

F. Degree of Compliance with Corporate Governance Recommendations

Indicate the degree of the company's compliance with existing recommendations on corporate governance or, where applicable, where it has not followed such recommendations.

Should the company not comply with any of the aforementioned recommendations, explain the recommendations, rules, practises or criteria the company applies.

Until the single document referred to in the ORDER ECO/3722/2003 of 26th December is completed, the recommendations of the Olivencia Report and the Aldama Report should be used as a reference in completing this section.

The fundamental rules of corporate governance structure in Telefónica are established in the Articles of Association, the Regulations of the General Shareholders' Meeting and in the Regulations of the Board of Directors.

The following is an analysis of the degree of compliance with the most relevant international Corporate Governance recommendations, including those formulated in Spain, both in the Report published by the "Special Commission to Study an Ethical Code for the Boards of Directors of Companies: Corporate Governance in Listed Companies", of 26th February 1988 (Olivencia Code) and the "Special Commission to encourage transparency and security on the markets and listed companies", of 8th January 2003 (the Aldama Report).

Principles of Corporate Governance

"Existence of internal provisions to regulate the corporate governance system."

The fundamental rules of corporate governance in Telefónica are set out in its Articles of Association, the Regulations of the General Shareholders' Meeting and in the Regulations of the Board of Directors. The Regulations of the General Shareholders' Meetings establish the principles of the organisation and operation of this body, thus complying with Law 26/2003 of 17th July. Moreover, the Regulations of the Board of Directors, as fundamental rules for corporate governance of the Company, determine the principles of action for the Board of Directors, regulate its organisation and operation, and establish rules of conduct for its members.

In view of the foregoing, and as the basis of the corporate governance structure in Telefónica, the Regulations of the Board of Directors of the Company determine the fundamental principles that should inspire the Board of Directors' activities:

- General principles of action for the Board of Directors: The Board of Directors shall perform its duties with a view to the corporate good, understood as the interest of the Company; and to this effect, shall act to ensure the long-term feasibility of the Company and maximise its value, also pondering the legitimate plural public and private interests that arise in the performance of all business activity.

- In relation to its shareholders: The Board of Directors, as the vehicle linking the Company shareholders and management, undertakes the obligation to establish the channels of communication necessary so that it may be aware of the proposals formulated by shareholders in relation to the Company management. Furthermore, the Board of Directors undertakes to guarantee parity of treatment in its relations with shareholders.
- In relation to the market: The Board is committed to carrying out the acts and adopting the measures required to ensure the transparency of the Company with regard to financial markets and to promote the suitable setting of the Company shares, particularly avoiding manipulation and abuse of confidential information.

The Board of Directors

"Express undertaking by the Board of Directors of the general supervisory duties, as an undelegatable task, and the establishment of a list of matters reserved for its knowledge".

The Regulations of the Board of Directors establish this body basically as a body for the supervision and control of the Company activities, entrusting the day-to-day management of business to the executive bodies and the management team. Moreover, as established in these Regulations, those powers that are legally or statutorily reserved for the exclusive knowledge of the Board, and those necessary for the responsible performance of its basic supervisory and control duties may not be delegated.

In keeping with the foregoing, and within the scope of its supervisory and control duties, the Board of Directors determines the management strategies and guidelines for the Company, establishes the bases of corporate organisation to guarantee its maximum efficiency, implements and oversees the establishment of the suitable procedures for the information of shareholders and the markets in general, adopts the appropriate decisions regarding business and financial transactions for the Company and approves its own organisation and operation to ensure optimal performance of the aforementioned duties.

Composition of the Board of Directors

"The operational size of the Board of Directors is suitable to the characteristics of the Company".

Telefónica's Articles of Association establish that the Board of Directors is comprised of a minimum of five and a maximum of twenty members. The complexity of the Telefónica Group, the significant number of companies within the Group, the variety of the sectors in which it operates, its multi-national nature and its economic and corporate relevance amply justify the current number of members is suitable to ensure that the Board operates effectively.

"Incorporation of a reasonable number of independent Directors on the Board".

"Majority of external or non-executive Directors over executive Directors".

"Presence of multi-national interests on the Board of Directors".

Considering the present composition of the Board of Directors of Telefónica and the principles that govern such composition – established in the Regulations of the Board – one may conclude that: (a) the Board has a significant number of independent Directors (eight); (b) external Directors (proprietary and independent) comprise an ample majority over executive Directors (twelve vs. five); and (c) it has the significant participation of independent Directors, who represent a majority over proprietary Directors (eight vs. four).

In addition, and given the multi-national nature of the Telefónica Group, there are three foreign Directors on the Board of the Company. It is also important to note the existence of an International Affairs Committee to support the Board with regards to the international matters that may arise.

Operation of the Board

“Meetings of the Board: frequency, encouraging the participation of all members, care in drafting the minutes and an annual evaluation of its efficiency”.

To ensure the proper operation of the Board, its ordinary meetings are held once a month and, at the discretion of the Chairman, as many additional times as is deemed appropriate for the smooth operation of the Company. For ordinary sessions, the Board itself establishes a pre-set calendar at the beginning of the financial year, so that all the Directors are aware of the meeting dates beforehand. In addition, the dates are again communicated at least three days prior to the date scheduled for the meeting, together with the call for the meeting. With the same object in view, the Directors are sent the documentation related to the Agenda for the meetings with sufficient prior notice, and such documentation is completed with the presentations and documents distributed during the session itself.

The Company CEO

“Should the Board opt to endow the Chairman with CEO powers, it must adopt the due safeguards to reduce the risk of concentrating power in a single individual”.

The Chairman of the Board of Directors is the Company CEO and is a key figure in the Board of Directors. The Executive Chairmanship in Telefónica was established to ensure that the Company would benefit at all times from clear, direct leadership both externally and internally, and from the flow of information between the Company management and the Board, which is essential for the Board’s effective performance of its strategic and supervisory functions.

In accordance with the Regulations of the Board of Directors, the actions of the Chairman shall at all times be in keeping with the criteria and guidelines determined by the General Shareholders’ Meeting and by the Board of Directors and the Board Committees. Likewise, all resolutions or decisions of special importance to the Company shall be submitted for the prior approval of the Board of Directors or the relevant control Committee. Furthermore, the adoption of certain resolutions requires the reports and proposals from the different Board Committees, and it is important to note that the Chairman does not hold the casting vote on the Board of Directors.

Secretary to the Board of Directors

“Relevance of the figure of the Secretary to the Board, reinforcing his/her independence and emphasising his/her duty to ensure the formal and material legality of the actions undertaken by the Board”.

At this moment the Secretary to the Board has not Director status. Pursuant to the Regulations of the Board, the Secretary’s essential task is to ensure the formal and material legality of the Board actions at all times and to guarantee that its procedures and rules of governance are respected.

The Executive Committee

“Existence of an Executive Committee with a composition similar to that of the Board. The relationship between both bodies should be based on the principle of transparency”.

Taking into consideration the structure of the Company’s management, the Executive Committee maintains similar balance to the one established for the composition of the Board of Directors.

The relationship between the Board of Directors of Telefónica and its Executive Committee is based on the principle of transparency, such that the Board is fully aware of the matters deliberated and the decisions made by this Committee. In line with this transparency, the matters deliberated always comprise a point on the Agenda to be dealt with at the next Board of Directors meeting.

The Board of Directors Committees

“Existence of Committees for consultation or control, comprised exclusively of external Directors, particularly for matters related to audit and control and on questions of appointments and remunerations”.

The Board of Directors of Telefónica has established the consultative and/or control committees recommended by the Olivencia Code: an Audit and Control Committee (constituted in 1997), and a Nominating, Compensation and Corporate Governance Committee, with the competencies attributed in the aforementioned Code. In compliance with the above guideline, these Committees are comprised exclusively of external Directors.

Moreover, the Board also deemed it appropriate to create four additional consultative committees: the Human Resources and Corporate Reputation Committee, the Regulation Committee, the Service Quality and Customer Service Committee, and the International Affairs Committee.

Therefore, at the date on which this report is issued, there are six consultative and/or control committees in existence in the Company.

The Directors

“Measures to ensure that Directors are provided with the necessary information both in time and form”.

The Company has adopted the measures necessary to ensure that Directors are provided sufficiently beforehand with the adequate information, specifically drafted and oriented at preparation of the sessions of the Board and its Committees. Under no circumstances may the importance or reserved nature of such information be used as grounds for non-compliance with the guideline, except in absolutely exceptional circumstances.

“Formal, transparent procedure for the selection of Directors based on a proposal from the Nominating Committee”.

Proposals for the appointment of Directors are always made in compliance with the Regulations of the Board and preceded with the relevant favourable report from the Nominating, Compensation and Corporate Governance Committee.

“Existence of regulations that establish the Directors’ obligation to resign in cases where their presence may have a negative affect on the operation of the Board or the credibility or reputation of the Company. Establishment of an age limit for holding Directorships”.

The Regulations of the Board of Directors envisages the Directors’ obligation to resign in cases where their presence may have a negative influence on the operation of the Board or on the Company’s credibility or reputation. Moreover, pursuant to the provisions established in the Regulations of the Board, Directors must place their offices at the disposal of the Board and formalise the relevant resignation when they reach the age of seventy (70). Executive Directors shall cease to hold their offices when they reach the age of sixty-five (65), but may continue to act as Directors, if the Board so decides.

“Regulation of the obligations arising from the general duties of diligence and loyalty of Directors, particularly with regard to situations of conflict of interest, the exploitation of business opportunities and the use of corporate assets”.

In keeping with the recommendations of both the Olivencia Code and the Aldama Report, and in compliance with the provisions of the Transparency Law, the Regulations of the Board devotes its entire Title V, comprised of nine articles, to describing in detail the rights and obligations of the Company Directors. This title specifically envisages the general duties of diligence and loyalty of Directors and, in particular, situations of conflict of interest, the exploitation of business opportunities and the use of corporate assets. It also expressly establishes the specific obligations arising from Telefónica’s position as a listed company.

“Formal recognition of Directors’ right to obtain all the information and advice to pursue their supervisory functions and the establishment of suitable arrangements for the exercise of this right”.

The Regulations of the Board of Directors formally recognises that Directors are invested with the right to obtain information on all aspects of the Company, to examine its books, records, documents and other data regarding corporate transactions. With a view to avoiding any interruption in the ordinary management of the

Company, the exercise of this right to information shall be channelled through the Chairman or Secretary to the Board of Directors, who shall respond to the Directors’ requests, furnishing them with the information directly or establishing suitable channels within the organisation at the appropriate level.

Likewise, Article 31 of the Regulations of the Board of Directors establishes that for the purpose of assisting the Directors in the exercise of their duties, the external Directors in majority, or any of the Board Committees by majority agreement of its members, may request the engagement of legal, accounting, financial or other experts, at the Company’s expense. Such engagement must necessarily be related to specific problems of certain importance and complexity that arise in the pursuit of their office.

The decision to engage the said services must be reported to the Company Chairman and implemented by the Secretary to the Board, except when the Board of Directors does not consider such engagement necessary or appropriate.

“A suitable remuneration policy for Directors, respecting the criteria of moderation, which should be proposed, evaluated and reviewed by the Compensation Committee, and provide detailed, individualised information”.

The remuneration policy for Directors is proposed, evaluated and reviewed by the Nominating, Compensation and Corporate Governance Committee, and respects the criteria of moderation. The Company furnishes individualised information each year regarding the compensation received for the holders of offices or posts on the Board in the Annual Company Report. Furthermore, in line with the Aldama Report, external Directors do not participate in any compensation scheme that is linked to the listed value of the Company shares.

“Measures to extend the duty of loyalty to significant shareholders and Senior Management”.

Finally, the duty of loyalty is extended to the significant Company shareholders, establishing that the Board of Directors reserves the right to be informed of and authorise all transactions between the Company and any of its significant shareholders. Under no circumstances shall the transaction be authorised without the prior reported issued by the Nominating, Compensation and Corporate Governance Committee evaluating the transaction from the point of view of parity treatment of shareholders and examining its conditions, which must be normal market conditions. Moreover, and in line with the Aldama Report, the Company has also extended the obligations arising from the duty of loyalty to the senior management through the provisions of the Internal Code of Conduct with regards to conflicts of interest.

Relations Between the Board and the Markets

“Rapid, accurate and reliable information to the markets and the establishment to this effect of procedures and controls for the communication of information within the Company”.

“Regular financial information drawn up according to the same professional principles and practises as the Annual Accounts and verified by the Audit Committee”.

“The obligation to provide information and transparency, particularly with regards to corporate governance”.

The Regulations of the Board devote various articles to setting out the channels establishing the relationship between the Board of Directors and the Company shareholders, thus ensuring the greatest transparency possible in this relationship.

The Board of Directors of Telefónica, going beyond the requirements established by the legislation in effect, is fully committed to the responsibility of furnishing the markets with rapid, accurate and reliable information. In particular, the periodical financial Company information, as expressly set out in the Regulations of the Board, is drawn up according to the same professional principles and practises as the Annual Accounts and prior to publication is verified by the Audit and Control Committee, in keeping with the functions attributed to this Committee.

Furthermore, in line with the recommendations of the Aldama Report, the Company furnishes the market with all the information that may be considered relevant for investors. Pursuant to the obligations established in the Finance Law, the Company reports relevant information to the National Securities Market Commission prior to its publication in any other media, as soon as such information is known, or as soon as the decision has been made or the agreement signed with the third parties in question. The Company ensures that its reports of relevant information are true, clear and complete at all times.

Conscious of the relevance of this matter and due to its presence in a great variety of markets, Telefónica has undertaken a firm commitment to transparency understood in this manner. This commitment is evidenced by the commission to its Board of Directors to carry out the acts and adopt the measures necessary to (i) ensure the Company’s transparency in the financial markets, in particular informing such markets of the acts, decisions or circumstances that may be relevant for the price of its shares; and (ii) promote the suitable pricing of the Company shares and, where appropriate, of its subsidiaries, taking special care to avoid manipulation and abuse of confidential information.

Relationship Between the Board and the External Auditors

“Establishment of measures to monitor the independence of the external auditors”.

The Board of Directors has established a stable, professional relationship with the Accounts Auditors through the Audit and Control Committee, with strict respect for the Auditor’s independence, thus fulfilling the recommendations of the Olivencia Code. Therefore, the Audit and Control Committee monitors any situations that may jeopardise the independence of the Company’s external Account Auditor and, in particular, supervises the percentage represented by the fees it is paid by the Company in the audit firm’s total revenues.

Finally, in keeping with the legislation in effect, the Company’s Annual Report includes information regarding the fees paid to the external Accounts Auditor, including fees paid for non-audit services.

In compliance with the legal requirements established by legislation in the United States in this matter, and in line with the Aldama Report, audit and similar services provided by the external Company Accounts Auditor must be previously approved by the Audit and Control Committee.

The General Shareholders’ Meeting

“Measures to make the mechanism for the delegation of votes more transparent, and to encourage communication between the Company and its shareholders”.

With regards to the mechanism in place for delegation of votes, Article 13 of the Regulations of the General Shareholders’ Meeting establishes that all shareholders with a right to attend may be represented by another party, who need not be a shareholder. The representation must be granted specifically for each Meeting, either using the proxy form printed on the attendance card or in any other way envisaged by law. Likewise, shareholders who do not hold the minimum number of shares required to attend the Meeting (300 shares) may delegate the representation of such shares to a shareholder with the right to attend, or join together with other shareholders in the same situation to reach the minimum number of shares. In this case, the grouping of shareholders must appoint a single representative for the group of shares.

- Amongst the measures established to encourage communication with shareholders, the following should be highlighted:
 1. In addition to the documents and information required by law, incorporation on the Company website of all the information the Company deems appropriate with regards to the aforementioned objectives and, in particular, as an indication, the following:
 - The text of all the proposed resolutions to be submitted to the General Shareholders’ Meeting that have been approved by the Board of Directors, without prejudice to their subsequent modification by the Board prior to the date of the Meeting, when legally possible.
 - Information regarding the venue of the General Shareholders’ Meeting and describing, if appropriate, the process for access to the hall.
 - Procedure for obtaining attendance cards or certificates issued by the legally authorised bodies.
 - Means and procedures to grant proxy for the General Shareholders’ Meeting.
 - Should they exist, the means and procedures for remote voting.
 - All other issues of interest to follow the meeting, such as the existence of media for simultaneous translation, audiovisual diffusion of the Meeting or information in other languages.

The Company shareholders may obtain all of the aforementioned information through the corporate website, or may request that it be sent to them free of charge through the mechanisms established on the website for this purpose.

2. Means for the shareholders to submit suggestions.

Shareholders may, at all times and after accreditation of their identity as such, make suggestions related to the organisation, operation and competencies of the General Shareholders' Meeting through the Shareholders' Office.

Likewise, shareholders may request all the information, documentation and clarification they require in relation to the General Shareholders' Meeting through the Shareholders' Office, channelled either through the Company website or by phoning the toll-free line for this purpose.