Month ended	Noon Buying Rate	
	High	Low
December 31, 2002	1.0485	0.9927
January 31, 2003	1.0861	1.0361
February 28, 2003	1.0875	1.0708
March 31, 2003	1.1062	1.0545
April 30, 2003	1.1180	1.0621
May 31, 2003	1.1853	1.1200
June 2003 (through June 27)	1.1870	1.1423

Source: Federal Reserve Bank of New York.

Monetary policy within the member states of the euro zone is set by the European Central Bank. The European Central Bank has set itself the objective of containing inflation and will adjust interest rates in line with this policy without taking account of other economic variables such as the rate of unemployment. It has further declared that it will not set an exchange rate target for the euro.

Our ordinary shares are quoted on the Spanish stock exchanges in euro. Currency fluctuations may affect the dollar equivalent of the euro price of our shares listed on the Spanish stock exchanges and, as a result, the market price of our ADSs, which are listed on the New York Stock Exchange. Currency fluctuations may also affect the dollar amounts received by holders of ADRs on conversion by the Depositary of any cash dividends paid in euro on the underlying shares.

Our consolidated results are affected by fluctuations between the euro and the currencies in which the revenues and expenses of some of our consolidated subsidiaries are denominated (principally the Brazilian real, the Argentine peso, the Chilean peso, the Peruvian nuevo sol and the U.S. dollar). See "Item 11—Quantitative and Qualitative Disclosures About Market Risk".

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

In addition to the other information contained in this annual report on Form 20-F, prospective investors should carefully consider the risks described below before making any investment decisions. The risks described below are not the only ones that we face. Additional risks not currently known to us or that we currently deem immaterial may also impair our business operations. Our business, financial condition or results of operations could be materially adversely affected by any of these risks and investors could lose all or part of their investment.

Risks Related to Our Business

We endeavour to implement our business plans successfully, but factors beyond our control may prevent us from doing so, which could have a material adverse effect on our business.

Our ability to increase our revenues and maintain our position as a leading European and Latin American provider of advanced telecommunications and Internet services will depend in large part on the successful, timely and cost-effective implementation of our business plans, including our plan to operate our various businesses along global business lines.

Factors beyond our control that could affect the implementation and completion of our business plan include:

- difficulties in developing and introducing new technologies;

- declining prices for some of our services;
- the effect of adverse economic trends on our principal markets;
- the effect of foreign exchange fluctuations on our results of operations;
- difficulties in obtaining applicable government, shareholder and other approvals;
- difficulties in entering into key contracts with third parties;
- the effect of increased competition;
- our ability to establish and maintain strategic relationships;
- difficulties in integrating our acquired businesses;
- the effect of future acquisitions on our financial condition and results of operations;
- difficulties in securing the timely performance of independent contractors hired to engineer, design and construct portions of our network;
- the potential lack of attractive investment targets;
- difficulties in attracting and retaining highly-skilled and qualified personnel; and
- the effect of unanticipated network interruptions.

A material portion of our foreign operations and investments is located in Latin America, and we are therefore exposed to risks inherent in operating and investing in Latin America.

At December 31, 2002, approximately 47% of our assets were located in Latin America. In addition, approximately 35% of our revenue from operations for 2002 was derived from our Latin American operations. Our foreign operations and investments in Latin America are subject to various risks, including risks related to the following:

- government regulations and administrative policies may change quickly;
- currencies may be devalued or may depreciate (such as the Brazilian real, which experienced a negative trend in 2002) or currency restrictions and other restraints on transfer of funds may be imposed;
- governments may expropriate assets;
- governments may impose burdensome taxes or tariffs;
- political changes may lead to changes in the business environments in which we operate;
- our operations are dependent on concessions and other agreements with existing governments; and
- economic downturns, political instability and civil disturbances may negatively affect our operations.

In addition, revenues from operations of our Latin American subsidiaries, their market value and the dividends and management fees received from them are exposed to material country risk as a result of adverse economic conditions in the region that may adversely affect demand, consumption and exchange rates.

The recent devaluation of the Argentine peso and the adverse macroeconomic conditions currently prevailing in Argentina and recent emergency measures adopted by the Argentine government have had, and may continue to have, a material adverse effect on our results of operations and financial condition.

As a result of the devaluation of the Argentine peso in January 2002, in accordance with Spanish accounting regulations, we recorded various provisions and allowances against our net income for 2001 and 2002 and adjusted the "Stockholders' equity—translation differences in consolidation" account in our consolidated balance sheets at December 31, 2001 and December 31, 2002. Accordingly, the devaluation of the Argentine peso resulted in a decrease in our net income of €369.0 and €354.7 million in 2001 and 2002, respectively, and a reduction in our shareholders' equity of €1,793.1 and €1,501.8 million in 2001 and 2002, respectively (including the decrease in net income). Our financial condition and results of operations may continue to be adversely affected by any further declines in the value of the Argentine peso.

In addition, although most of the restrictions on repayment to foreign creditors implemented since December 2001 have been abolished, companies currently require Central Bank authorization to buy U.S. dollars to make accelerated payments in the context of a debt restructuring program. As a result, failure to obtain such authorization and to obtain U.S. dollars for free remittance could impede any necessary debt restructuring program. In the first half of 2003, Telefónica Comunicaciones Personales S.A., Telefónica Móviles' subsidiary in Argentina, entered into several agreements with its main creditors to refinance its debt, including intercompany debt with Telefónica Móviles. Despite this, it continues to have negative net worth. Due to the uncertainty about changes in the exchange rate, tariffs renegotiation and the Argentine economy, and in order to manage its liquidity risk, on June 17, 2003, Telefónica de Argentina commenced an offer to exchange its new notes due 2007 and its new notes due 2010 for its existing notes due 2004 and 2008, respectively, plus a cash payment. It also offered to exchange two new series of its notes due 2011 for two series of existing notes due 2004 of Compañía Internacional de Telecomunicaciones S.A., its controlling shareholder and our wholly-owned subsidiary, plus a cash payment.

Furthermore, the Public Emergency Law provides that, in agreements executed by the federal government under public law regulations, including those related to public works and services, which includes the telecommunications services offered by us, indexation clauses based on foreign currency price indices or any other indexation mechanism are annulled. In this regard, the law sets forth that the prices and rates resulting from such provisions be established in pesos at a rate of Ps.1.00 per U.S.$1.00. Any further inflation will result in further decreases in revenues in real terms and will adversely affect our fixed-line operator's results of operations, provided that its tariffs do not keep pace with inflation. Telefónica de Argentina is in the process of renegotiating its tariffs with the Argentina government. We cannot give you any assurance that the outcome of these negotiations will be favorable to us.

For further information on the economic situation in Argentina and its impact on our financial condition and results of operations, see "Item 5—Operating and Financial Review and Prospects—Critical Accounting Policies—Devaluation in Argentina" and "Item 5—Operating and Financial Review and Prospects—Economic Situation in Argentina".

Our financial condition and results of operations may be adversely affected if we do not effectively manage our exposure to foreign currency exchange and interest rate risk.

We are exposed to various types of market risk in the normal course of our business, including the significant impact of changes in foreign currency exchange rates, as well as the impact of changes in interest rates. We employ risk management strategies to manage this exposure, in part through the use of financial derivatives such as foreign currency forwards, currency swap agreements and interest rate swap agreements. Our risk management strategies may not be successful, however, which could adversely affect our financial condition and results of operations.

In particular, in order to limit our exposure to Latin American currency exchange rate fluctuations, we use financial derivatives and other instruments. If the financial derivatives market is not sufficiently liquid for our risk management purposes or if we cannot enter into arrangements of the type and for the amounts necessary to limit our exposure to Latin American currency exchange rate fluctuations, such failure could adversely affect our financial condition and results of operations. For a more detailed description of our financial derivatives transactions, see "Item 11—Quantitative and Quantitative Disclosures About Market Risk".

We have recorded an impairment charge to goodwill and may be required to make additional write offs in the future.

Goodwill represents the purchase price of an acquisition in excess of the fair value of the assets acquired less liabilities assumed. We have generated substantial amounts of goodwill from some of our acquisitions. At December 31, 2002, under Spanish GAAP we had goodwill of €6,364.0 million, equal to 9.4% of our total assets and 37.4% of our shareholders’ equity at that date, and at December 31, 2001, we had goodwill of €9,128.9 million, equal to 10.6% of our total assets and 35.3% of our shareholders’ equity at that date. At December 31, 2002, under U.S. GAAP, we had goodwill of €8,718.4 million, equal to 13.0% of our total assets and 51.3% of our shareholders’ equity at that date, and, at December 31, 2001, we had goodwill of €14,991.3, equal to 16.5% of our total assets and 47.2% of our shareholders’ equity at that date.

In December 2002, we performed an analysis of projected discounted cash flows from the Terra Lycos Group, mediaWays, I.O. Box, and other companies that are less significant as a result of which we determined that such projected cash flows were not adequate to support the value of goodwill related to these companies both under Spanish and U.S. GAAP. Accordingly, we determined that goodwill related to these companies was impaired, and we recorded a goodwill impairment charge in an aggregate amount of approximately €2,259.8 million in 2002.

We cannot be certain that we will be able to recover all of the goodwill that we now carry as an asset or that we will not have to write off additional goodwill in the future under U.S. GAAP or Spanish GAAP. We could be forced to write off goodwill because of rapid technological change, intense competition, adverse regulatory measures, significant declines in sales, earnings or cash flows and other factors that in the future indicate that the fair value of our acquisitions is not worth their carrying value.

Telefónica Móviles has engaged in a strategic review of its asset portfolio, which has led it to fully write down its investments in Germany, Austria and Switzerland. It may also in the future have to further adjust the value of its investments in Italy.

In 2002, Telefónica Móviles commissioned independent experts to assess the business plans of its UMTS operations in Germany, Austria, Switzerland and Italy. After taking into account the independent assessments, Telefónica Móviles updated the valuations of its business plans for these operations, in order to reflect the additional delays expected by the sector regarding commercial availability of the UMTS technology and the consequent delay in revenue generation. In this context, Telefónica Móviles decided to fully write down the book value of its investments in Germany, Austria and Switzerland.

With respect to its investment in Italy, Telefónica Móviles also adjusted the value of its investment in IPSE 2000. Given the differences in the regulatory environment, both with regard to compliance with coverage requirements included in the license and flexibility shown by the regulators, Telefónica Móviles estimates the value of IPSE 2000’s assets at €300 million, €136 million of which represents Telefónica Móviles’ investment in IPSE 2000. This value estimated by Telefónica Móviles could be different in case other assumptions and estimates were made. Telefónica Móviles will perform a regular review of the value and assumptions of its investment in its UMTS operations in Italy. There can be no assurance that a change of strategy or changes in the telecommunications industry will not require Telefónica Móviles to further adjust, or fully write down, the value of its investment in Italy in the future, which could adversely affect our business, financial condition or results of operation.

Accordingly, at December 31 2002, a net loss of €4,958.2 million was recorded in the Telefónica Group’s consolidated financial statements associated with the write-down of assets and the restructuring of operations in these four countries. For further information on the write-down of Telefónica Móviles’ assets in Germany, Austria, Switzerland and Italy, please see “Item 4—Information on the Company—Business Overview—Rest of Europe”.

The development of our business could be hindered if we fail to maintain satisfactory working relationships with our partners.

Some of our operations are conducted through joint ventures in which we own a significant, but less than controlling, ownership interest. For example, Brasilcel, which is jointly controlled by Telefónica Móviles and Portugal Telecom in Brazil, is conducted through a joint venture. In these operations, our company does not have absolute control over the operations of the venture.

In addition, in some cases where we own a majority of the venture, we may be subject to provisions in shareholders' agreements restricting our control over the venture. The relevant corporate governance provisions vary from venture to venture, and often depend upon the size of our investment relative to that of the other investors, our experience as a telecommunications operator compared to that of the other investors and the preferences or requirements of foreign governments that local owners hold an interest in licensed telecommunications operators. As a result, we must generally obtain the cooperation of our partners in order to implement and expand upon our business strategies and to finance and manage our operations.

The risk of disagreement or deadlock is inherent in jointly controlled entities and there is the risk that decisions against our interests will be made and that we may not realize the benefits from our joint ventures, including economies of scale and opportunities to realize potential synergies and cost savings. Our joint venture partners may choose not to continue their partnerships.

The costs and difficulties of acquiring and integrating businesses could impede our future growth and adversely affect our competitiveness.

We may enter into acquisition transactions in order to, among other things, provide services in countries in which we do not currently have operations or enhance our product portfolio, as we have done in recent years. If we make any such acquisitions, those acquisitions (including those already completed) may expose us to certain risks, including the following:

- the difficulty of assimilating the operations and personnel of the acquired entities;
- the potential disruption to our ongoing business caused by senior management's focus on the acquisition transactions;
- our failure to incorporate successfully licensed or acquired technology into our network and product offerings;
- the failure to maintain uniform standards, controls, procedures and policies; and
- the impairment of relationships with employees as a result of changes in management and ownership.

We cannot assure you that we will be successful in overcoming these risks, and our failure to overcome these risks could have a negative effect on our business, financial condition and results of operations.

Loss of key personnel could weaken our business expertise and delay the completion of our network and our other business plans.

Our operations throughout the world are managed by a small number of key executive officers. The loss of our key executive officers could significantly impede our financial plans, product development, network completion, marketing and other objectives. In addition, competition for qualified personnel in the telecommunications industry is intense. We believe that the growth and future success of our business will depend in large part on our continued ability to attract and retain highly skilled and qualified personnel. We cannot assure you that we will be able to hire or retain necessary personnel.

We may be adversely affected by unanticipated network interruptions.

Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including network, hardware or software failures, that affect the quality of, or cause an interruption in, our service could result in customer dissatisfaction, reduced revenues and traffic, and costly repairs and could harm our reputation. Although we carry business interruption insurance, this policy may not be in amounts sufficient to compensate us for any losses we incur.

Risks Relating to Our Industry

We face intense competition in most of our markets, which could result in decreases in current and potential customers, revenues and profitability.

We face significant competition in all of the markets in which we operate. Governmental authorities in many of the countries in which we operate continue to grant new licenses and concessions to new market entrants, which will result in increased competition in those countries and markets. In addition, technological developments are increasing cross-competition in certain markets, such as between wireless providers and fixed-line telephony operators.

In addition, regulatory policies of many of the countries in which we operate generally favor increased competition in most of the segments of our markets, especially in the fixed-line and wireless services industry, including by granting new licenses in existing licensed territories in order to permit the entry of new competitors. These regulatory policies are likely to have the effect, over time, of reducing our market share in the markets in which we operate. For example, Spanish telecommunications regulators have attempted to promote competition in fixed-line telecommunications services through policies that favor other fixed-line telecommunications operators. Regulations introduced in recent years in Spain have allowed other operators to locate their equipment in or adjacent to our exchanges (*i.e.*, local loop unbundling) and made it easier for our customers to route some or all of their calls over our competitors' networks (*i.e.*, carrier pre-selection). Additional regulatory changes resulting in increased competition could have a further adverse effect on our business, results of operations, financial condition and prospects.

In addition to this, because we hold leading market shares in many of the countries in which we operate, we could face regulatory actions by national or, in Europe, European Union antitrust or competition authorities if it is determined that we have prevented, restricted or distorted competition. These authorities could prohibit us from making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on us, which if significant, could harm our financial performance and future growth.

As a result of these policies, we may lose market share in Spain and in other markets where we are the incumbent operator.

In addition, we are subject to the effects of actions by our competitors in the markets where we have operations. These competitors could:

- offer lower prices, more attractive discount plans or better services and features;
- develop and deploy more rapidly new or improved technologies, services and products;
- bundle offerings of one type of service with others;
- in the case of the wireless industry, subsidize handset procurement; or
- expand and enhance more rapidly their networks.

Furthermore, some of our competitors in certain markets have, and some potential competitors may enjoy, competitive advantages, including the following:

- greater name recognition;
- greater financial, technical, marketing and other resources;
- larger customer bases; and
- well-established relationships with current and potential customers.

To compete effectively with our competitors, we will need to successfully market our services and anticipate and respond to various competitive factors affecting the relevant markets, such as the introduction of new products and services by our competitors, pricing strategies adopted by our competitors, changes in consumer preferences and general economic, political and social conditions. If we are unable to compete effectively with our competitors, it could result in price reductions, lower revenues, under-utilization of our services, reduced operating margins and loss of market share.

We operate in a highly regulated industry and could become subject to more burdensome regulation, which could adversely affect our businesses.

As a multinational telecommunications company, we are subject to different laws and regulations in each of the jurisdictions in which we provide services. Furthermore, the licensing, construction, operation and interconnection arrangements of our communications systems are regulated to varying degrees by national, state, regional, local, and supranational authorities, such as the European Union. These authorities could adopt regulations or take other actions that could adversely affect us and our companies, including revocation of any of our licenses or concessions to offer services in a particular market, failure to renew a license or concession, modification of the terms of a license or concession or the granting of new licenses or concessions to competitors. Increased or significant changes in the regulation of the activities of our operating companies, including the regulation of rates that may be charged to customers for services, could have a material adverse effect on our company. New regulations could also increase the costs of regulatory compliance.

Most of our operating companies require licenses or concessions from the governmental authorities of the countries in which they operate. These licenses and concessions specify the types of services permitted to be offered by our operating companies. The continued existence and terms of our licenses and concessions are subject to review by regulatory authorities in each country and to interpretation, modification or termination by these authorities. Many of these licenses and concessions are revocable for public interest reasons. The rules of some of the government regulatory authorities having jurisdiction over our operating companies require us to meet specified network build-out requirements and schedules. In particular, our wireless licenses and concessions typically require that we satisfy certain obligations, including minimum specified quality, service and coverage conditions and capital investment. Failure to comply with obligations in a given license area could result in the imposition of fines, or revocation or forfeiture of the license for that area. In addition, the need to meet scheduled deadlines may cause our company to expend more resources than otherwise budgeted for a particular network build-out. We cannot assure you that our operating companies will be able to comply fully with the terms and conditions of their licenses and concessions.

Our business could be negatively impacted by the consequences of any of these factors and our financial condition and results of operations could be adversely affected as a result.

The industry in which we conduct our business is subject to rapid technological changes and such changes could have a material adverse effect on our ability to provide competitive services.

The telecommunications industry is in a period of rapid technological change. Our future success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge and that existing products and technologies will further develop. These new products and technologies may reduce the prices for our services or they may be superior to, and render obsolete, the products and services we offer and the technologies we use, and may consequently reduce the revenues generated by our products and services and require investment in new technology. Our most significant competitors in the future may be new entrants to our markets who are not burdened by an installed base of older equipment. As a result, it may be very expensive for us to upgrade our products and technology in order to continue to compete effectively with new or existing competitors.

Our business depends on the upgrading of our existing networks.

We must continue to upgrade our existing wireless and fixed-line networks in a timely and satisfactory manner in order to retain and expand our customer base in each of our markets, to enhance our financial performance and to satisfy regulatory requirements. Among other things, we must:

- upgrade the functionality of our networks to permit increased customization of services;

- fill in coverage gaps and increase coverage in building some of our markets;
- expand and maintain customer service, network management and administrative systems; and
- upgrade older systems as new technologies become available.

Many of these tasks are not entirely under our control. If we fail to successfully execute them, our services and products may be less attractive to new customers and we may lose existing customers to our competitors, which would adversely affect our results of operations.

Failure to generate sufficient cash flows and higher capital expenditure requirements could make us more dependant on external financing. If we are unable to obtain financing, our business may be adversely affected.

The operation, expansion and upgrade of our networks, as well as the marketing and distribution of our services and products, require substantial financing. Moreover, our liquidity and capital resource requirements may further increase if we participate in other fixed-line or wireless license award processes or make acquisitions in other countries. We also have major capital resource requirements relating to, among other things, the following:

- acquisition or construction of networks and of additional network capacity for existing networks;
- development of new services and products;
- development of distribution channels in new countries of operations; and
- development and implementation of new technologies.

We may need to incur a significant amount of debt to support our capital resource requirements for the ongoing development and expansion of our business. However, spreads on debt issuances by telecommunications operators have risen considerably as a result of the increased risk associated with debt securities in the telecommunications sector. Our ability to raise capital is also related to our stock price and the liquidity of the equity markets. Adverse trends in these areas could prevent us from raising capital. If we are unable to borrow the amounts we need at affordable rates and we cannot raise equity, we may be unable to pursue our business plans. We cannot assure you that future conditions in the equity and financial markets will not adversely affect our ability to finance our operations.

Our business could be adversely affected if our suppliers fail to provide necessary equipment and services on a timely basis.

We depend upon a small number of major suppliers for essential products and services, mainly network infrastructure. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. If these suppliers fail to deliver products and services on a timely basis, our results of operations could be negatively affected. Similarly, interruptions in the supply of telecommunications equipment for our networks could impede network development and expansion, which in some cases could adversely affect our ability to satisfy license requirements. These equipment supply risks could be substantial in relation to the build-out of UMTS networks as multiple operators seek to construct networks in multiple countries at the same time.

The wireless industry may be harmed by reports suggesting that radio frequency emissions cause health problems and interfere with medical devices.

Media and other reports have suggested that radio frequency emissions from wireless handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using wireless handsets. These concerns could have an adverse effect on the wireless communications industry and, possibly, expose wireless providers, including us, to litigation. We cannot assure you that further medical research and studies will refute a link between the radio frequency emissions of wireless handsets and base stations and these health concerns. Government authorities could increase regulation of wireless handsets and base stations as a result of these health concerns or wireless companies, including Telefónica Móviles, could be held liable for costs or damages associated with these concerns, which could have an adverse effect on our business. In Spain, for example, Telefónica Móviles is required by law to test and certify the emissions of its base stations in or close to populated areas. For the year ended 2002, such tests have confirmed lower emission levels than those required by regulations. If in the future Telefónica Móviles fails to comply fully with these standards, it could be subject to claims or regulatory actions.

Other Risks

We face risks associated with litigation.

We are party to lawsuits and other legal proceedings in the ordinary course of our business. An adverse outcome in, or any settlement of, these or other lawsuits (including any that may be asserted in the future) could result in significant costs to us. In addition, our senior management may be required to devote substantial time to these lawsuits which they could otherwise devote to our business. For a more detailed description of current lawsuits, see "Item 8—Legal Proceedings".

We will be obliged to adopt new accounting standards in 2005 that will impact our financial reporting.

We currently prepare our financial statements in accordance with Spanish GAAP, and prepare a reconciliation of certain items to U.S. GAAP as required by SEC regulation. In June 2002, the Council of Ministers of the European Union adopted new regulations requiring all listed EU companies, including us, to apply International Financial Reporting Standards ("IFRS") (previously known as International Accounting Standards or "IAS") in preparing their consolidated financial statements from January 1, 2005. Because IFRS emphasizes the measure of the fair value of certain assets and liabilities, applying these standards to our financial statements may have a considerable impact on a number of important areas, including, among others, accounting for share-based payments, business combinations, goodwill and intangible assets, employee benefits and financial instruments. Other impacts not related to fair value include the classification of balance sheet positions as debt or equity.

Because our financial statements prepared in accordance with IFRS would differ from our financial statements prepared in accordance with Spanish GAAP, the methods used by the financial community to assess our financial performance and value our publicly-traded securities, such as price-to-earnings ratios and debt-to-equity ratios, could be affected.

Forward-looking statements may not be realized.

All statements in this Annual Report that are not clearly historical in nature are forward-looking. Examples of forward-looking statements include:

- statements concerning our operations and prospects;
- the size of European and Latin American telecommunications markets;
- estimated demand forecasts;
- our ability to secure and maintain telecommunications infrastructure licenses, rights-of-way and other regulatory approvals;
- our strategic initiatives and plans for business growth;
- plans for entering into strategic relationships and joint ventures;
- possible bids for additional licenses or concessions;
- industry conditions;
- funding needs and financing sources;
- network completion and product development schedules;