

Madrid, February 13th, 2003

**SPANISH NATIONAL SECURITIES MARKET COMMISSION  
-MADRID-**

**Telefónica SA**, as provided in article 82 of the Spanish Stock Market Act (*Ley del Mercado de Valores*) hereby reports the following

**SIGNIFICANT EVENT**

On February 12th 2003 , Telefónica and Terra have signed a Strategic Alliance Master Agreement that substitutes the Strategic Agreement of May 16th, 2000 to which the company Bertelsmann was also party.

In addition, Telefónica, Terra, Lycos and Bertelsmann have signed an agreement based on preferred relationships, which will allow the parties to continue exploring opportunities for the mutual provision of communication, development and content services in the online market.

The signing of the new Strategic Agreement between Telefónica and Terra responds, on the one hand, to the changes experienced in the Internet business, particularly the development of broadband services; and, on the other hand, the need to adapt the range of products and services offered by Terra Lycos Group under the May 2000 Agreement to the abovementioned new conditions and the specific needs of the Telefónica Group in those markets in which operates.

The Strategic Agreement takes full advantage of Telefónica Group's capacity as broad- and narrowband and access provider, along with the Terra Lycos Group's capacity as portal, aggregator, supplier and manager of fixed telephony internet content and services in the household, small office/home office (SOHO) and—when agreed—small and medium enterprise (SME) markets. The aim of the Strategic Agreement is to take advantage of synergies and the creation of value for both Groups.

This Strategic Agreement has been concluded for a period of six years ending December 31st, 2008 and shall automatically be renewed on an annual basis thereafter, unless expressly terminated by the parties.

The main characteristics of the Master Agreement can be summarised as follows:

1. Strengthening of the Terra Lycos Group as:
  - Exclusive provider of the essential portal elements, use of the brand, aggregator of broad- and narrowband Internet content and services aimed at household, SOHO and—when agreed—SME segments in the Internet access and connectivity services offered by companies belonging to Telefónica Group.
  - Preferred supplier of audit, consultancy, management and maintenance services for the Telefónica Group's country portals.
  - Exclusive provider of online training services for Telefónica Group's employees.
  - Preferred supplier of comprehensive online marketing services for the companies of Telefónica Group.
2. The companies of Telefónica Group guarantee to acquire a minimum amount of online advertising space from the companies of Terra Lycos Group.
3. Terra Lycos Group shall be Telefónica Group's exclusive provider of wholesale Internet access and connectivity services under most favoured customer treatment, allow by regulations.
4. Outsourcing by the companies of Terra Lycos Group to the Telefónica Group companies of the management of all or part of the service and/or operation of the network access elements for providing Internet access to its household, SOHO and—when agreed—SME clients, under most favoured customer treatment, allow by regulations.
5. The companies of Terra Lycos Group shall be Telefónica Group's exclusive provider of advanced network services and platforms necessary for developing services offered to household, SOHO and—when agreed—SME clients in both broad and narrowband, under most favoured customer treatment, allow by regulations.

Throughout its term, the Strategic Agreement guarantees Terra Lycos Group a generation of at least 78.5 million euro per year in value, which represents the difference between the revenues from the services provided under the Strategic Agreement and the costs and capital expenditure directly associated to those revenues. This Strategic Agreement defines

a new relationship model between the two companies that makes better use of their respective capacities to boost the Internet-based growth of both companies.