

Annual Report on Corporate Governance

2005

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Report drawn up in accordance with the provisions of Circular 1/2004, issued by the Comisión Nacional de Mercado de Valores (National Securities Market Commission) on Annual Corporate Governance Reports on listed companies and other entities issuing securities traded on official secondary securities markets, and other information instruments required from listed companies.

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A. Shareholding Structure

A.1. Fill in the following tables on the company's share capital:

Latest date of any change	Share Capital (€)	Number of shares
07-06-2005	4,921,130,397.00	4,921,130,397.00

If there are different types of shares, indicate in the following table:

Type	Number of shares	Nominal unit value
All the Shares are of the Same Type	4,921,130,397.00	1.00

A.2. List the direct and indirect holders of significant shareholdings in your organisation at the end of its financial year, excluding members of its Board of Directors:

Name or corporate name of shareholder	Number of shares held directly	Number of shares held indirectly (*)	% Total/share capital
Caja de Ahorros y Pensiones de Barcelona, "La Caixa"	69,406,501	181,059,565	5.090
Banco Bilbao Vizcaya Argentaria, S.A.	326,256,235	93,508	6.632

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly	%/ Share capital
Caixa Holding, S.A. Sociedad Unipersonal	161,913,810	3.290
Caixa de Barcelona de Seguros de Vida, Sociedad Anónima de Seguros y Reaseguros, S.A.	19,145,755	0.389
Assegurances Principat, S.A. (Andorra)	49,919	0.001
BBVA Seguros, S.A. (España)	32,409	0.001
Consolidar Cia. de Seguros de Vida, S.A. (Argentina)	9,308	0.000
Consolidar Aseguradora de Riesgos del Trabajo, S.A. (Argentina)	1,872	0.000
Total	181,153,073	

Indicate the most significant movements in the shareholding structure during the financial year:

Name or corporate name of shareholder	Date of transaction	Description of transaction
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A.3. Fill in the following tables on company directors holding company shares:

Name or corporate name of Company Director	Date of first appointment	Date of last appointment	Number of shares held directly	Number of shares held indirectly	% Total/share capital
Mr. César Alierta Izuel	29-01-1997	12-04-2002	923,200	78,000	0.020
Mr. Isidro Fainé Casas	26-01-1994	15-06-2001	144,978	0	0.003
Mr. Gregorio Villalabeitia Gallarraga	27-02-2002	12-04-2002	55	0	0.000
Mr. Fernando de Almansa Moreno-Barreda	26-02-2003	11-04-2003	3,849	0	0.000
Mr. Maximino Carpio García	29-01-1997	12-04-2002	8,069	0	0.000
Mr. Carlos Colomer Casellas	28-03-2001	15-06-2001	564	22,450	0.000
Mr. Alfonso Ferrari Herrero	28-03-2001	15-06-2001	1,883	103,480	0.002
Mr. Gonzalo Hinojosa Fernández De Angulo	12-04-2002	12-04-2002	39,476	150,000	0.004
Mr. Miguel Horta e Costa	17-03-1998	11-04-2003	368	0	0.000
Mr. Pablo Isla Alvarez de Tejera	12-04-2002	12-04-2002	401	0	0.000
Mr. Luis Lada Díaz	10-08-2000	15-06-2001	31,200	0	0.001
Mr. Julio Linares López	21-12-2005	21-12-2005	24,420	2,067	0.001
Mr. Antonio Massanell Lavilla	21-04-1995	15-06-2001	2,190	667	0.000
Mr. Vitalino Manuel Nafria Aznar	21-12-2005	21-12-2005	300	0	0.000
Mr. Enrique Used Aznar	12-04-2002	12-04-2002	20,228	34,000	0.001
Mr. Mario Eduardo Vázquez	20-12-2000	15-06-2001	10	0	0.000
Mr. Antonio Viana-Baptista	12-01-2000	04-02-2000	22,873	0	0.000

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly
Grupo Arce se Inversiones, S.A. SICAV	78,000
Ahorro Bursátil SICAV, S.A.	22,450
Inversiones Singladura, S.A.	20,800
Finalfesa, S.A.	82,680
Eletres, S.L.	150,000
Ms. Begoña Linares Romaña	367
Judbem de Inversiones, S.A. SICAV	1,700
Ms. Gemma Massanell Bolet	667
Review Inversiones, S.A. SICAV	34,000
Total	390,664

% of total equity held by the Board of Directors

0.032%

Fill in the following tables on company directors holding company share options:

Name or corporate of Company Director	Number of options held directly	Number of options held indirectly	Equivalent number of shares	%Total/share capital
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A.4. Where applicable, indicate any family, commercial, contractual or corporate relationships between owners of significant shareholdings, as far as the Company is aware, unless of little relevance or ensuing from ordinary trading or exchange:

Name or corporate name of related party	Type of relationship	Brief description
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A.5. Where applicable, indicate any commercial, contractual or corporate relationships between owners of significant shareholdings and the company, unless of little relevance or ensuing from ordinary trading or exchange:

Name or corporate name of related party	Type of relationship	Brief description
Banco Bilbao Vizcaya Argentaria, S.A.	Corporate	Joint Shareholding with Telefónica Móviles España, S.A.U. in Mobipay España, S.A. and with Telefonica Moviles, S.A. in Mobipay Internacional, S.A.
Banco Bilbao Vizcaya Argentaria, S.A.	Corporate	Joint Shareholding with Telefónica de Contenidos, S.A.U. in Hispasat, S.A.
Banco Bilbao Vizcaya Argentaria, S.A.	Corporate	Joint Shareholding with Telefonica, S.A. in Uno-e Bank, S.A.
Banco Bilbao Vizcaya Argentaria, S.A.	Corporate	Joint Shareholding with Telefónica, S.A. in Atento, N.V.

A.6. Indicate any shareholders agreements that have been reported to the company:

Parties to paracorporate agreements	% of share capital affected	Brief description of the agreement
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Indicate any concerted actions among company shareholders of which the company is aware:

Parties to concerted actions	% of share capital affected	Brief description of the concerted action
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Expressly indicate any change in or break-up of said concerted actions or agreements.

A.7. Indicate whether any person or organisation exercises or may exercise control over the company pursuant to Article 4 of the Securities Market Law:

Name or corporate name

Comments

A.8. Fill in the following tables on the company's treasury stock:

At year end:

Number of shares held directly	Number of shares held indirectly	% Total /share capital
136,647,061	0	2.777

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly
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Total

List any significant variations that have occurred during the financial year, according to Royal Decree 377/1991:

Date	Number of direct shares	Number of indirect shares	% Total/share capital
15-02-2005	246,104,407	0	4.966
28-07-2005	23,594,967	0	0.479
04-11-2005	87,373,284	0	1.775
22-11-2005	136,923,284	0	2.782

Revenue from treasury stock transactions throughout the year

(in thousands of euros)

335,757

A.9. Detail the terms and conditions of any authorisation(s) conferred by the General Shareholders' Meeting to the Board of Directors to purchase and/or transfer the treasury stock described in section A.8. above

The Ordinary General Shareholders' Meeting of Telefónica, at its session held on May 31st 2005, resolved to renew the authorisation granted by the GSM of April 30th 2004, for the derivative acquisition of treasury stock, either directly or through Group companies, in the terms literally transcribed as follows:

"To authorise, as set forth in Articles 75 and next of the current Spanish Corporations Law (Ley de Sociedades Anónimas), the acquisition, at any moment and as many times as considered necessary by Telefónica, S.A. – either directly or through any of the subsidiary companies of which it is the dominant company – of the Company's treasury stock, through a purchase-sale or by any other legal onerous title.

The minimum acquisition price or compensation will be equivalent to the nominal value of the treasury stock acquired and the maximum acquisition price or compensation will be equal to the market value of the treasury stock on an official secondary market at the time of the acquisition.

Said authorisation is granted for a period of 18 months, reckoned from the date of the current Annual General Shareholders' Meeting, and is expressly subject to the limitation that, at any time, the nominal value of the treasury stock acquired under this authorisation, added to that already held by Telefónica, S.A. and any of the controlled subsidiary companies, may exceed 5 percent of the share capital at the time of the acquisition, respecting the limitations set for the acquisition of treasury stock as imposed by the regulatory authorities of the markets on which Telefónica, S.A. shares are quoted.

It is expressly noted that the authorisation granted for the acquisition of treasury stock can be used wholly or partially for the acquisition of these shares of Telefónica, S.A., and that the Company must deliver or transfer to its directors or employees, or to those of the companies in its Group, directly or as a consequence of these having exercised their option rights, all within the framework of the referenced remuneration systems as the market value of the company shares approved in due form.

To empower the Board of Directors, in the broadest possible terms, to exercise the authorization derived from this resolution and to execute the remaining items included in this, enabling the Board of Directors to delegate in the Executive Committee, the Executive Chairman of the Board or any other person expressly empowered by the Board to this effect.

The unexecuted part of the resolution adopted by the Company's Annual General Shareholders' Meeting of April 30th, 2004, in relation to point IV of the Agenda of this same Meeting, shall remain null and void."

A.10. Indicate any restrictions under law or the company articles of association on exercising voting rights and any legal restrictions on the acquisition and/or transfer of company stock:

(i) Restrictions on exercising voting rights:

In accordance with Article 21 of the Company Articles of Association, no shareholder shall be allowed to cast a number of votes representing more than ten percent of the overall share capital entitled to voting rights existing at any time, regardless of the number of shares he/she actually holds. In ascertaining the maximum number of votes which each shareholder may cast, only those shares owned by each shareholder shall be taken into account, and the shares belonging to other shareholders who have appointed such shareholder as their proxy shall not be included, without prejudice to the aforementioned ten percent limit, which shall apply equally to every represented shareholder.

The limit set out in the above paragraph shall likewise apply to the maximum number of votes that may be cast – either jointly or individually – by two or more shareholding companies belonging to the same group of companies, and to the maximum number of votes which may be cast by an individual or a corporate body holding shares in the Company which are directly or indirectly controlled by that individual or corporate body.

(ii) Limits on the acquisition and/or transfer of company stock:

There are no provisions in the Articles of Association restricting or limiting the free transfer of Telefónica stock.

Notwithstanding the above, Law 62/2003, December 30, on Tax, Administrative, Labor and Social Security Measures, based on the judgment of the European Court of Justice of May 13, 2003, amended the administrative authorization system set out in Law 5/1995, March 23, on the legal regime applicable to the disposal of public shareholdings in certain companies, to which certain corporate transactions and agreements of Telefónica S.A., Telefónica Móviles S.A., Telefónica Móviles España, S.A.U. and Telefónica de España, S.A.U. are subject pursuant to Royal Decree 8/1997, January 10.

The reform introduced a new model for administrative involvement, replacing the system of prior authorization with that of subsequent notification. The cases that must be notified were also reduced.

Specifically, provided no change in control occurs, it is now no longer necessary to notify the sale or encumbrance of shares representing up to 50% of the share capital in transactions concerning (i) Telefónica S.A.'s shares in Telefónica de España S.A.U., (ii) Telefónica S.A.'s shares in Telefónica Móviles S.A. and (iii) Telefónica Móviles S.A.'s shares in Telefónica Móviles España S.A.U.

Notification is still required, however, for any direct, indirect or triggered acquisition, even through third-party trusts or third parties intermediaries, of shares in Telefónica S.A. or in Telefónica Móviles S.A. when they result in the disposal of at least 10% of the share capital. However, cases constituting mere financial transactions that do not have as their objective the control and/or management of these companies are excluded.

In addition, the disposal or encumbrance by Telefónica de España and Telefónica Móviles España of certain strategic assets located in Spain still have to be notified, except when these transactions are carried out between Group companies.