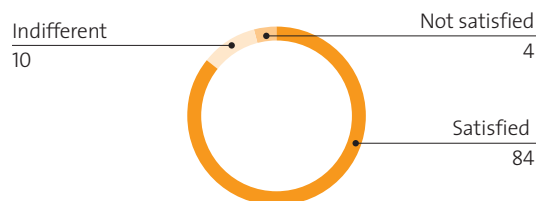
In general, the offer of products and services for businesses by the four main operators of fixed telephony in Latin America is very similar, covering all of the possible communications needs of businesses.

Mobile telephony

The main novelties introduced during 2002 aimed at increasing the value of services for mobile telephone customers throughout the world were:

- **Multimedia Messaging Service in Spain.** The main novelty incorporated within Telefónica Movistar's MMS service, from a technological point of view, is the possibility that customers, regardless of the type of telephone they own, may send and receive multimedia messages.
- **Launch of Generation 2.5 of mobile telephony in Brazil,** by Telefónica Celular de Rio de Janeiro and Espírito Santo with CDMA 1xRTT technology.

Satisfaction amongst TeleSP long-distance customers (data in percentages)



- **Java incorporated into mobile telephone networks in Spain.** Telefónica Móviles España was the first Spanish operator to make the first versions of Java 2 Micro Edition (J2ME) available. These services allow Telefónica Movistar customers to download and execute different applications for mobile telephones that include the Java standard.

- **The launch of SMS in Mexico** in January 2002, the first operator on the market to offer this service.

- **Voice access to «e-moción».** Telefónica Móviles España incorporated voice access into e-moción by calling 404.

- **«Oficin@ Movistar».** Telefónica Móviles España has developed a new data service for businesses jointly with IBM and Microsoft, that allows PDA users to access applications for organizing personal information.

- **Services for business customers.** Several companies within the Group launched services aimed at facilitating the organization of communications by business customers; «Movistar Gestion» and «Escritorio Móvil» in Brazil, «Servicio Asistente» in Argentina, «Servicio Movistar Data Corporativo» and «Corporativo Milenio» in Guatemala, and the «Néo Service» in Morocco.

3.3 Customer loyalty reward

Most of Telefónica Móviles' operators have fidelity programs based on reinforcing their relations with their customer base, and laying the foundations for the future growth of traffic and the unveiling of new services, which take the shape of reward point programs and others, referred to as «soft benefits».

These programs offer customers the opportunity to change their terminal according to the amount of time used, or agreements with other entities offering services of general interest.

Telefónica Móviles España

The success of the loyalty and price policies that Telefónica Móviles España has developed throughout 2002 is reflected in a monthly «churn rate» (number of customers who cancel their contracts) of around one percent (one of the European region's lowest).

- Reward points program allowing customers to obtain a new terminal by giving points depending on the amount of their telephone bill.
- «MoviStar Activa Plan Estrena» allows customers of over one year to get a terminal with special conditions.
- Reward program 2001-2002: indirect recharging promotion, in which points are awarded that may be exchanged for prizes.

Telefónica Móviles El Salvador

- Multi-brand program entitled «Puntos Club», to reward postpaid customers for usage with points that can be exchanged for a range of products and services.

Telefónica Móviles Argentina

- Reward Program for contract customers who accumulate points for usage, payment history and length of time as a customer.

Other «soft benefits» programs from Telefónica Móviles

- In Chile the reward program presently covers almost 250,000 users, with approximately 200 outlets with discount offers.
- All customers who sign for a prepaid plan with Telefónica Móviles México «Plan Weekend» are given dis-

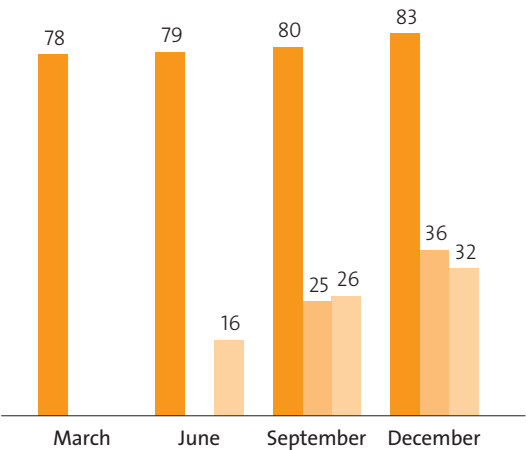
Telefónica Móviles España

1%

monthly churn rate

Long distance service market cuota in São Paulo
(data in percentages)

- Intrastate long distance
- Interstate long distance (beginning 26 of July)
- International long distance (beginning 7 of May)



Terra audience in different countries

	Brazil	Chile	Spain
Single users (data in thousands)*	5,065	989	3,275
Reach (data in percentages)	33,7	n.d	42,0

(*) Source:: «TGI» in Brazil, «Certifica» in Chile and «Estudio General de Medios» in Spain.

counts of up to 15% in a number of restaurants, shops and hotels.

- In Peru, postpaid customers who are holders of the «Club Movistar Plus» card receive discounts and may take advantage of exclusive promotions in more than 350 establishments throughout the country.

Other business lines of Telefónica Group reward their customers' fidelity using programs with points that may be exchanged for services. For example, Telefónica de Argentina offers the following programs:

- «Teleplus»: based on the usage charged to the customer (500,000 users), points are given that may be exchanged for prizes.
- «Alcancia Telefónica»: money is accumulated in a special account when long-distance calls are made, with up to 60% of the amount accumulated allowed to be spent on a new long-distance call (200,000 users).

4 ... in a leading communications group like Telefónica

Telefónica Group has won the trust of more than 80 million customers in the areas of mobile and fixed telephony.

At the end of December 2002, the Joint Venture between Telefónica Móviles and Portugal Telecom in Brazil (Brasice) was formed, dealing with a total of 13.7 million customers.

The acquisition of Pegaso in Mexico made Telefónica Móviles the second largest mobile telephony operator in the country, with more than 2.4 million customers.

Terra has firmly taken root as one of the most frequently visited Internet portals in the world, and is the leading portal in 3 countries.

Antena 3 TV had an average of 1,171,000 viewers, representing 20.35% of the market share. The football World Cup, The Simpsons (now in its eighth year) and «Betty La Fea» are some of the channel's most popular programs, and Antena 3 News is the leading program of its kind amongst private networks.

Telefe was the channel with most viewers in 2002, maintaining an annual average of 10.8 rating points (31% of the share.)

In the final quarter of 2002, the Onda Cero radio station's audience was 3,145,000 listeners (a 5.7% increase over the third quarter of 2001). It is second in the share ratings (18.5%), and has the highest average listening period (172 minutes) amongst the main general content radio stations.

Number of Telefónica Group customers throughout the world

(data in thousands)

Latin America

Mexico

Cellular Customers	
T. Móviles México	2.419

Guatemala

Cellular Customers	
T. Guatemala	97

El Salvador

Cellular Customers	
T. El Salvador	231

Peru

Lines in service	
TdP	1.816
Cellular Customers	
T. Móviles	1.239
Pay TV Customers	
Cable Mágico	340

Venezuela

Lines in service	
CANTV	2.705
Cellular Customers	
CANTV	2.561

Brazil

Lines in service	
Telesp	12.506
Cellular Customers	
Brascel	13.742

Chile

Lines in service	
CTC	2.687
Cellular Customers	
T. Móviles	1.849

Argentina

Lines in service	
TASA	4.419
Cellular Customers	
TCP	1.617

Puerto Rico

Cellular Customers	
New Com Wireless Puerto Rico	169

Europe

España

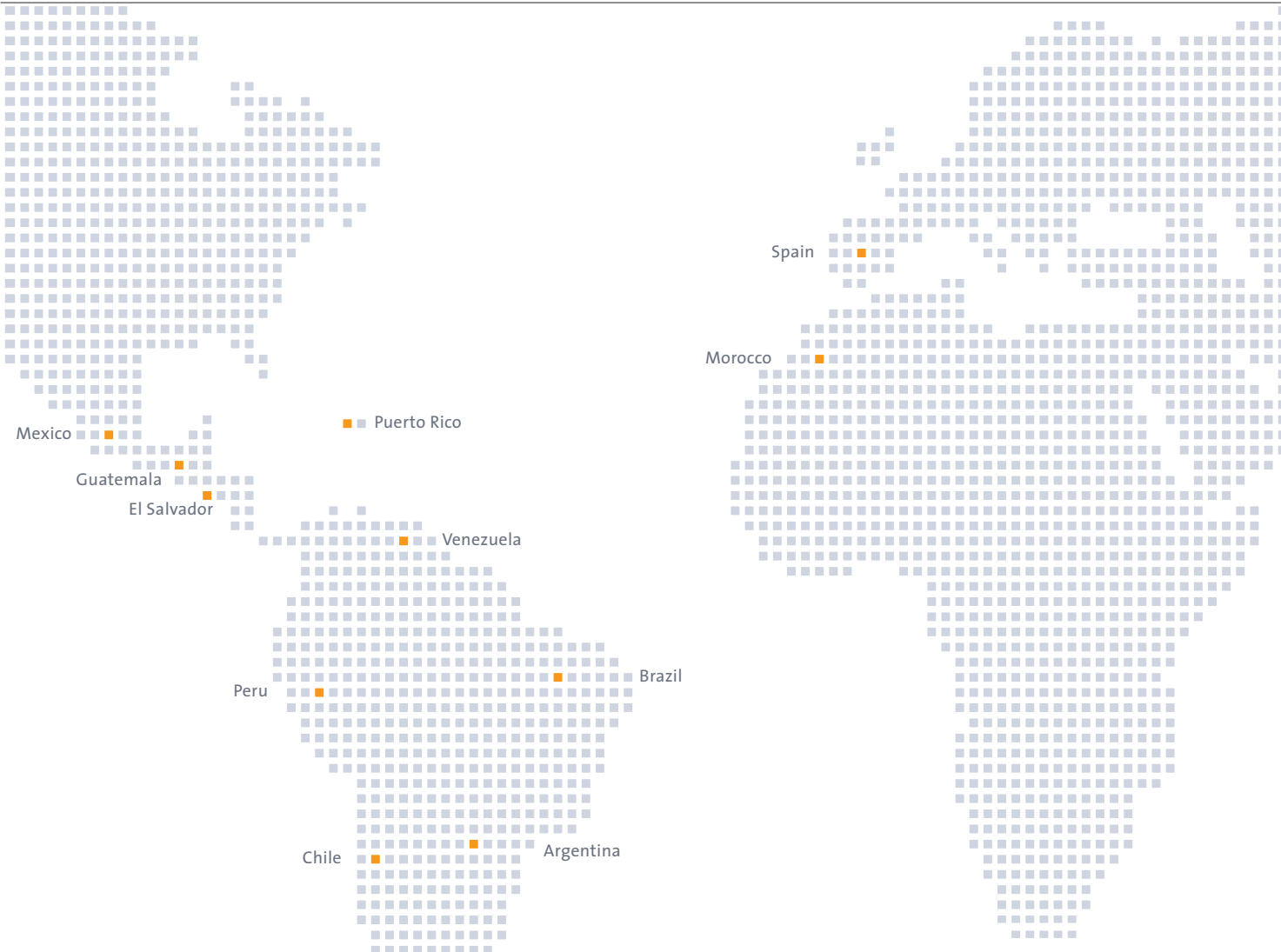
Lines in service	
T. de España	20.804
Cellular Customers	
T. Móviles	18.412
Pay TV Customers	
Vía Digital	775

Africa

Morocco

Cellular Customers	
Medi Telecom	1.601

Telefónica Group will introduce a change in the calculation of Equivalent Lines in Service beginning with the 2003 fiscal year. This new criterion introduces a different treatment of ISDN Primary accesses and 2/6 accesses for PBX and Ibercom. This will be restated by accounting the number of channels per access instead of the extentions making use of them, as was used before.



shareholders and investors

returns and transparency

1

Telefónica sets up communication channels with its shareholders...

1.1

Shareholders' information service

→ 1,698,326

Shareholders of Telefónica. 3 March 2003.
(Securities Clearing
and Settlement Service)

1.2

Toll-free shareholders helpline

Number of enquiries in 2002



1.3

General Shareholders' Meeting

→ 54,904

Number of votes by
proxy at the General
Shareholders' Meeting

1.4

Presence in
Shareholders' Forums

2

... and with the financial community...

2.1

II Investors' Conference
(Seville, March 2002)

→ 275

Investors and analysts attended the conference

→ 139,499

Presentations downloaded from Telefónica's website

2.2

Mailing of relevant information

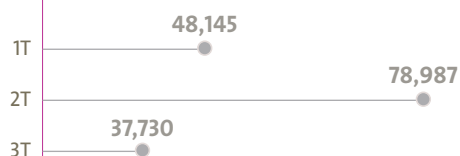
→ 121

Documents sent in 2002

2.3

Quarterly publication of financial results

Number of downloads of quarterly results



2.4

Participation in Investors' Forums

3

... offering complete and transparent information

3.1

On-line information
Number of sessions in 2002

→ 322,762

Shareholder website
www.telefonica.es/accionista

→ 223,052

Investor Relations website
www.telefonica.com/ir

3.2

Investors and analysts with socially responsible investment criteria

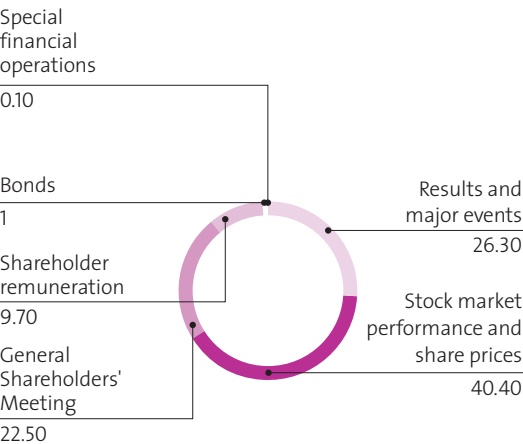
FTSE4Good
www.ftse4good.com

Member of
Dow Jones Sustainability Indexes
www.sustainability-index.com

shareholders and investors

returns and transparency

Distribution of queries addressed to the shareholders' information service of Telefónica S.A.
(data in percentages)



Minority shareholders

1,698,326
Telefónica S.A.
minority shareholders

197,284
registered resident
minority shareholders

1 Telefónica sets up communication channels with its shareholders

1.1 Shareholders' information service

In 1997 Telefónica set up its shareholders' information service in order to offer private shareholders a transparent and free-flowing communication so that they are provided with Company information at the same level as institutional investors.

According to data obtained as of 3 March 2003 from the Spanish Central Securities Depository, the number of Telefónica S.A. shareholders, including natural persons and legal entities, totalled 1,698,326.

Two hundred thousand shareholders are currently registered with the shareholders' information service, who have available all of the information regarding Grupo Telefónica, both in terms of results and any other information regarding the company that may be relevant to their investment. «Acción Telefónica» is a quarterly publication sent by Telefónica to all its registered shareholders in Spain.

1.2 Toll-free shareholders' helpline

As part of its effort to provide its shareholders with the fullest possible information, Telefónica's Shareholder Information Service has set up a toll-free information line for minority shareholders. In 2002 this line dealt with 123,285 queries.

900111004
Toll-free telephone information
helpline for Telefónica S.A. shareholders

The same service is also available to Telefónica Móviles, Terra and TPI shareholders. These three companies totalled 44,500 calls during 2002.

Recognition of Telefónica's achievements by the financial community

- Europe's second leading company in terms of transparency (according to a study completed early in 2002 by Reuters and the «Institutional Investor magazine», which assessed the quality, detail and speed of response to investors' queries).
- Europe's number one company in Investor Relations in the telecommunications sector (July 2002, Thomson Extel Survey).
- Europe's second best Investor Relations web site and the third best European company in the use of virtual multi-conferencing (Investor Relations magazine).
- Best on-line annual report for Spain and Portugal, as well as runner up in the Investor Relations web site category (MZ Consult, Brazil).
- Telefónica CTC Chile received an award for having one of the best Investor Relations web sites in Latin America («Latin Finance» magazine).
- Second best Investment Relations team in the telecommunications sector, according to a survey carried out by the financial magazine «Institutional Investor» amongst institutional investors at the beginning of 2003.

In addition to these calls, a further 2,389 queries were dealt with through the Shareholder Information web site, as well as 2,360 requests for information and/or shareholders' letters.

agement teams into closer contact with the financial community, represented on this occasion by 275 investors and analysts. The various presentations were later published on the Investor Relations web site, and were downloaded 139,499 times.

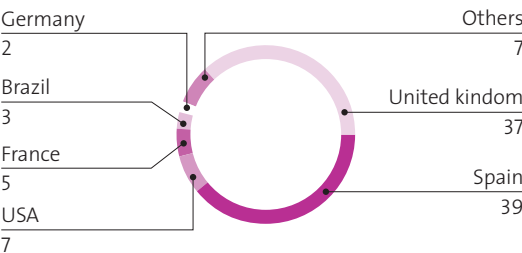
1.3 General Shareholders' Meeting

Shareholders receive the support and back up from the Shareholders' Office in all matters concerning this Meeting. During the meeting held in 2002, this Office dealt with the following:

- 54,904 delegations of votes on shareholders' behalf
- 20,000 telephone calls to the shareholders' information helpline
- 130 mailshots information regarding the General Meeting

Distribution of delegates attending the II Investors' Conference

(data in percentages)



1.4 Presence in shareholders' forums

Telefónica was present at the «Bolsalia» forums held in Madrid, Barcelona and Valencia in 2002, during which representatives from the Telefónica's various business lines quoted on the Stock Market offered shareholders an insight of the Company's strategic vision and financial development.

2.2 Mailing of relevant information

Telefónica regularly sends out information regarding its database of previously registered analysts and investors and publishes it on its Investor Relations website. In 2002 a total of 121 reports were published and mailed.

2 ... and with the financial community...

2.1 II Edition of the Investors Conference

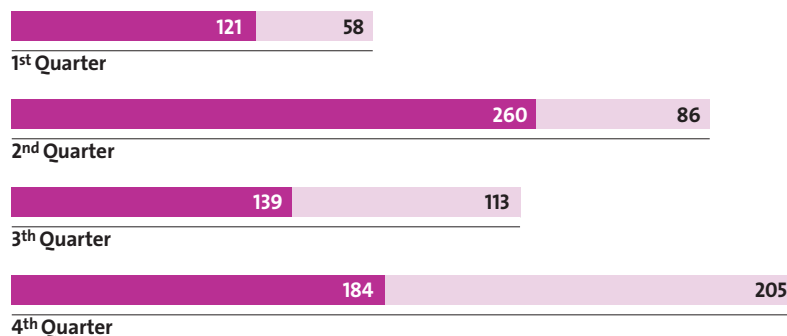
Telefónica held the second edition of its Investors' Conference in March 2002. Its aim was to bring man-

2.3 Quarterly publication of financial results

In keeping with the requirements of transparency and fairness, Telefónica's quarterly financial results are made available through a number of distribution channels. However, particularly worthy of mention is the fact that this information may be downloaded on-line from the Investor Relations web site.

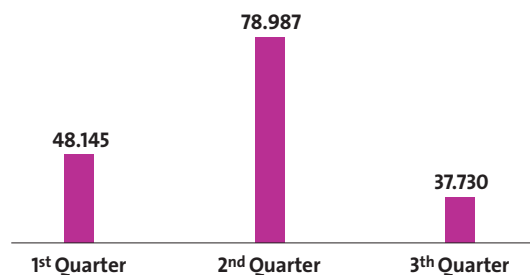
Listeners to the presentation of results via audio-conference

Conference call Webcast



Results presentations downloaded from the web site in 2002

(data in thousands)



Besides distributing written documents, Telefónica also holds audio-conferences during which company representatives present and analyse the results obtained. These audio-conferences are followed by a large number of listeners, both over the telephone and the Internet.

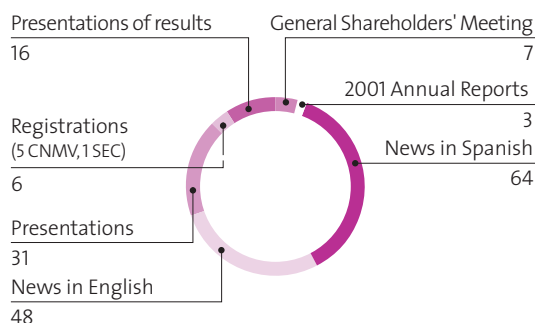
2.4 Participation in investors forums

Throughout 2002, Telefónica took part in a number of meetings organised by investment banks to present the most important aspects related to the company. These forums included:

- JPM CEO Conference (April 2002) and Global Bond and Risk Management (May 2002) organised by JP Morgan.
- Telecommunications in Spain, Italy and Portugal (June 2002) organised by Santander Central Hispano.
- TMT Conference (September 2002) organised by Schroeder Salomon Smith Borney.
- BNP Telecoms Conference (October 2002) organised by BNP Paribas.

Distribution of published information

(data in units)



3 ... offering complete and transparent information

3.1 On-line information

As part of its commitment to transparency in providing information of value regarding the Company, Telefónica has designed a website specifically for its minority shareholders and another for the financial community, although the same information may be accessed on either site. These pages may be consulted by anyone seeking information, whether they are a shareholder of the Company or not.



During 2002 the Investor Relations website received a total of 223,052 visits, an increase of 150% in comparison with the previous year.

Likewise, the Shareholders' Office website received a total of 322,762 visits in 2002.

The amount of information downloaded by users visiting the Investor Relations website during 2002 totalled 858,691 «pdf» files, an increase of 76% over the previous year's figures. The most frequently consulted files were those providing details of quarterly results, the presentations from the II Investors' Conference, a number of presentations made by senior management members at various forums and the official brochures and leaflets published by the Company.

Telefónica S.A.'s 2001 Annual Report was visited on-line a total of 135,000 times, and was downloaded in «pdf» format 200,000 times, in addition to the publication of 47,500 copies in paper format.

3.2 Investors and analysts with socially responsible investment criteria

During the 2002 financial year, Telefónica has answered 19 surveys including non-financial information, directed at investors with socially responsible investment criteria. As a result of its effort to promote its transparency before its investors, Telefónica has been included in the FTSE4Good, Ethical Euro and Ethical Global indexes, and has also reasserted its presence on the Dow Jones Sustainability Index.

Number of sessions in 2002

223,052
Investor Relations website

322,762
Shareholders' website

Pages viewed in 2002

+150%
Investors Relations

Investor Relations website

858,691
«pdf» files downloaded
(+75% than 2001)

175
new files published
on the web in 2002



employees

clarity and
professional development

1

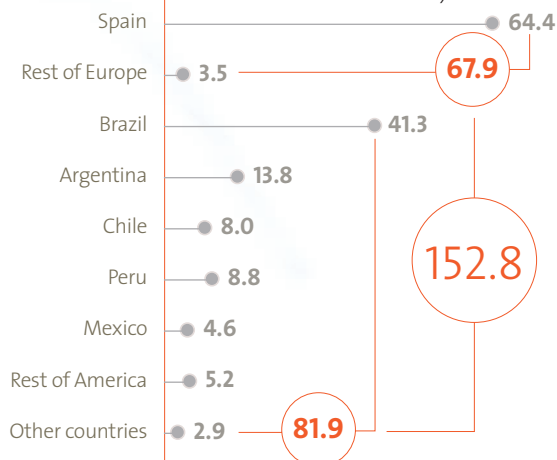
Telefónica's employees
are key to its leadership

1.1

More than 150,000 people

employed by Telefónica Group

Distribution by country
(as of December 2002;
data in thousands)



1.2

Communication
with employees

Internal communication

- Televip: 150,000 memos per month
- InfoBuzón: 70,000 messages per day
- Company Intranet: 15,000 visitors per day

1.3

Working atmosphere

Telefónica de España
mi.Telefonica.es

- 12% improvement compared to 2001
- 15,000 employees answered online

1.4

Volunteer actions
led by employees

«Asociación Telefónica
de Ayuda al Minusválido» (ATAM)

- Over 66,245 employees are members

2

Telefónica establishes a working
environment that ensures respect
for human rights...

Human rights

Telefónica has signed up to the
United Nations' Global Compact

Under the Compact companies must:

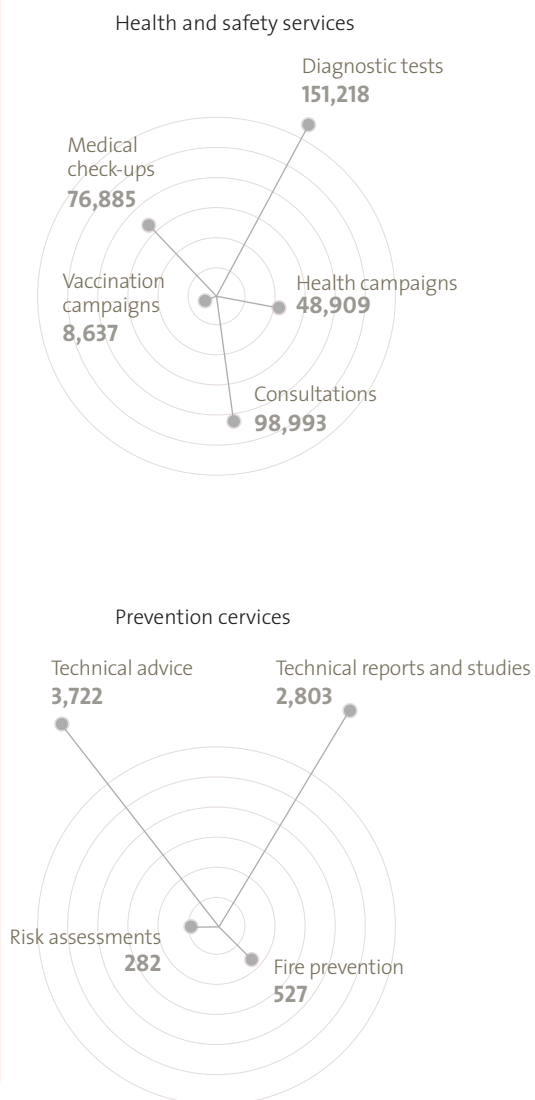
- 1 support and respect the protection of human rights within their sphere of influence
- 2 ensure that their own corporations are not complicit in human rights abuses
- 3 uphold the freedom of association and the effective recognition of the right to collective bargaining
- 4 eliminate all forms of forced and compulsory labour
- 5 the effective abolition of child labour; and
- 6 eliminate discrimination in respect of employment and occupation

3

... and cares about the health and safety of its employees...

3.1

Telefónica de España's joint prevention service



4

Telefónica strives to provide fair compensation to its employees...

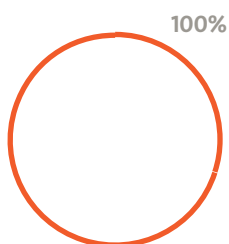
4.1

Compensation policy
Main features

- Adjusting to each market and business line
- Ensuring consistency with the Group's values
- Basic guaranteed salary
- Variable pay linked to performance
- Benefits

4.2

Stock option plans
Staff eligible to participate in the plan



4.3

Pension plans
Number of participants in Spain

65,800

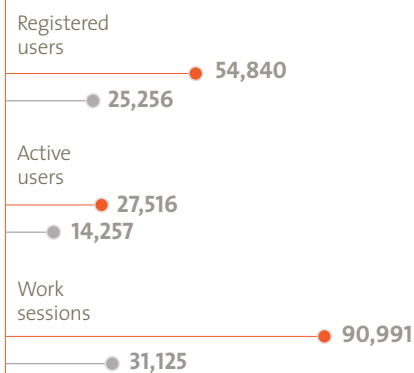
5

... fostering employee training and professional development

5.1

On-line training:
the a+ service

- At the end of 2002
- At the beginning of 2002



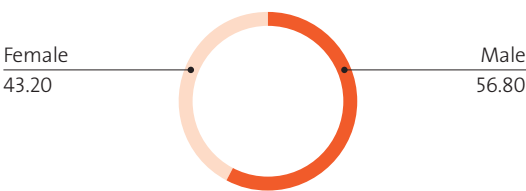
➔ **40%**
Online training percentage compared to total training at Telefonica de España

employees

clarity and professional development

Proportion of staff by sex

(data in percentages)



Distribution of staff by countries¹

	Dec. 2001	Dec. 2002
Spain	68,010	64,444
Rest of Europe	4,878	3,551
Total, Europe	72,888	67,995
Brazil	43,084	41,381
Argentina	14,996	13,843
Chile	10,942	8,006
Peru	8,583	8,826
Mexico	4,466	4,630
Rest of Americas	5,027	5,248
Total, Americas	87,098	81,934
Other countries	1,541	2,916
Grupo Telefónica	161,527	152,845

Distribution of staff by business area¹

	Dec. 2001	Dec. 2002
Telefónica de España	42,425	42,162
Telefónica Móviles	14,677	13,694
Telefónica Data	4,952	4,331
Terra	2,907	2,455
Admira	6,698	5,574
Telefónica Latinoamérica	30,425	25,673
Atento	49,940	49,432
TPI	2,815	2,752
Katalyx	220	197
Emergia	156	136
Otras empresas	6,312	6,439
Grupo Telefónica	161,527	152,845

(1) Staff calculated according to consolidation criterion. Under Móviles, we have included Móviles Chile, and 50% of JV Brazil has been added (for reporting purposes only). Telinver has been included under TPI.

1 Telefónica's employees are the key to its leadership

1.1 More than 150,000 people

Telefónica Group is made up of more than 150,000 people, mainly in Spain (42%) and Latin America (50%), especially in Brazil, Argentina, Chile, Peru and Mexico. The business lines employing the greatest number of people are Atento (32%), Telefónica de España (28%), Telefónica Latinoamérica (17%) and Telefónica Móviles (9%).

The proportion of employees by sex is 43.2% women and 56.8% men. A total of 2,741 people are performing in internship, which amounts to 1.8% of all staff.

1.2 Communication with employees

Telefónica operates different internal communication systems for its more than 150,000 employees, designed to make general information at Group level compatible with that for each business or country.

1.2.1 Basic internal communication channels

- «Televip»: This internal printed communication magazine has been published since 1999, with a circulation of 150,000 copies each month. There are eight national editions of «Televip» (Argentina, Brazil, El Salvador, Spain, Guatemala, Mexico, Peru and Puerto Rico) and specific pages for different groups (Telefónica de España, Móviles, Telefónica I+D, etc.).
- «InfoBuzón»: Telefónica's daily electronic internal communication service, in use since February, 1997. It has already published more than 6,000 news

Telefónica's internal communication tools



stories in Spain alone. Every day, it is distributed among more than 70,000 employees through the different editions («Infobuzón» in Argentina and Spain, «Diario Electrónico» in Chile, and «Televip M@il» in Brazil).

- Corporate Intranet: Accessible from Grupo Telefónica's corporate network, the intranet receives more than 15,000 visits daily. The most popular sections are those devoted to travel, promotions, auctions...the corporate directory and the a+ training service.

From the Corporate Intranet, one can access the different company Intranets. (For example, «e-Domus», the Telefónica de España Intranet, is accessible to all employees, even those who have no personal computer for performing their professional duties. «e-Domus» is also accessible from home through the «IntrADSL» service for employee.)

1.2.2 Channels and supplementary systems

The basic channels are supplemented by other specific ones, such as conventions, bulletin boards, and developments for certain groups, such as the Employee Service Line at Atento España, through which workers can clarify any doubts about their working relationship to Atento and obtain information on the operation and structure of the company. With a staff size ranging from 10,000 to 11,000 employees, the employee service line handled 324,359 calls in 2002.

1.3 Working atmosphere

Within Grupo Telefónica, numerous studies of the working atmosphere are conducted in order to promote upward communication between employees and the company, detect needs and establish action

Case study: surveys on the working atmosphere at Telefónica Latinoamérica

In Telefónica Latinoamérica, a global project was carried out in order to obtain homogeneous information about satisfaction amongst the Company's employees.

Level of participation

	Argentina	Brazil	Peru
	67%	62%	93%

Level of satisfaction

	Argentina	Brazil	Peru
Management	59%	59%	65%
Supervision	69%	60%	59%
Satisfaction	73%	66%	65%
Focus on the client	58%	61%	66%
Willingness to change	68%	64%	75%
Identity	69%	62%	61%
Total	66%	61%	64%

Increase in job satisfaction between 2001 and 2002. Telefónica de España
questionary carried out via *mi.Telefónica.es*
(data in percentages)



Staff participation in satisfaction questionnaire *mi.Telefónica.es*

11,393
employees covered by collective agreement

3,793
employees outside of collective agreement

plans designed to improve those aspects affecting employee job satisfaction.

1.3.1 *mi.Telefónica.es*, a project for the transformation of Telefónica de España
mi.Telefónica.es project was launched at the start of 2001 as an integral part of the transformation project for Telefónica de España, according to the strategy designed by the «Lider.es» programme based on three main points: «+growth», «+competitiveness» and «+compromise». The final point has a direct relation with the objectives of *mi.Telefónica.es* in 2002:

- To contribute to the process of transforming Telefónica de España through the construction of a High Performance organization.
- To achieve substantial improvements in motivation and personal involvement, thereby increasing their level of compromise.
- To improve the way in which employees perceive objectives, relations, rewards and professional development.

In order to achieve these objectives, a series of initiatives were designed based on communication and alignment of management and directors, leadership, development, reward schemes, innovation, collaboration and work and life balance. Working groups were created for each initiative headed by general managers, who proposed 32 improvement actions, some of which are detailed below:

- Communication action in the «Lider.es» project, with the direct participation of the Management Committee.
- Starting the «180° feedback» project for an evaluation of the leadership style of top management by its collaborators supported by a process of coaching.
- Online publication of internal selection processes in «e-Domus» to make contents generally available.

- Creation and communication of an operational framework for managers and technicians not included in the collective agreement.
- Open door conferences entitled «Un mes, una dirección general», with more than 5,000 people.
- Election of the «most co-operative manager» selected by votes from colleagues.
- Setting up of the «mentor project» for the development of 200 professionals.
- Creation and launch of «Ideallab», a service to receive ideas from staff and encourage their ability for innovation.

The opinion poll carried out exclusively online in May 2002 and involving all employees received 15,000 responses. The results indicated a considerable improvement in perception with regard to the previous year, representing an average of over 12%.

1.4 Volunteer actions led by employees

1.4.1 «Asociación Telefónica de Ayuda al Minusválido» (ATAM)

ATAM (Association to help handicapped) was established in 1973 by Telefónica employees and the company's social agents for the purpose of attending to the collective of persons with physical, mental and sensorial disabilities. After 30 years of existence, ATAM boasts the following figures:

- There is voluntary collaboration by 66,245 employees in Spain, belonging to 18 Telefónica Group companies.
- Expected annual income budget (2003) 20,089,587 euros.
- Nearly 200,000 persons are linked to the association.
- The number of people in the association's census has reached 3,347.

ATAM

30
years of existence

66,245

employees collaborating in Spain

20,089,587

euros in its income budget for 2003



- Its clinical team has handled more than 5,900 medical consultations.
- Annual economic aid has been provided to 3,500 individuals.
- 200 handicapped persons work at the association's special employment centers.
- At its own centers, more than 400 people receive assistance annually.

ATAM aspires to continue playing an active role in the world of handicapped persons, while also adapting to new social and associational demands. Its innovative nature has been shown in different ways:

- The development of a Disability Assessment System based on the International Functionality Classification (World Health Organisation, November, 2001), along with the development of mechanisms to provide personalized attention.
- Special Employment Centers related to telecommunications.
- Application of advanced information and communications technologies in management and member services.
- Implementation of excellent management models to the service sector (total quality, management by values, etc.)

1.4.2 «Voluntariado Corporativo»

The objective of this project, led by Fundación Telefónica, is to promote, support, coordinate and channel any social volunteer activities in which employees and retirees from Telefónica participate, contributing to social development and the improvement of living conditions in the communities where they are present. This project already has precedents in Argentina, is being implemented in Spain, and is expected to be extended to the rest of the countries where Telefónica operates.

2 Telefónica establishes a working environment that ensures respect for human rights...

In the year 2002, Telefónica reiterated its commitment to the defense of Human Rights in all of its activities by becoming a member of the United Nations Global Compact. The Office of the UN High Commissioner for Human Rights is participating in the implementation and development of the Compact along with a number of international organizations (Business for Social Responsibility, the International Chamber of Commerce, the World Business Council for Sustainable Development, the International Employers' Organization, etc.)

The companies who subscribe the Global Compact agree to comply with nine principles, of which the first six refer to the promotion of human rights and the establishment of fair working conditions in all relationships between the company and its employees. These principles are as follows:

Human Rights:

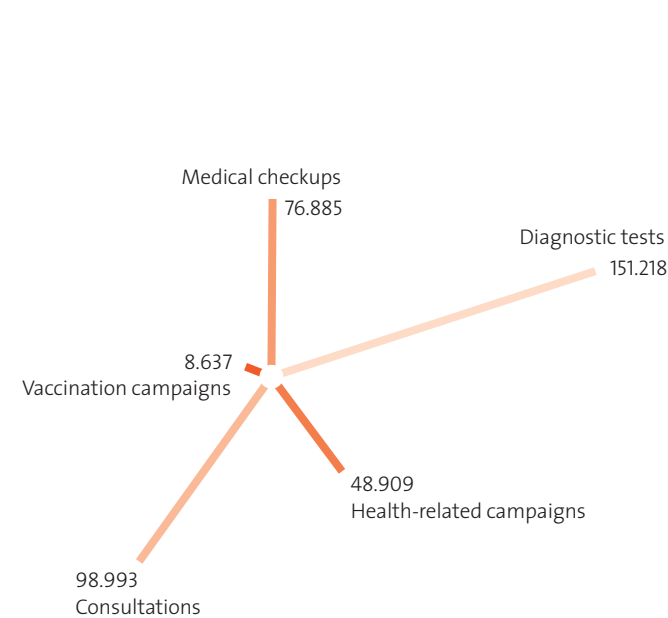
- 1 The companies must support and respect the protection of human rights, and
- 2 Ensure that they are not parties to the violation of such rights.

Working conditions:

- 3 Companies must defend the freedom of association and the effective recognition of collective negotiation;
- 4 The elimination of any kind of compulsory forced labor;
- 5 The abolition of child labor, and

Activities carried out by the Joint Prevention Service in 2002

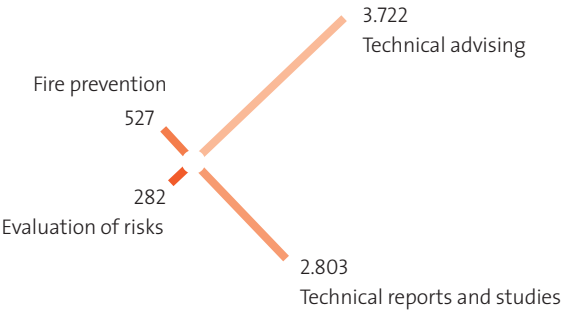
Healthcare services
(data given in units)



- Medical checkups**
 - For entry, reentry and promotion
 - Ordinary periodic
 - Special periodic
 - Return to work
 - Related to shift work, especially night work
 - Potential risks
 - At the request of employees
- Diagnostic tests**
 - Electrocardiogram
 - Audiometry
 - Radiodiagnosis
 - Taking of samples
 - Spirometry
- Health-related campaigns**
 - Prostate cancer prevention
 - Lung cancer prevention
 - Heart disease prevention
 - Breast disease prevention
 - Gynecological disease prevention
- Vaccination campaigns**
 - Tetanus
 - Flu
- Consultations**
 - With doctors
 - With nurses

Occupational hazard prevention, led by the Joint Prevention Service

Prevention services
(data given in units)



- Evaluation of risks**
 - Initial evaluations, general and by workplace
 - Specialized evaluations of:
 - Safety risks
 - Hygiene risks
 - Ergonomic and psychosocial risks
 - Others relating to specific risks
- Fire prevention**
 - Technical advising on scheduling and conducting emergency drills
 - Report of conclusions
 - Action plans
- Technical reports and studies**
 - Reports on construction and workplace projects
 - Hygienic/environmental studies
 - Reports on protective equipment, etc.
- Technical advising**
 - Assistance to safety and health committees
 - Technical and documentary advising on regulations, work inspection reports, etc.

Telefónica's safety and health committees in Spain

Telefónica de España	50 provinces
Telefónica Móviles España	Madrid, Barcelona, Valencia, Bilbao, Málaga
Telyco	Madrid
Atento España	Madrid, Barcelona, Valencia, A Coruña, Cáceres, Seville, Zaragoza y Bilbao
Telefónica Ingeniería y Seguridad	Madrid
Telefónica Data España	Madrid
Playa de Madrid	Madrid
Telefónica I+D	Madrid
TTP	Madrid
TPI	Madrid
ATAM	Madrid

6 The elimination of all kinds of discrimination with regard to work.

3 ... and cares about the safety and health of its employees

In Spain, Telefónica's Joint Prevention Service provides coverage for all workers employed by the 49 member companies, within the scope of all specialties covered under current legislation. In other countries, prevention activities vary depending on the corresponding legal requirements.

3.1. Telefónica de España's joint prevention service

The commitment of the Joint prevention service towards all the employees subscribed is twofold:

- a) Prevention of the possible risks to health and physical integrity inherent in daily work, from which the following benefits are obtained:
 - The reduction of conflicts at work by minimizing risks and insecurity.
 - Improved protection for workers with the subsequent reduction in working absenteeism for temporary disability.
- b) Maintenance and promotion of health in the workplace, thereby improving employees physical and mental condition:
 - The detection of possible changes that may be caused by daily activities and corrective measures.
 - Promotion of health awareness based on preventive and vaccination campaigns.

4 Telefónica strives to provide fair compensation to its employees...

4.1 Compensation policy

The aim of the Compensation Policy is to effectively support the organization in meeting its business objectives by reinforcing the appropriate conducts for orienting employees toward achieving these objectives. Telefónica seeks to attract, maintain the loyalty of and motivate qualified employees, offering them balanced, competitive compensation packages based on criteria of consistency, simplicity and clarity.

Telefónica Group's compensation system establishes an integrated, flexible payment package, characterized by the following:

- Compensation management processes: evaluation based on performance, communication...
- Adaptation to the reality of each market and Business Area.
- Consistency with Telefónica values.
- Focus on key persons depending on performance and contribution with fixed compensation.
- A clear link between results and compensation with *variable compensation*, combining long- and short-term incentives.
- Relevance of *non-cash compensation*: social benefits, rewards in kind, social security programs...

4.2 Stock option plans

The following are the main objectives of Telefónica's stock option plans:

Telefónica's employee pension plans in Spain

28
Group companies in Spain

65,800
participants

3,500
million euros

- To align the interests of the beneficiaries with those of the shareholders, linking employee rewards to the success of Telefónica Group.
- To motivate employees in the creation of shareholder value and reward them for their contributions to Telefónica Group.
- To create an incentive, retention and loyalty plan similar to those of other companies in the industry.
- To promote corporate awareness at the global level in all the countries and activities.

In this way, Telefónica has created different stock option programs directed at different kinds of employees:

- Directed at High-Level Executives: these facilitate movement within the Group and align the executives' interests with those of shareholders. Profitability is linked to the performance of Telefónica, S.A. stocks. These include options with retention and incentivation effects.
- Directed at employees by Business Lines: these make it easier to offer such stocks on the stock market and acknowledge the efforts of our employees, promoting loyalty before and after the shares go public. Profitability is directly linked to the performance of the subsidiary's stock from the date it is launched. Beneficiaries receive options on subsidiary stocks quoted at a strike price equal to the value set for the stock by the retail price range of the public sales offering.
- Directed at all staff: these facilitate access to corporate capital for all employees and promote the overall awareness of belonging to the Group. The purchase of stocks at a very favorable price is facilitated, and options are also given at an extremely favorable strike price, but are dependent on revaluation of the stock.

4.3 Pension Plans

Spain

Since 1992, the year the Telefónica Employee Pension Plan was founded, the company has been developing a Corporate Supplementary Social Prevention Policy characterized by:

- System of employment.
- Defined contribution (as a standard contribution, the company provides 4.51% of the salary, and the participant 2.20%).
- Individual accumulation of capital.
- Management company: «Fonditel».

Latin America

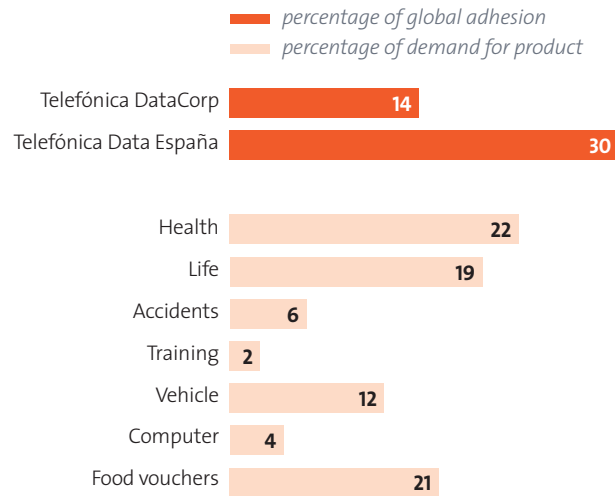
Telefónica adapts to the local legislation of each Latinamerican country. The most distinctive feature of such legislation is that National Health Services operate as a privately managed individual capital accumulation system, and not as a publicly managed distribution system (which is the case in Spain). Consequently, to establish Supplementary Social Prevention systems in these countries would be redundant.

Brazil's TeleSP is the only exception to this rule. Due to this company's split, its Defined Benefit Plan was reconverted into a Defined Contribution Plan. This system has been in effect since the year 2000, and the majority of the company's employees are covered by it.

4.4 Telefónica Data's Flexible Compensation Plan

Telefónica Data's Flexible Compensation Plan (FCP) is a system for voluntary and dynamic compensation that

Telefónica Data's Flexible Compensation Plan



allows each employee to adapt retribution to their personal needs. In the initial phase, the FCP was applied to managerial teams from Telefónica DataCorp and Telefónica Data España, with an involvement of 14% and 30% respectively. Vehicle and Health Insurance are the two most frequent choices amongst employees, with computers appearing as a new product.

The FCP offers the following benefits for employees:

- It gives them a feeling of worth
- It increases their net income
- It is designed according to their needs
- It guarantees the quality of products and services offered to employees

- To increase the effectiveness of the Group's employees through an extensive range of quality training products, promoting individual development among employees.
- To promote the sharing of knowledge, offering an open range of contents related to all business areas.
- To homogenize capacity and competence among Telefónica employees, strengthening a Group culture.
- To offer flexible access to training, ensuring content availability at any place, at any time.
- To increase integrated use of new technologies, making Telefónica a technological point of reference for our customers and society in general.

Case study: TeleSP awarded for its Career Plans project and its Performance Evaluation System

The Career Plans project developed by TeleSP received the «Destaque RH» 2002 award. Each year, the prestigious human resources magazine, «Gestao & RH», selects the 10 best projects from over 800 submitted at the national level in Brazil.

Telefónica's project presented its compensation management and career plans tool based on:

- Competence evaluation: through an individualized evaluation system.
- Internal performance ranking: comparative evaluation among employees.

In addition the magazine «Gestao Plus» granted the «Business Management» award to the Performance Evaluation «360 System» developed and implemented at TeleSP. The project, which is being applied to all company managers, involves multiple evaluation of each employee's abilities by his or her superiors, peers, collaborators and clients, as well as a self-evaluation.

5 ... fostering employee training and professional development

5.1 Online training: the a+ service

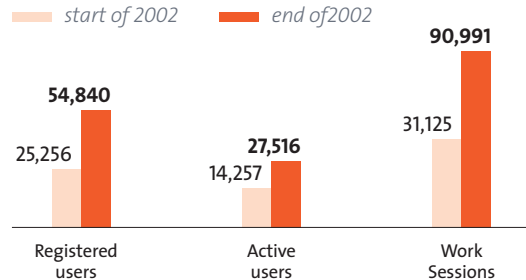
Since 1997, Telefónica has been developing distance learning tools. Telefónica's distance learning network in Spain has evolved into the a+ system, a learning management system compatible with international distance training standards. This makes it possible to individually pursue additional training, or to create company-managed training schemes.

During the year 2002, the a+ training service went international, making access possible for more than 100,000 of the Group's employees. Over 485,000 training hours were completed, and the number of registered and active users on the system doubled. The objectives of Telefónica's a+ training service are as follows:

40%

online training vs. total training in Telefónica de España

Evolution of the «a+» service



6 Good employee management practices

6.1 Presence at International Forums

European Sectorial Social Dialogue Committee

Promoted and financed by the European Commission, this committee is concerned with the issues affecting employment in the telecommunications sector in Europe. Within the committee, employees are represented by UNI (Union Network International), and employers by the ETNO working group «Employment, Health and Safety», in which Telefónica is an active participant. Among the agreements reached are «General Guidelines on Telecommuting in Europe». The Committee is currently focusing mainly on issues relating to «Equal Opportunities».

High-Level Commission for the Employment of Young People

The President of Telefónica is one of the 12 people invited by Kofi Annan to take part in the High-Level Group of the Young Persons Employment Network, which acts as an advisory body. Telefónica's contribution, in collaboration with ILO leaders, is based on participation in international initiatives to favor the creation of jobs for young people around the world. The recommendations issued by this working group were presented to the United Nations General Assembly. The Commission is currently developing policies that may be applied by Governments to work to improve the employment situation of young people around the world.

6.2 Employee satisfaction after TPI's telecommuting experience

In 2002, Telefónica Publicidad e Información conducted a telecommuting pilot project in Vigo and Murcia, which was implemented at each sales office and composed of a sales manager, eight salespeople, and one administrative assistant. The project involved having the salespeople and sales manager perform part of their work from home. The necessary technology and administrative support for this purpose was provided.

The employees spoke highly of this experience, particularly of those aspects with the greatest direct impact on their lives.

Due to the positive results obtained during this pilot project, the first phase in the implementation of this system is expected to take place in 2003.

Telecommuting experience at TPI (data in percentages)

The employees feel that the following are improved or maintained...

100
job motivation

76.5
family relationships

82.4
communication with supervisors

47.10
communication with colleagues

6.3 Volunteer initiatives 2002. Atento.

Argentina

• 30 employees directly involved in volunteer activities in collaboration with the Group (500 indirectly involved).

Attention to communities at risk (schools and areas with no resources, abandoned children and adolescents.)

• Institutions benefited

• Benefited institutions: four schools and two hospitals in emergency situations.

• Some NGOs working with children at risk.

• **Items collected**, donated and delivered: a press for producing bricks, a TV and VCR, an industrial kitchen, the construction of two bathrooms, 1,463 school supplies, 40 pairs of shoes, 400 kg of food, 90 kg of clothing.

Third solidary participation campaign

The campaign entitled «La Escuela» collected 906 school supplies and 557 educational texts, for use by frontier schools and homes for children.

Brasil

An estimated 14% to 26% of our employees participate in volunteer activities.

Natal Sem Fome (Christmas without Hunger)

• 610 kg of food collected for an institute caring for children who live on the streets (Casa Taiquara) (República, December, 2002.)

• Collection of food and toys for «Espaço Compartilharte» and other needy communities in Rio de Janeiro, Porto Alegre, Belo Horizonte and Sao José dos Campos.

• Collection of food for the Cancer Hospital in Rio de Janeiro.

Toy collection campaign for the Consolação daycare center and Casa Taiquara (2000 toys) (República, October, 2002).

Pascoa Solidaria

Collection of nonperishable food items, sweets and toys for the entity Cabana da Paz (Porto Alegre, March, 2002).

Festa Junina

In Brazil, the Festas Juninas are very traditional, and a fair was held. Admission to the festivities was 1 kg. of nonperishable food items, toys or clothing, donated to the Instituto Nossa Senhora da Conceição (Porto Alegre, June, 2002.)

Campanha do Agasalho

Collection of winter clothing for needy communities, conducted in Porto Alegre, Ribeirao Preto, Sao José dos Campos and Campinas during the months of June and July.

Dia da Criança (Children's day)

Toys and clothing were collected for Casa Andre Luiz (Porto Alegre and Campinas, October.)

Organizations that benefited from employee donations for the «Intellig» distribution project:

Abrigo Maria Imaculada (children), Fundação Moretti (handicapped), Republica da Vida (AIDS), Projeto Vidinha (children), Projeto Compartilharte (children). **Last Saturday of each month. Rio de Janeiro - Teleporto.**

Campaigns to provide assistance to children, senior citizens.

In El Salvador, monthly food, clothing and toy distribution campaigns are held.

Benefited entities: Guarderia Sao José, Projeto Águila Dourada, Asilo Sao Lázaro, ASGAP, Lar Irma Benedita Camuruji, Centro do Menor Joao Paulo II, Estação Beija-Flor, Escola Espírita Irma Sheila and Naspec.

Blood Donation Campaign, conducted jointly with the Instituto Pro-Sangre. Barra-Funda (December, 2002).

Milk donation campaign

• Boxes of milk donated to the Cancer Hospital (Ribeirao Preto).

• Boxes of milk donated to public daycare centers (Campinas).

Different solidary campaigns, Ribeirao Preto

• Campanha da Fome. Collection of 300 basic food boxes distributed in the city's needy communities.

• Collection of 1200 toys for the Cancer Hospital.

• Book campaign: Books were donated to government schools.

Mexico

Economic support and provisions were collected for persons affected by hurricane Isidore.

Thanks to the collaboration of all employees, 2638,55 pesos and 63 packages/cans of food were provided.

Peru

Centro de Contactos El Naranjal carries out periodic activities in two nearby areas, located in the northern marginalized district of Lima.

These initiatives receive economic support during the Christmas holidays and around Atento's anniversary in Peru.

Employee volunteer actions, led by about ten employees, mainly involve contributing material aid (clothing, food, toys, etc.).

Puerto Rico

Hogar Niño Jesús (an institution providing shelter to abused children).

Company employees collect toys and basic necessities from October to December, which are delivered during the Christmas season. This initiative involves reaches 75% of all staff.

American Red Cross Blood Donation: A blood donation campaign is coordinated among employees and their relatives.

society

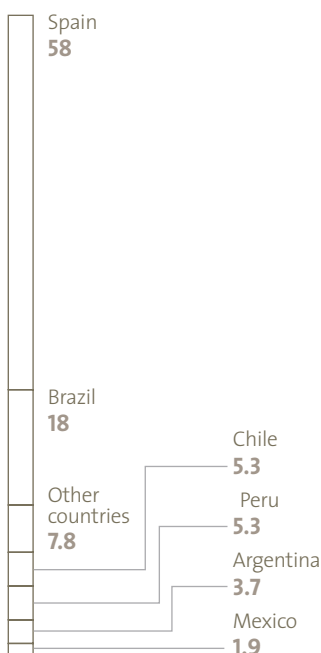
contribution and proximity

1

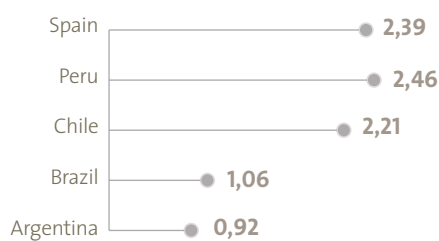
Telefónica is a
multidomestic company...

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

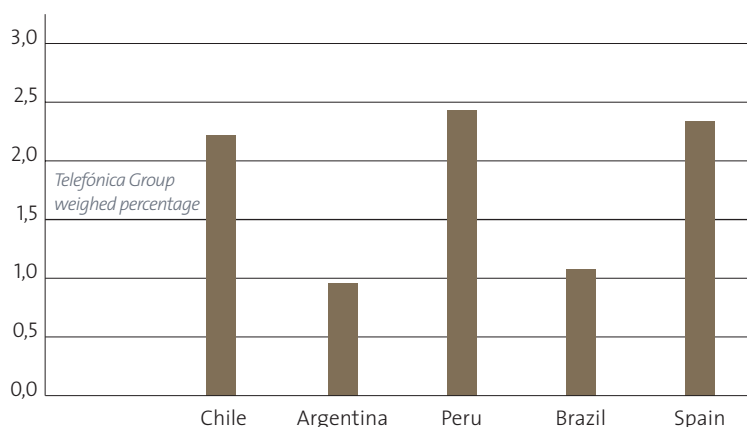
Contents of social interest

→ **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)



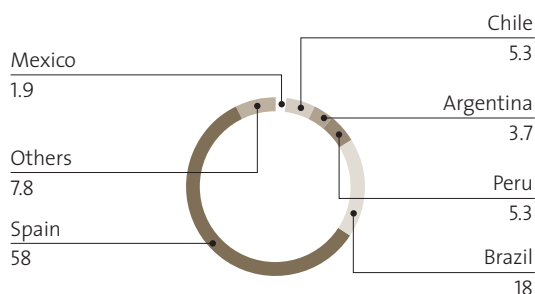
1 Telefónica is a multidomestic company...

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.

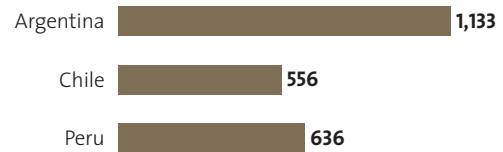
Several initiatives were introduced in Argentina to prevent the 2002 economic crisis from causing a rise in disconnections due to customers failing to pay their bills. Among the products designed to meet those needs are:

- «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.



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



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



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.

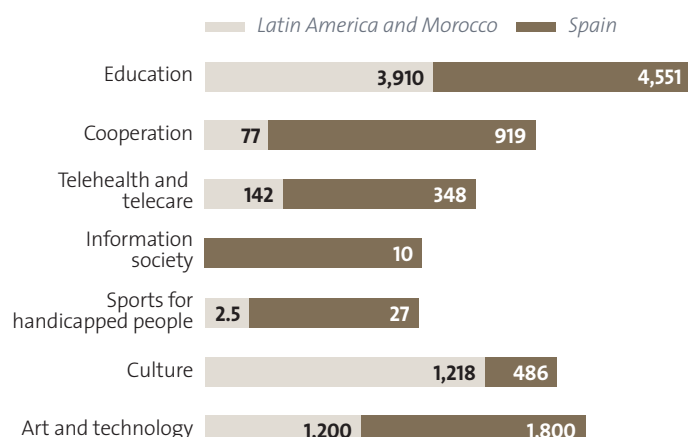
Mobile telephony

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

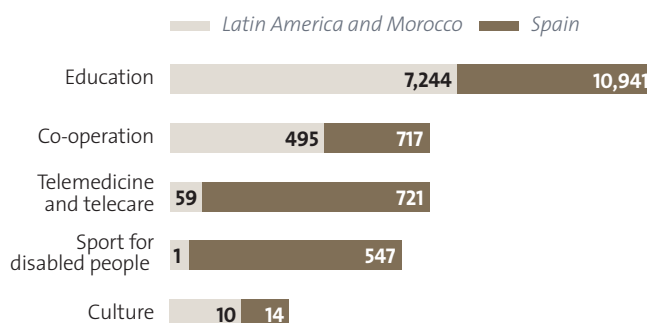
(data in percentage)

	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

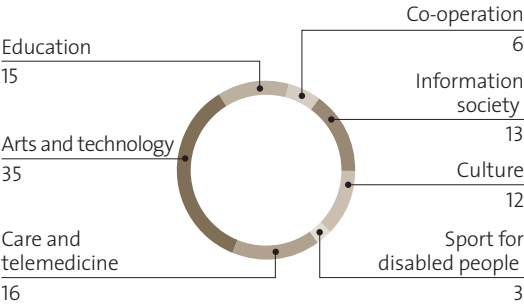
- Modernising infrastructures of organisations that use the telephone as a way of dealing with and helping people. The IV Assembly for Subsidies for Telephone Services for Social Purposes provided support to 156 organisations. Individual projects were also supported including «Fundación de Ayuda contra 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.

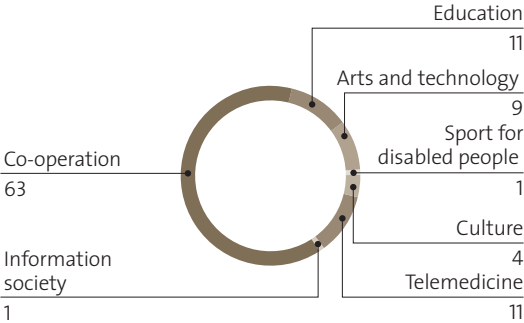
Distribution of projects in Spain

(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

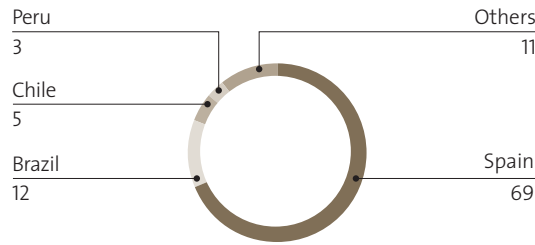
- Pioneering experience in the care of patients at risk from heart disease using GSM to transmit electrocardiograms, constantly connected to Doctors at the «Fundación Jiménez Díaz» and «Hospital Gregorio Marañón», both in Madrid.
- Portals related to chronic illnesses of social importance, such as cancer 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-

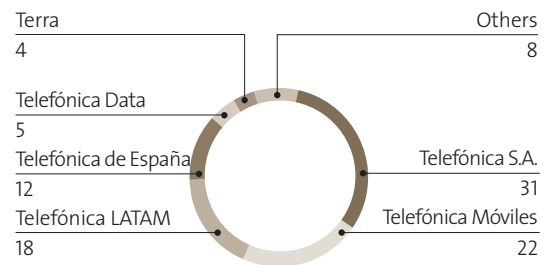
Sponsorship distribution by countries

(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, Toní Elías, Joan Olive, Carlos Sainz, Fco. Javier García Vico, Javier ramón Ferreiros, Alejandro Villégas, Jeremías 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 co-ordinate 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.
- AHCET (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

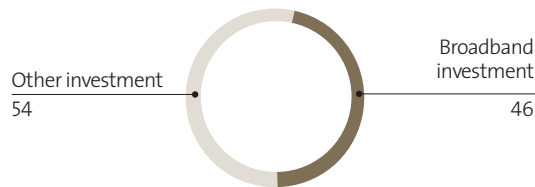
Accumulated investment¹
Telefónica Group in Latin America
(data in millions of US Dollars)

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.

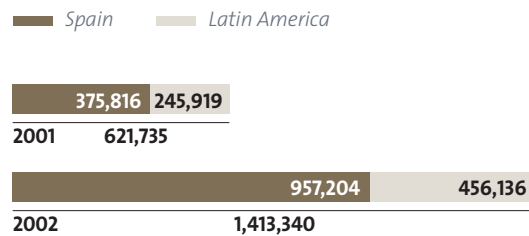
Finally, the installation by Telefónica Móviles España of 750 third-generation UMTS network stations in 21 Spanish cities was completed on schedule.

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



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

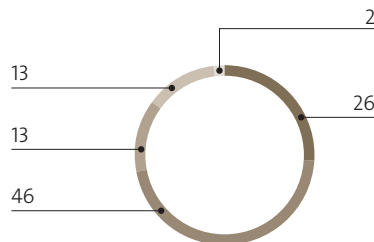
12%

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

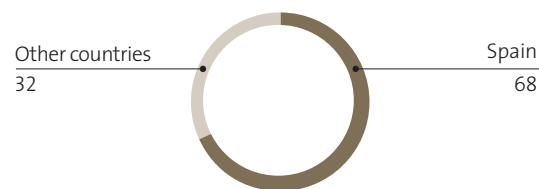
Some of the contents offered by companies belonging to the Telefónica Group in 2002 include:

- *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.

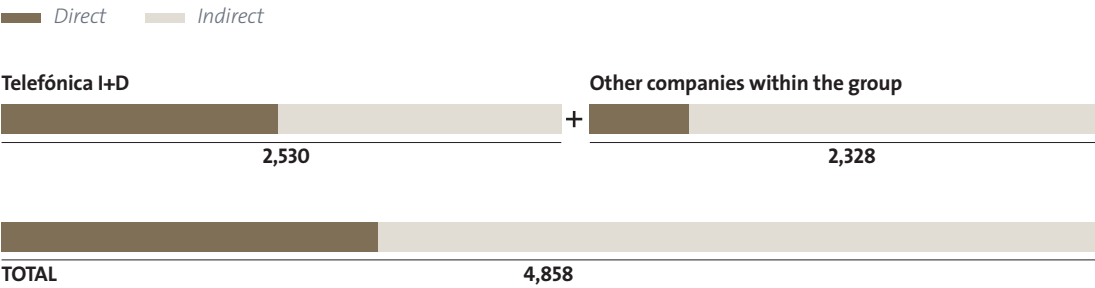
In 2001 (no consolidated data is available for 2002), Telefónica's involvement in the R+D carried out in Spain amounted to 4.9% (9.4% if we consider R+D carried out by its companies). These operations provide employment for more than 4,800 people in Spain.

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)



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

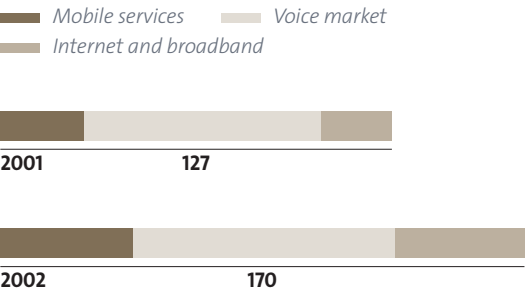
Telefónica Group, fully aware of the importance of universities as a dynamic element within the Information and Knowledge Societies, signed 350 agreements with Spanish universities in 2002. The signing of these agreements was based on issues related to research, innovation and telecommunications, priority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

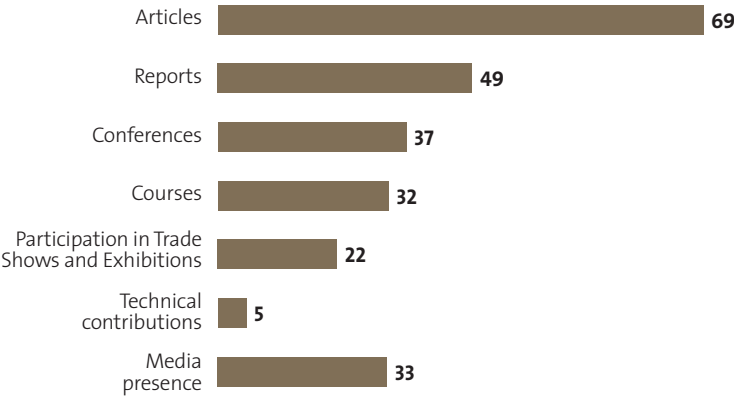
New products launched by Telefónica de España and Telefónica Móviles España

(data in units)

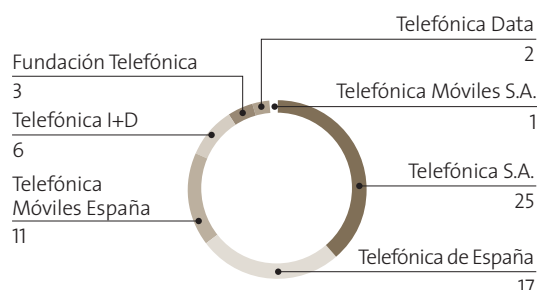


Telefónica I+D external technical presence in 2002

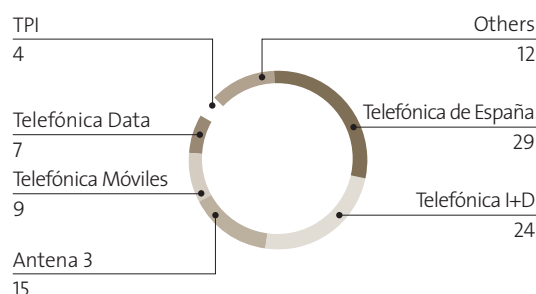
(number of activities)



Business line distribution of initiatives with Universities



Business line distribution of scholarships (data in percentages)



Telefónica Professorships

Universidad Politécnica de Madrid

- Telefónica chair in New Generation Internet
- Award for the best PFC of the FI of the UPM

Universidad Carlos III de Madrid

- Telefónica chair in studies into telecommunications economics
- Telefónica chair in telecommunications technologies

Universidad de Alcalá

- Telefónica chair in New Technologies for Culture
- The «Word Festival»

Universidad Autónoma de Madrid

- Master in Service Economy

Universidad Complutense de Madrid

- APIE Master (Association of Electronic Information Journalists)

Universidad de Las Palmas de Gran Canaria

- Telefónica chair in Experimental Multimedia Services

Universidad La Laguna

- Telefónica / UNESCO chair in Broadband
- Telefónica workshop into Education and New Technologies

Universidad Politécnica de Valencia

- Telefónica chair in Broadband and Next-generation Internet

Universidad Politécnica de Cataluña

- Telefónica chair in technological specialisation and the Knowledge Society

Universidad Pompeu Fabra

- Telefónica chair in multimedia production

Universidad Oberta de Cataluña

- Telefónica chair in Virtual Communities

Universidad de Zaragoza

- Telefónica chair in the Quality of New Networks and Telecommunication Services

Universidad de Salamanca

- Telefónica chair in the development of applications of New Technologies in the areas of Culture and Humanities

Universidad de Oviedo

- Telefónica chair in New Information Technologies and telecommunications

Universidad de Santiago de Compostela

- Telefónica chair in telemedicine

2000 2001 2002 2003

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 Inerser 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).

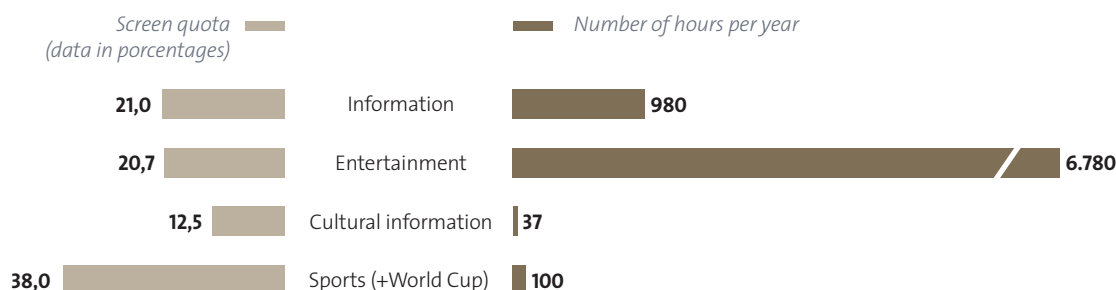
The number of customers affected rose to 300,000 in April. Telefónica managed to cut down on the number of incidents to 19,300 by the end of December. The first measures taken were to replace the stolen cables and conceal their position. Other preventative measures were then taken, including:

- 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

environment

respect and protection

1

Telefónica is committed to preserve the environment...

1.1

A commitment to the environment

- 1996 • ETNO (environmental charter)
- 2002 • UN Global Compact
- Global e-Sustainability Initiative
- «Club de Excelencia en Sostenibilidad» (Telefónica Móviles España)

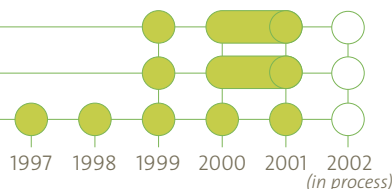
1.2

The environmental management system
ISO standards



1.3

Environmental publications
Reports published



1.4

Environment training actions

1.5

Sponsorship of environmentally friendly initiatives

2

... and to minimise the environmental impact of its activities...

2.1

Rationalised consumption

Paper savings (data in tons)

- 721 Double-sided invoice printing Telefónica de España
- 1.4 Electronic invoice Telefónica de España

2.2

Impact on bio-diversity and the landscape

- 511 Measures of environmental adaptation

2.3

Electromagnetic fields

Compliance with exposure limit regulations

100%

- «Real Decreto 1066/2001» Spain
- «Resolución 505/2000» Chile
- «Resolución 303» Anatel Brazil
- «Resolución CNC 269/2002» Argentina

2.4 Atmospheric emission management

2.5 Responsible solid waste management

100%

- Hazardous waste managed by authorised handlers (Telefónica de España, Telefónica Móviles España y Telefónica I+D)

2.6 Other waste management initiatives

Recycled paper (*data in tons*)

→ 335
TPI Peru

3

... and to develop services which contribute to the protection of the environment

Telefónica offers a range of communication with a positive environmental impact services, including:

- Tele-working, remote offices
- Audio-conferencing, video-conferencing
- Tele-education
- e-commerce
- Personalised mobile information services (e-mocion)
- Services providing added value (network answering service, caller identification, multimedia messaging)

... that contribute to:

- Improvements to transport and distribution systems
- Improved energy efficiency in buildings
- Savings on paper through the use of electronic catalogues and invoices
- Network answering services replace individual answering services (thereby contributing to a reduction in the use of materials)

→ 333
Telefónica I+D projects whose environmental impact has been analyzed

environment

respect and protection

1 Telefónica is committed to preserve the environment

Since Telefónica de España subscribed the environmental charter developed by ETNO (European Telecommunication Network Operators) in 1996, incorporating measures for the protection of the environment and the health and safety of its employees, Telefónica Group has made considerable progress in this area. A total of 23 telecommunications operators have signed up to this scheme so far, and Telefónica is a founding member of the Working Group that looks into the issue of the Environment and Social Responsibility.

1.1 A commitment to the environment

During 2002 Grupo Telefónica has intensified its commitment to the environment by signing up to the UN Global Compact and the GeSI Initiative (Global e-Sustainability Initiative), the later under the auspices of the UNEP (UN Environmental Program) and the ITU (International Telecommunication Union), includes manufacturers and operators from the sector with the aim of promoting sustainable development in the Information Society.

During the course of the year Telefónica Móviles España, in collaboration with another 15 major companies, has founded the «Club de Excelencia en Sostenibilidad» (Sustainability Excellence). This Club was set up in order to allow members to share their experiences in the area of sustainable development, by encouraging training in this field and promoting projects involving companies, public institutions and private organisations in the fields of corporate excellence and sustained growth.

One of the highlights of these initiatives is the involvement of Telefónica Móviles España in the Business and Sustainability pilot scheme «Calificación Ambiental de Proveedores» (Suppliers' Environmental Certificate). This is an initiative promoted by «Fundación Entorno» and sponsored by Spain's «Ministerio de Ciencia y Tecnología» and is designed to offer gradual environmental certification for suppliers, thereby encouraging suppliers and contractors to improve their environmental management systems.

1.2 Environmental management system

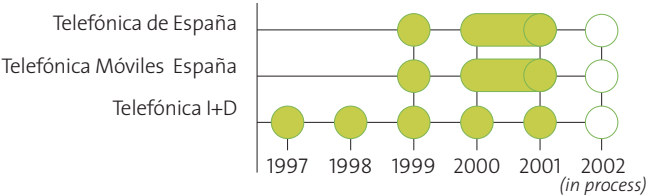
Telefónica de España, Telefónica Móviles España and Telefónica I+D are the Group's companies that have made the greatest progress in implementing Environmental Management Systems (EMS), which now extend to 100% of their activities.

The EMSs implemented by Telefónica Móviles España and Telefónica I+D have held the ISO 14001 in environmental management systems and standards since 1998, whilst in the case of Telefónica de España, the system implemented in its Logistic Centre has recently been awarded the ISO 14001.

In 2001 Telefónica Unifón Argentina set up an environmental working group that, following their diagnosis of the situation, implemented a series of improvement measures during 2002.

In Brazil, Celular CRT has developed a project for the implementation of an Environmental Management System, thereby complying with the requirements laid down by the NBR ISO 14001, which is currently pending approval.

Environmental reports published



1.3 Environmental publications

Various Telefónica companies publish annual environmental reports, which are gradually moving towards sustainability reports, as reflected by «Aenor» in its audit of Telefónica de España’s 2001 edition of its environmental report, in line with the guidelines established by the GRI (Global Reporting Initiative).

Telefónica Móviles España has a section on its website devoted exclusively to environmental issues in which visitors have access to the company’s reports. The website is complemented by an environmental information line (1473) and an e-mail address: medioambiente@tsm.es

In accordance with its principles of transparency and responsibility, Telefónica Móviles España has carried out a campaign aimed at raising awareness regarding its policies and criteria in the areas of the environment and public health. The following reports have been published and distributed:

- «Electromagnetic fields: mobile telephones and health».
- «Real Decreto 1066/2001: regulations for communication and health» .
- «Mobile telephones: part of your life».

In Peru, and through the «Asociación de empresas privadas de servicios públicos», Telefónica has distributed an information leaflet entitled «Cell phones improve our quality of life» in order to raise awareness among the general population of the vital role cell phones play in a country with a wild and rugged landscape, as well as mobile telephone operators' full compliance with the regulations governing the maximum permitted exposure to electromagnetic waves established by leading international organisations.

The goal set by Telefónica I+D for 2003 is to improve the Company's social and environmental communications. The Company's web site includes a section where visitors may consult environmental reports.

1.4 Environmental training actions

Telefónica de España, Telefónica Móviles España, Telefónica I+D and TeleSP (Brazil) each have a section on the environment on their Intranets, which all members of the organisation may access from the intranet.

Telefónica de España offers a tele-training course called «Environmental Management at Telefónica España», whose main objective is to raise awareness amongst all its employees. A total of 13 courses were held in 2002, which were followed by 270 pupils. In order to improve working space management in its 7,600 buildings, last October Telefónica de España launched an awareness-raising campaign entitled «Look after your working space. It's your daily landscape». This campaign dealt with issues such as cleanliness, tidiness and energy and water savings. The possibility of drawing up a code of «Good Environmental Practices» for sub-contractors is also currently under development.

Telefónica Móviles España has an internal environmental training scheme open to all its employees. In view of the demand for information on electromagnetic fields and their impact on health, the Company focused most of its efforts in 2002 on looking at this issue. Training was divided in three sections: the first explaining how the mobile telephone network works; a second section describing the possible impact of radio frequencies on health and lastly, a summary of all the activities undertaken by the Company in this field.

Energy consumption (data in kwh)

1,152,707,738

Telefónica de España (2001)

14,182,150

Telefónica I+D

374,290,849

Telefónica Móviles España

8,600,000

Telefónica Unifón Argentina

1,800,000

Telefónica Móviles Chile

54,190,000

Telesudeste (Brazil)

20,500,000

Celular CRT (Brazil)

Telefónica I+D offers three on-line courses describing the main elements and implications of its EMS, solid waste management and environmental protection activities. During 2002 these training courses were directed at new employees and maintenance staff.

1.5 Sponsorship of environmentally friendly protection initiatives

- In Spain, Telefónica Móviles has sponsored the first edition of Spain's Environmental Report, a «FUNGESMA» initiative («Fundación para la Gestión y Protección del Medio Ambiente»).
- Telefónica Móviles España collaborates with «Fundación Entorno» and participated in a number of working groups at the 2002 edition of the National Environment Conference.
- Admira is one of the companies that sponsor «Fundación Ecomar», which protects the marine environment.
- In Argentina Telefónica Móviles supports «Fundación Vida Silvestre», which preserves the forest life.
- Telefónica Móviles Peru sponsored the National Environment Prize, awarded by the Tecnológica del Sur University.

2 ... and to minimise the environmental impact of its activities...

2.1 Rationalised consumption

2.1.1 Electrical energy consumption

Supplying both mobile and land communication networks constitutes telecommunications operators'

major source of energy consumption. Telefónica Group operators are implementing considerable improvements designed to maximise the energy efficiency of their networks through the use of monitoring and control systems or the increase in operating temperature of certain equipment (leading to consequent energy savings in cooling systems).

Telefónica de España's environmental goal for 2003 is to reduce energy consumption to levels similar to those of the year 2000 and Telefónica I+D has established energy saving targets for June 2004.

2.1.2 Water consumption

Water consumption in the telecommunications sector may appear insignificant when compared with levels used by other industries or the service sector. The greatest impact is the consumption of water in offices and cooling systems. One of the main actions of Telefónica I+D has been to establish optimisation targets for the quality and amount of water used, planned for February 2003. TeleSP (Brazil) has organised workshops designed to develop initiatives and raise awareness of the need for the rational use of water in its facilities and installations.

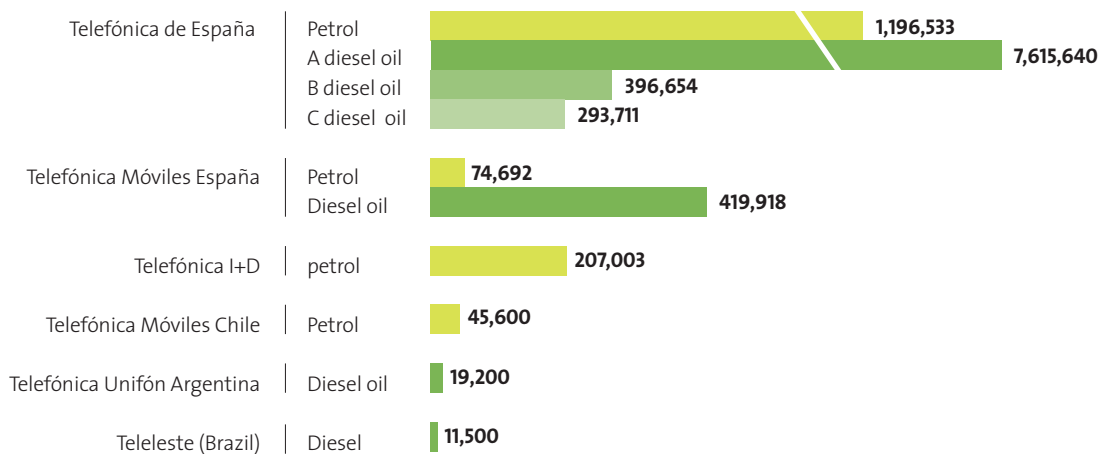
2.1.3 Paper consumption

Telefónica Group companies have set up a series of measures designed to reduce paper consumption. Several of these initiatives are described below:

Telefónica Publicidad e Información (TPI)

- In order to minimise the environmental impact of the paper used to publish TPI's guides, all the paper and card used for the company's telephone directories are purchased from suppliers that hold environmental-management standard certificates (ISO 14001).

Fuel consumption
(data in litres*)



(*) Excepting natural gas consumption (in m³): Telefónica de España 239,659 and Telefónica R+D 73,557

- In addition to this, a series of new information channels are currently being created as alternatives to the traditional paper format, including on-line directories available on the Internet or new technologies such as WAP or personal digital agendas (PDAs).

Telefónica de España

- Estimated savings of 721 tons of paper due to double-sided invoice printing, an initiative set up in March 2002.
- A further initiative that has led to reduction in the amount of paper used is the implementation of the electronic invoice. In December 2002, a total of 45,258 clients had opted for the e-invoice, saving a total of 1.4 tons of paper used for the invoices and envelopes.
- The total amount of paper used in 2002 was 4,814 tons, 875 of which are recyclable.

Telefónica Móviles España

- Recycled office paper consumption totalled 3,342,500 sheets in 2002.
- Double-sided printing has been used for all invoices issued since May 1st 2002, allowing considerable reductions to be made in the amount of paper used.

Telefónica I+D

- The aim is to reduce the amount of paper used by 62% between 1999 and 2009, developing the paper-free office model.
- During 2002 a 19% reduction in the number of sheets used was obtained. In total, 8,166,825 sheets of white paper and 2,337,240 sheets of recycled paper were used.

Atento España

- 22.5% of the total amount of paper used, was recycled paper.

2.1.4 Fuel consumption

The telecommunications sector does not directly consume large quantities of fuel. Most of the fuel consumed is used by its fleets of vehicles, or during emergency plans of action or in order to provide services in remote areas where energy sources are difficult to access.

The objective of Telefónica Group is to collaborate in meeting the goals established at world summits such as Kyoto and to set up control mechanisms designed to reduce consumption and increase efficiency levels. This is clearly reflected in the progress made by Telefónica de España in this area during the course of 2002.

- 18% of the fleet of vehicles without a catalytic converter were replaced with others that fully comply with current legislation regarding gas emissions (83.5% compliance).
- 4% of vehicles without a catalytic converter were taken out of service (152.7% compliance).
- Assessment of the state of boiler fuel deposits and generators (93% compliance).
- Adaptation of boiler fuel deposits and generators to current legislation (70% compliance).

Telefónica de España has set the following objectives for 2003:

- Completion of the adaptation process of deposits in line with current legislation.
- Replacement of 2.7% of the fleet of vehicles without a catalytic converter.

The fuel used in 2002 by Telefónica de España to travel a total of 114,531,959 kilometres can be broken down in the following way: A diesel oil 7,615,001 litres; petrol 653,680 litres; unleaded petrol 542,333 litres.

Water consumption
(data in thousands of litres)

963,445
Telefónica de España

71,246
Telefónica Móviles España

44,106
Telefónica I+D

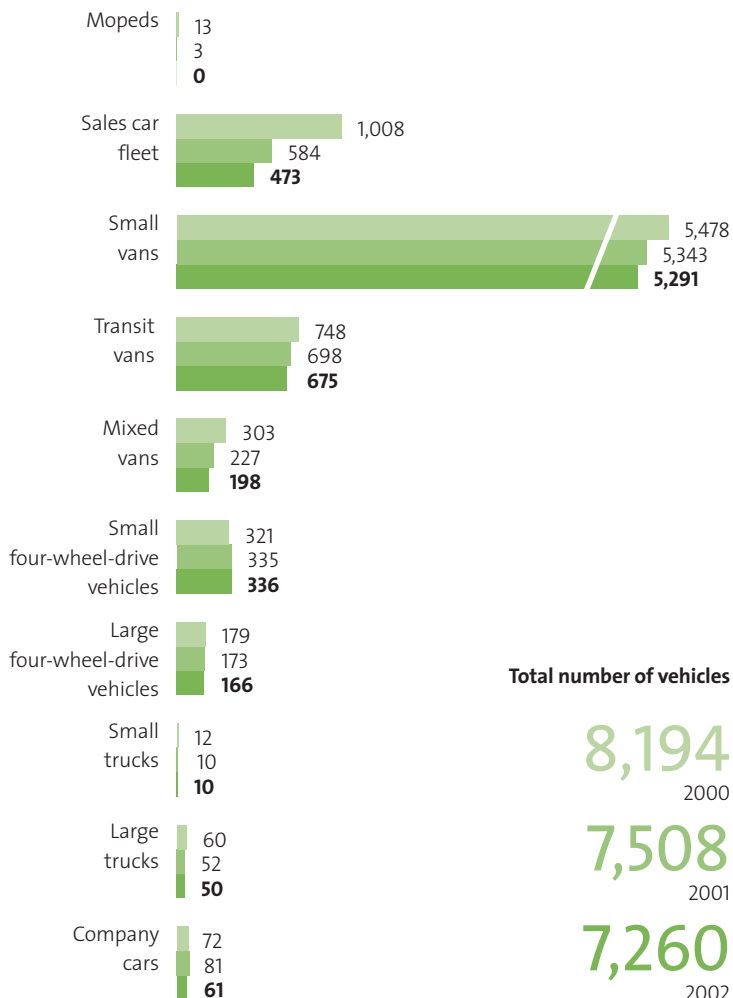
Paper consumption
(relevant data)

100%
paper purchased by TPI from ISO 14001 suppliers

savings of
721 tons
due to double-sided invoice printing by Telefónica de España

Telefónica de España's fleet of vehicles (number of vehicles per category)

2000 2001 2002



Telefónica I+D vehicles used approximately 50,000 litres of fuel. Company employees made a total of 642 domestic and 430 foreign trips.

2.2 Impact on bio-diversity and the landscape

When undertaking network distribution, Telefónica Móviles operators take into consideration the need to blend structures into the landscape or to camouflage them in urban or countryside areas which are protected due to their environmental, historical or artistic value. In order to achieve this, a number of basic techniques are employed: the reuse of existing infrastructure; the reduction in the number of aerials per site; infrastructure sharing; camouflaging of aerials, etc.

During the planning phase of its base stations, Telefónica Móviles carries out a landscape impact analysis, based on the calculation of visual fragility, a parameter which determines the degree to which the landscape will be altered by an action carried out upon it. During the course of 2002 a total of 511 environmental adaptations were carried out on the network.

Telefónica Móviles España and Telefónica de España also carried out a number of environmental impact studies at the request of official bodies. These were designed to offer a range of alternatives that not only protect the environment but also ensure customers are provided with a quality service.

In keeping with these measures, and in accordance with the development of new technologies, during 2003 Telefónica Móviles plans to establish a series of environmental criteria for the deployment of its UMTS networks.

2.3 Electromagnetic fields

In compliance with «Real Decreto» 1066/2001, Telefónica Móviles España completed its Monitoring Plan, carrying out checks on all base stations situated in inhabited areas. The monitoring and approval procedures were carried out in accordance with the terms and conditions stipulated in «Orden Ministerial» CTE/237/2002, and the results obtained have been compared with limits for exposure to electromagnetic fields included in the aforementioned «Real Decreto». The results showed that all the base stations are well within the permitted limits recommended by leading international organisations, such as the ICNIRP (International Commission on Non-Ionising Radiation Protection), the World Health Organisation and the EU.

Telefónica Móviles España is also involved in a number of other working groups, such as that set up within the context of «ANIEL» with the aim of explaining all aspects of antennae, emissions, etc. Full details are available on the web site at www.sociedadmovil.com, which received a total of 27,000 visits in 2002.

Telefónica Móviles España participates actively in working groups on electromagnetic fields within the framework of ETNO (European Telecommunication Network Operators) and is involved in the majority of actions carried out by COST (European Co-operation in the Field of Scientific and Technical Research).

In Chile and in accordance with current legislation, Telefónica Móvil completed the monitoring of its aeris. The results showed that all the emissions are within the limits laid down in the regulations included in Resolution 505/2000.

During the course of 2002, and in compliance with ANATEL «Resolución» 303, Telesudeste Celular, Telesudeste Celular and Celular CRT have begun to carry out a series of monitoring procedures throughout Brazil. To date, all the results have shown that emissions fall well within the limits permitted by the ICNIRP and the WHO.

In Argentina, Telefónica Unifón is responsible for monitoring electromagnetic emissions in accordance with the provisions laid down in «Resolución» CNC 269/2002. It was shown that all the sites comply fully with national and international regulations and standards.

In Peru, random monitoring tests undertaken by INIC-TEL («Instituto Nacional de Investigación y Capacitación en Telecomunicaciones») at base stations of all existing operators have shown compliance with the limits set out by leading international bodies.

2.4 Atmospheric emission management

As part of a series of initiatives designed to reduce atmospheric emissions, Telefónica de España has achieved the following objectives during the course of 2002:

- Identification of the cooling agents used in cooling equipment (90% compliance).
- Removal of any existing 1301 halon (97.5% compliance).

The following are the objectives set by Telefónica de España for 2003:

- Elimination of cooling agents used in cooling equipment in order to comply with existing legislation.
- Completion of the removal of 1301 and 1211 halon.

Electromagnetic fields

100%

compliance with the limits set by:

Real Decreto
1.066/2001
Spain

Resolución
505/2000
Chile

Resolución
ANATEL 303
Brazil

Resolución
CNC 269/2002
Argentina

**Solid waste management
at Telefónica de España in 2002**
(data in kilograms)

Non-hazardous		Final use
· internal plant	136,806	scrap
· wiring	5,519,156	scrap
· telephone equipment	1,618,534	scrap
· telematic equipment	132,900	recycling and scrap
· waste paper	877,757	recycling
· vehicles taken out of service	557,210	scrap metal
Hazardous		
· bio-sanitary	9,672	authorised handler
· radiological	1,575	authorised handler
· batteries	1,262,519	recovery and authorised handler
· hazardous from Logistic Center	328	recovery and authorised handler
· 1301 halon removal	87,051	authorised handler

**Volume of waste generated
by Telefónica I+D in 2002**
(data in kilograms, except when otherwise specified)

Non-hazardous	
· decantation tank grease	3,340
· metal oil filters	2,560 litres
· building work waste	242 m³
· obsolete electrical equipment	22,931
· toner cartridges	580 cart.
Hazardous	
· dead fluorescent tubes	268
· metal oil filters	7
· contaminated empty packaging	153
· housing oil	200
· alkaline and button batteries	347
· paper stained with chemical products	102
· dead batteries	7,356
· inorganic waste products	107
· contaminated absorbent material	176
· bio-sanitary waste	172

**Volume of waste generated by
Telefónica Móviles España in 2002**
(data in kilograms)

	Hazardous	Non-hazardous
Offices	1,348	301,988
Network	164	823,000

2.5. Responsible solid waste management

Telefónica classifies and deals specifically with each type of waste produced during the course of its activities, with particular attention being given to hazardous waste products that are dealt with by authorised handlers.

In 2002, Telefónica de España generated a total of 10,203,508 kilograms of solid waste, 1,361,145 of which were hazardous.

The objectives set for 2003 in this area are listed below:

- Extension of Telefónica de España’s registration as a producer of hazardous waste material.
- Reduction in the amount of micro-computerised waste produced by workstation printers. (Installation of 200 networked printers, the removal of 4,000 individual printers, 1,000 of which will be re-used).
- Reduction in the amount of micro-computerised waste produced by workstation computer terminals. (Removal of 5,000 obsolete PCs, 900 of which will be recycled and re-used).

Participation in collaboration with major mobile telephone manufacturers and operators in the initiatives «Recicla tu móvil» and «Tragamóvil» set up by ANIEL and ASIMELEC respectively, designed to recycle and effectively deal with obsolete mobile phones and accessories.

Telefónica Móviles has set up an Integrated Management System designed to remove and handle correctly any hazardous waste products. This system includes the collection and management of both

hazardous waste products (fluorescent tubes, batteries and mobile phone batteries) and solid urban waste (paper, cardboard, printing waste products).

Telefónica Unifón Argentina has taken a large number of base station batteries out of service, either because they have completed their pre-established life or they contain cadmium. Certified contractors have eliminated more than 70 sets of batteries have been eliminated in total, plus 20,000 kilograms of waste products.

2.6 Other waste management initiatives

Telefónica Móviles has come up with a series of initiatives for the management of disused terminals and batteries in the various countries in which it is present.

Telefónica Publicidad e Información carries out annual campaigns for the collection of obsolete telephone directories in all the countries in which it operates. In Peru the third consecutive campaign was carried out for the collection of the previous year's phone directories. A total of 335 tons of «Páginas Amarillas» and «Páginas Blancas» were collected, 21.8% more than the estimated 275 tons. The paper collected was sold as recyclable material and the money was donated to the «Hogar Clínica San Juan de Dios», in collaboration with the Fundación Telefónica.

Atento organises the paper collection and recycling in Argentina, Chile, Spain and Venezuela.

Telefónica Móviles donates recyclable materials in Argentina, Brazil and Chile to organisations that donate the money obtained to social projects and initiatives.

Similar programmes are also run by Atento in Argentina and Telefónica I+D (excess computer equipment is auctioned off amongst employees, and the money obtained is donated to charity).

Collection programmes for obsolete equipment in users' possession
(country and situation)

Argentina	<ul style="list-style-type: none">• Battery collection and recycling programme, in collaboration with the «Fundación Vida Silvestre». A total of 500,000 batteries have been deposited in Company stores.• Collaboration agreement with Nokia and Ericsson for terminal recycling.
Brazil	<ul style="list-style-type: none">• Battery collection programme in advance of the resolution to be issued by the «Consejo Nacional de Medio Ambiente» (National Environment Committee / CONAMA) whereby battery collection will become compulsory. The batteries are returned to the manufacturer for recycling purposes.
Chile	<ul style="list-style-type: none">• 3,500 kilograms of terminals and 3,500 kilograms of batteries have been collected. This material has been sent to a recycling company authorised by the «Servicio de Salud Metropolitano del Medio Ambiente» (the Metropolitan Environmental Health Service).
Spain	<ul style="list-style-type: none">• An Integrated Management System including selective containers for batteries and mobile phone batteries installed in regional offices and Company stores.• Participation in collaboration with major mobile telephone manufacturers and operators in the initiatives «Recicla tu móvil» and «Tragamóvil» set up by ANIEL and ASIMELEC respectively, designed to recycle and effectively deal with obsolete mobile phones and accessories.

Environmental impact

333

Telefónica I+D projects
whose environmental impact
has been analyzed

3 ... and to develop services which contribute to the protection of the environment

The benefits to the Environment from telecommunications have been endorsed by two reports:

- a) A report published by the United Nation's Environment and Development Programme, entitled «The role of industry in sustainable development. 10 years after Rio: UNEP declarations», highlighting the achievements obtained by companies from the Information and Communication Technology sector, and their contribution to sustainable development.
- b) A report presented at the Johannesburg Conference (2002) looking into the impact of the Information and Communications Technology sector on sustainable development. This report was published by GeSI (Global e-Sustainability Initiative), subscribed by Telefónica in 2002.

The use of telecommunications services by the industrial, commercial, farming and service sectors and in the home has a positive impact on the Environment. Among the environmentally friendly opportunities offered by these services are:

- Tele-working, remote office, mobile office, etc.
- Audio-conferencing and video-conferencing
- Tele-education
- e-commerce
- Access to mobile information services (e-mocion)
- Services providing added value (network answering service, caller identification, multimedia messaging, etc.)
- Fleet management

These initiatives make a positive contribution to:

- Improvements to transport and distribution systems

- Improved energy efficiency in buildings
- Savings on paper through the use of electronic catalogues and invoices
- Equipment savings based on the substitution of individual answering services with network-based answering services (thereby contributing to a reduction in the use of materials).

In January 2002 Telefónica I+D set up a procedure for the systematic assessment of the impact on the environment of its new developments. The results of a total of 333 projects were subjected to analysis during 2002, the majority of which allowed for improvements to be made in the remote control of customer facilities, thereby making a direct contribution to cutting transport needs (with the consequent reduction in associated negative impacts: fuel consumption, gas emissions, etc.) A number of products which have had a positive impact on the environment are described below:

- **Fibre Radio System:** designed to allow for the fine distribution of radiant aerials located in urban settings, which provides the following advantages:
 - Reduction in radio power levels emitted by each aerial, due to the fact that they are distributed at more regular intervals providing coverage for a smaller area.
 - More attractive urban settings, as the aerials used to provide coverage are smaller and easier to camouflage.
- **Sensor networks integrated into the base stations.**
The «EOLO» Project: A proposal has been made for the creation of a network of sensors which would be integrated into Telefónica Móviles España's base stations, capable of providing information in real time

about the various physical parameters of the area surrounding aerials, such as the wind speed and direction. The first application to be implemented as a part of the network is the development of a project in base stations in Cantabria and Vizcaya.

- **EOC-Energy:** the centralised management of telephone energy equipment (power panels, air conditioning, energy panels, transformers, permanent energy supply systems, as well as mobile phone equipment). The remote control of this equipment allows for the rapid detection of any faults, thereby avoiding unnecessary energy consumption and optimising staff movements between facilities.

suppliers

equality of opportunities
and mutual benefit

1

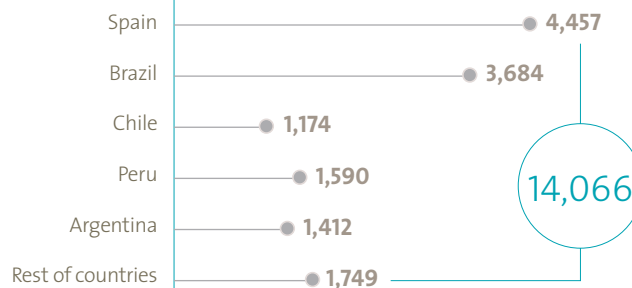
Telefónica works with a wide range of suppliers

2

The company endeavours to build relationships based on transparency and fair competition...

1.1

Telefónica Group works with over 14,000 suppliers



2.1

Mechanisms that promote transparency

Registered suppliers



2.2

Suppliers' website



www.telefonica.es/proveedores

1.2

Telefónica's purchases are managed by means of an advanced and efficient system

«Sistema Avanzado de Compras» (SAC)

109 companies have adopted the system

7 purchases offices

(Madrid, Sao Paulo, Rio de Janeiro, Lima, Buenos Aires, Santiago de Chile, Mexico D.F.)

1.3

Supporting local suppliers

Number of contracts awarded to local suppliers; breakdown by country (data in percentages)



3

... for the mutual
benefit of both...

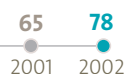
4

... seeking to foster ethical
standards throughout the supply chain

3.1

Implamantation of on-going improvement procedures in the supply chain

Number of supplierdevelopment projects



3.2

The Purchasing Club

Attractive purchase
prices for suppliers

→ 93

Registered suppliers

→ 18

Offers available

3.3

B2B e-commerce

→ 256

Millions of euros' worth
of transactions in 2002

→ 1,145

Registered suppliers

UN Global Compact
www.unglobalcompact.org

GeSI (Global e-Sustainability Initiative)
www.gesi.org

ETNO (European Telecommunication Operators Association)
www.etno.be

suppliers

equality of oportunities
y mutual benefit

**Telefónica Group's
volume of purchases**

more than
10,000
million euros

more than
14,000
suppliers

**1 Telefónica works with a wide range
of suppliers on whom depends it success**

**1.1 Telefónica Group works with
over 14,000 suppliers**

In 2002, the value of the purchases made by Grupo Telefónica totalled more than 10,000 million euros, including investments and operating costs. These purchases were adjudicated to more than 14,000 suppliers, with the ten following groups being the largest in terms of purchase volume (listed in alphabetical order): Alcatel, Avanzit, Ericsson, IBM, Lucent, Motorola, NEC, Nokia, Samsung and Siemens.

**1.2 Telefónica's purchases are managed
by means of an advanced and efficient system**

Fully aware of the importance purchasing and the need for excellent relations with its suppliers have on the success of its operations, Telefónica uses a single purchasing management system for all the companies within the Group, known as the «Sistema Avanzado de Com-

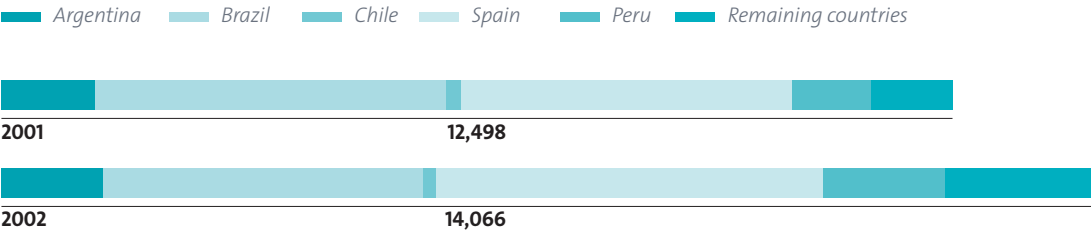
pras» (SAC). The aim is to optimise purchasing on three levels: price, quality and service in order to reduce costs, increase levels of competitiveness and generate value.

In order to implement this system, Telefónica Group has set up a Purchasing Structure with a dual orientation: Global and Local (country/company):

- Global, in order to allow for the design of general strategies and to administer joint purchases whenever necessary; and
- Local, in order to be able to adapt global policies to the situation and specific circumstances of each country, thereby guaranteeing sufficient contact with suppliers and with the user areas through the purchasing teams set up in each company, which allows us to offer quality service.

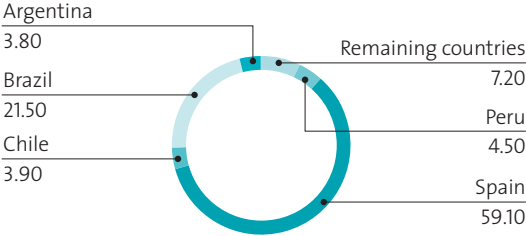
One hundred and nine Telefónica Group companies in more than 15 countries currently use this purchasing system. It is based on the «Mesas de Compras», forums providing an opportunity for the various areas involved to undertake analyses, establish targets or prices, and ultimately to reach a consensus regarding whom the supply contract should be awarded to.

Number of contracted suppliers



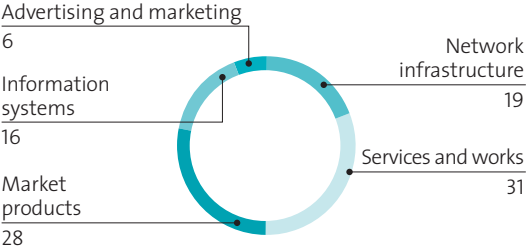
Distribution of purchases per country

(data in percentages)



Distribution of purchases according to product lines

(data in percentages)



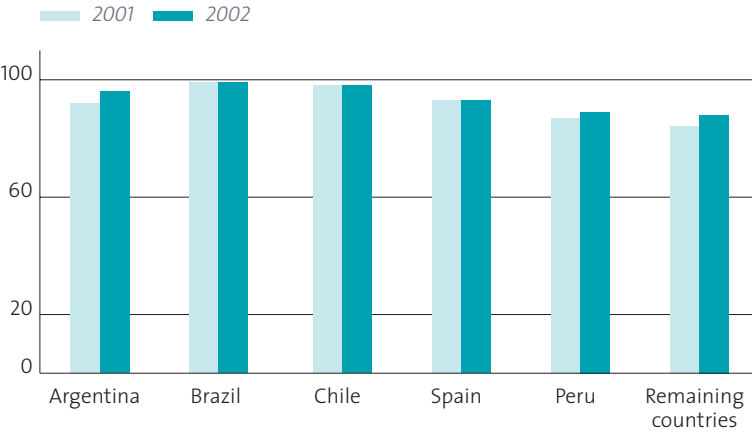
There are currently seven «Mesas de Compras» located in Madrid, Sao Paolo, Rio de Janeiro, Lima, Buenos Aires, Santiago de Chile and Mexico DF, thereby making it possible for a global or local purchasing policy to be implemented at any given time, in accordance with the specific circumstances of each case.

1.3 Supporting local suppliers

Telefónica is a multidomestic company that is firmly committed to promoting economic and social progress in the countries in which it is present. This commitment may be seen in the large number of contracts given to suppliers in the same country, who are awarded more than 75% of all contracts in the majority of countries in which the Group operates.

Percentage of local suppliers per country

(data in percentages)



2 Telefónica bases its relations with suppliers on transparency and objective consensus...

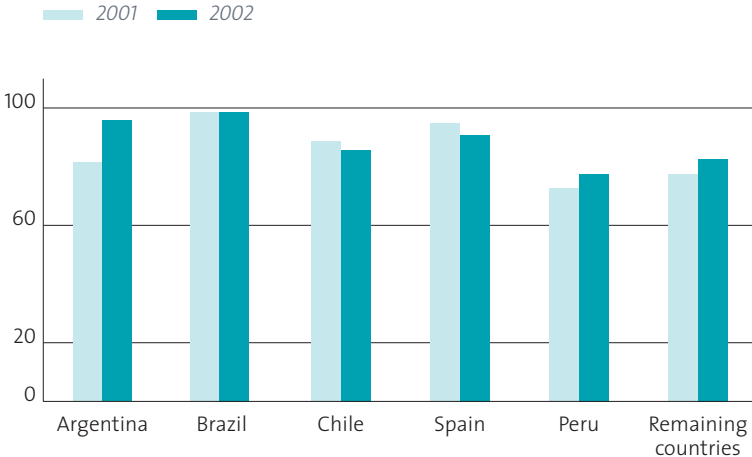
2.1 Mechanisms that promote transparency

The «Sistema avanzado de Compras» (SAC) includes a number of mechanisms and features designed to make processes more transparent. The most important of these are:

- The possibility of being included in Telefónica's Catalogue of Suppliers, that is available for all companies interested in working with Telefónica. By the end of 2002, the total number of firms included in the Catalogue as potential suppliers for Telefónica stood at 26,180 (20,804 at the end of 2001).

Distribution of purchases made from local suppliers per country

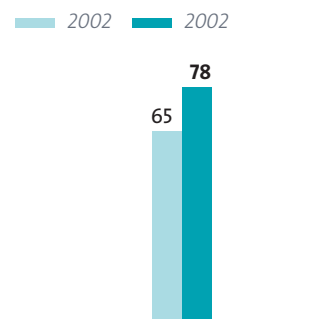
(Data in percentages)





The Supplier's website
www.telefonica.es/proveedores.

Number of supplier development projects (Spain, Brazil, Chile y Peru)



Purchasing Club

93
 registered suppliers

18
 offers available

- Fair treatment and equal opportunities for suppliers making bids.
- Adjudication by the «Mesas de Compras» unanimously, in all areas involved with purchases.
- Informing suppliers making bids if they have been selected or not, and in those cases when they are not selected, give reasons.
- SAC Style Manual, describing the general principles, values and guidelines governing the professional conduct and activity of the purchasing teams as well as all other departments involved in the purchasing process, including their relations with suppliers.

2.2 The Suppliers' website

The Supplier's website www.telefonica.es/proveedores aims to act as the main channel of communication and information exchange between Telefónica and its suppliers.

In addition to supplying global information regarding how to become a supplier for Telefónica Group, as well as the purchasing process and Telefónica's main projects, this portal also provides access to other specific portals for companies within the Group, in particular «e-Agora», Telefónica de España's portal for purchases.

This portal allows companies to register their request to be included in the Suppliers' Catalogue of Telefónica Group, access «Adquirir», the e-commerce platform, the Suppliers' Club, and also provides details of a range of other initiatives and applications that Telefónica has made available to its suppliers.

3 ... for the mutual benefit of both...

Telefónica has developed a series of tools designed to bring about improvements at all stages of the supply chain.

3.1 Implementation of on-going improvement procedures in the supply chain

Through its «Supplier Development» scheme, Telefónica offers its suppliers free of charge a team of professionals and methodology designed to assist the supply company in implementing on-going improvement procedures. The objectives of this scheme are described below:

- To collaborate with the supplier, providing methodology aimed at identifying opportunities for improvement.
- To facilitate the implementation of on-going improvement procedures by the Supplier as part of a philosophy based on active involvement.
- To identify procedures where opportunities for reductions in costs exist, thereby allowing for increased competitiveness and providing added value for the end client.

During 2002 these on-going improvement procedures were carried out in Spain, Brazil, Chile and Peru.

3.2 Access for suppliers to special benefits for purchases: The Purchasing Club

The Purchasing Club is another initiative designed to foment collaboration among suppliers. Through



this Club, Telefónica offers its suppliers the chance to take advantage of a number of special deals on certain products. During 2002, this initiative was set up in Spain and Brazil. Over the next few months it will also be implemented in Argentina, Chile and Peru.

3.3 B2B e-commerce, an ever-closer reality

Telefónica aims to be at the forefront of the use of state-of-the-art technology in its dealings with its suppliers, setting up new and improved communication channels, simplifying access to the market, optimising procedures and transactions and in general favouring all aspects of collaboration. In this sense, Telefónica wishes to bring e-business technology closer to its suppliers through the use of an electronic market designed to administer and negotiate bids on-line.

During 2002, the value of purchases administered by this electronic market totalled 256 million euros, with a total of 1,145 suppliers included by year-end 2002, distributed as follows: Spain 797, Brazil 225, Argentina 79, Peru 44, Total: 1145. For suppliers, these e-business initiatives imply a reduction in sales costs, improvements to documents and procedure monitoring systems and greater efficiency and flexibility in the exchange of information. The use of these new technologies will help to strengthen links between Telefónica and its suppliers.

In addition to the benefits listed above, this platform provides added sales opportunities for suppliers thanks to the access to a virtual market which not only includes all the Telefónica companies, but also

firms such as BBVA, Iberia or Repsol-YPF.

4 ... seeking to foster standards throughout its supply chain

Telefónica not only requires full compliance regarding all legislation affecting working conditions, health and safety in the workplace or environmental impact, as stated in its general terms and conditions regarding supplies, but also makes a major contribution to the promotion of responsible practices at all stages of its supply chain. This commitment has been made public through its adherence to the UN Global Compact, as well as through the initiatives set up by the ETNO (European Telecommunication Network Operators) and the GeSI (Global e-Sustainability Initiative).

One of the highlights of these initiatives is the involvement of Telefónica Móviles España in the Business and Sustainability pilot scheme «Calificación Ambiental de Proveedores» (Suppliers' Environmental Certificate). This is an initiative promoted by the «Fundación Entorno» and sponsored by Spain's «Ministerio de Ciencia y Tecnología» and is designed to offer environmental certification for suppliers at a number of stages, thereby encouraging our suppliers and contractors to improve their environmental management systems.

All contracts for the supply of materials drawn up by the logistics division at Telefónica España include the stipulation that the suppliers comply with «Ecoembes», offering environmentally friendly packaging including the recycling logo, plus payment of the corresponding fee.

In addition, Telefónica de España has set an environmental management objective for 2003, consisting of creating a «Code of Good Practice» for subcontractors

Volume of online purchase

256
million euros

1,145
registered suppliers

media

information and transparency

1

Telefónica is aware of the public's interest in its activities...

1.1

Telefónica's impact on the media

Articles and references in the Spanish press in 2002



1.2

Media coverage of Telefónica Group in Spain in 2002
(data in percentages)



2

... and provides transparent, up-to-date and rigorous information

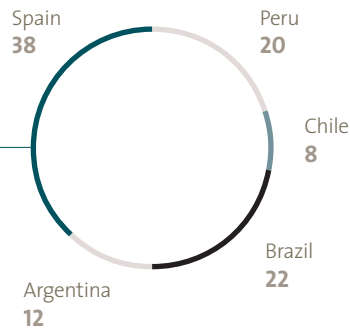
2.1

Up-to-date and rigorous information

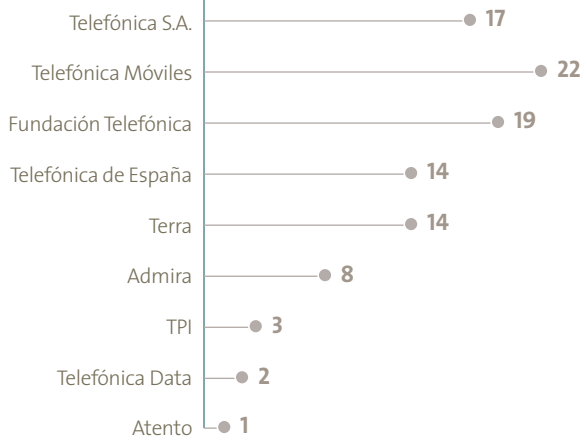
Press releases issued by Telefónica Group in 2002

→ 1,334

Breakdown by country of the press releases issued by Telefónica Group in 2002
(data in percentages)



Breakdown by business line of the press releases issued by Telefónica Group in 2002
(data in percentages)



2.2

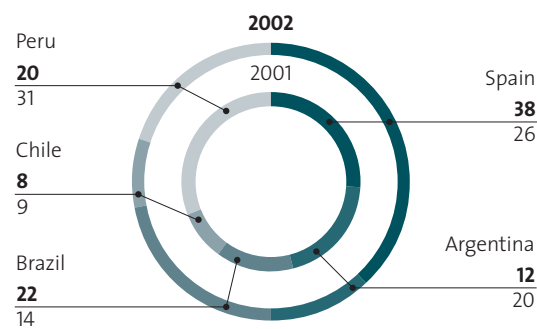
Commitment to transparency

Virtual Press Room
www.telefonica.es/saladeprensa

→ 96,000
Number of visitors

→ 144,000
Number of downloads

Distribution of Press Releases per country
(data in percentages)



Volume of Telefónica Group
information impacts
in the Spanish press
(data in units)



1 Telefónica is aware of the public's
interest in its activities...

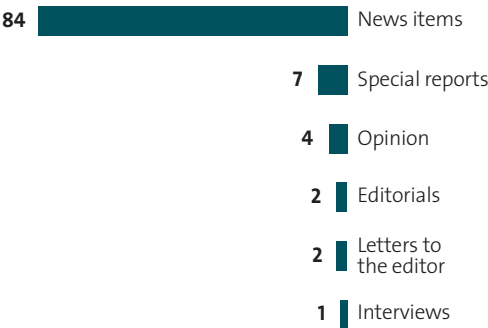
1.1 Telefónica's impact on the media

During 2002, Telefónica Grup appeared in the Spanish press a total of 31,637 times, which represents an average of 36 news items and 50 mentions of Telefónica every day.

1.2 Media coverage of Telefónica Group

The majority of the information regarding Telefónica Grup is used by the media in news items (84%), followed by opinion articles (8%), special features (7%) and interviews (1%).

Media coverage of Telefónica Group in Spain
(data in percentages)



2 ... and provides transparent,
up-to-date and rigorous information

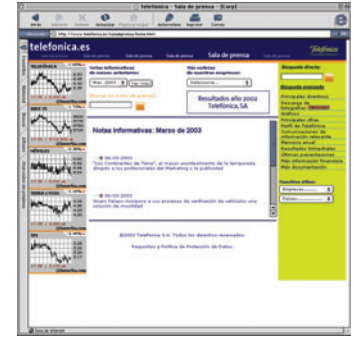
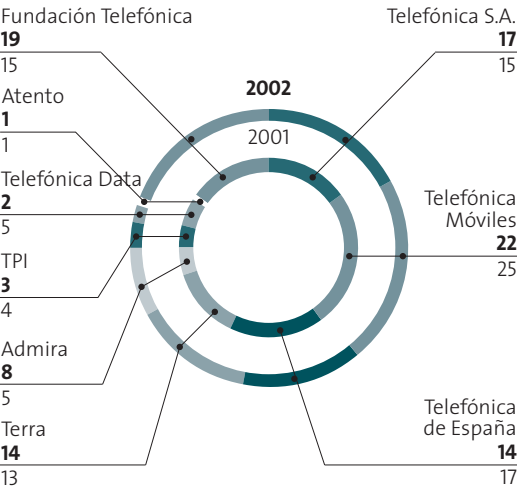
2.1 Up-to-date and rigorous information

Telefónica area of communication centralises the work of a complex team working in each of the business lines, each of the countries where it is present and each of its regional offices. As a result of this work, in 2002 Telefónica issued a total of 1,334 press releases. Most of this activity was centred in Spain, Brazil and Peru.

As far as the information content is concerned, the issues that featured most regularly in press releases were related to services, commercial agreements and information of a strategic and financial nature.

Business line distribution of Press Releases in Spain

(data in percentages)



2.2. Commitment to transparency

With the objective of fostering transparency, Telefónica Group has set up an Online Press Room www.telefonica.es/saladeprensa, which offers the following services:

- Publication of all press releases issued since 1997.
- Search service for press releases classified by country, areas of activity, date, etc., including a direct search service.
- Possibility of downloading 200 photographs, senior managers profiles and CVs, graphs, results, etc.
- Share price consultation.
- Links to other Telefónica Group web sites.

This web site was visited 96,000 times in 2002 and 144,000 items were downloaded.

In addition to the Press Room, it is also essential to highlight the personal contact with the media on a day to day basis. Just in the Corporate Centre, six people deal every day with around a hundred calls with requests for information. This service also includes meetings and working breakfasts designed to meet and contextualise the media's demand for information.

Telefónica Group websites

(data in units)

96,000
visits in 2002

144,000
news items downloaded

Distribution of Press Releases in Spain according to topics

(data in percentages)



Telefónica S.A.

Corporate Responsibility Annual Report 2002

This Report is also available at
Telefónica's Internet websites:

www.telefonica.es (Spanish),
www.telefonica.com (English) and
www.telefonica.com.br (Portuguese)

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

The information required by law
is also available to shareholders
and to the general public.

Published by

Dirección General de Medios, Marketing y Contenidos de Telefónica S.A.
Subdirección General de Reputación Corporativa

Design

Olivé | López | Lara

Photography

Ricky Dávila

Rest of Photography

age fotostock

Print

Egraf, S.A.

Date of publication: April 2003

Legal Deposit: