



01

Corporate governance

01/01 ownership

Telefónica belongs to over one and half million shareholders and is listed on twelve stock exchanges

NUMBER OF SHARES

4,955

million shares

01/02 corporate governance in the Telefónica Group

Telefónica fulfils all of the main international recommendations on corporate governance

BOARD OF DIRECTORS

No. of Directors

- 5** Executive Directors
- 6** Proprietary Directors
- 8** Independent Directors

Telefonica

SHAREHOLDERS WITH SIGNIFICANT STAKES (01-1)

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 <i>La Caixa</i>	92,380,486	174,095,736	5.377
Banco Bilbao Vizcaya Argentaria, S.A.	89,027,259	194,997,590	5.731

01 OWNERSHIP

Telefónica's fully subscribed and paid-up share capital is comprised of 4,955,891,361 ordinary shares of one euro nominal value each, of a single class and series, represented by book entries.

In accordance with the information existing at the Company, there is currently no individual nor legal entity that exercises, or may exercise control directly or indirectly, individually or jointly, over Telefónica. There are, however, certain shareholders with significant stakeholdings: Caja de Ahorros y Pensiones de Barcelona *La Caixa* and Banco Bilbao Vizcaya Argentaria *BBVA*.

02 CORPORATE GOVERNANCE IN THE TELEFÓNICA GROUP**a) Principles of Corporate Governance**

The basic corporate governance regulations of Telefónica are set out in the Company By-laws, in the Regulations of the General Shareholders' Meeting and in the Regulations of the Board of Directors. The Regulations of the General Shareholders' Meeting establishes the principles of organization and operation of this corporate body. Likewise, the Regulations of the Board of Directors, as the founding rules of corporate governance for the Company, determine the principles guiding the actions of the Board of Directors, regulate its organization and operation and establish the rules of conduct for its members.

In accordance with the foregoing, and as the basis of the governance structure of Telefónica, the Regulations of the Board of Directors of the Company determine the fundamental principles that guide its actions:

- **With respect to corporate interest.** The Board of Directors executes its functions in

accordance with the corporate interest, understood as the Company's interest, and, in this respect, acts to guarantee the long term viability of the Company and maximise its value, whilst taking into account the plurality of legitimate public or private interests that converge in the execution of all business activities.

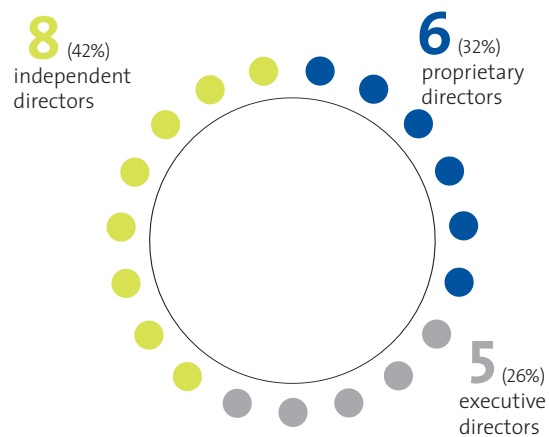
- **With respect to its shareholders.** The Board of Directors, as the liaison between the shareholders and management and must set up the necessary channels to be aware of the suggestions put forward by shareholders with respect to the corporate management. The Board of Directors also undertakes to guarantee equal treatment in its relations with shareholders.
- **With respect to the market.** The Board undertakes to execute the acts and take the necessary measures to ensure the Company's transparency in financial markets, and to promote correct formation of the Company's share prices, particularly avoiding manipulation and abuse of privileged information.

b) The Board of Directors

The Regulations of the Board of Directors establish this as a basically supervisory body controlling the Company's activity, while entrusting the day-to-day management of the business to the executive bodies and the management team. Moreover, and in keeping with the provisions of these Regulations, those powers that are legally or statutorily reserved for the Board of Directors may not be delegated, nor may any others necessary for the responsible performance of its basic supervisory and control duties.

In accordance with the foregoing, and within the scope of its duties of supervision and control, the Board of Directors determines the strategies and directives for the Company

COMPOSITION OF THE TELEFÓNICA BOARD OF DIRECTORS (01-2)



management, establishes the basis for corporate organization to ensure the maximum efficiency of the same, implements and oversees the suitable information procedures to report Company information to shareholders and the markets in general, makes decisions regarding business and financial transactions of particular importance to the Company and approves the bases of its own organization and operation to ensure the optimal fulfilment of these duties.

The Board of Directors of Telefónica is currently comprised of nineteen Directors, of which 5 are Executive, 6 are Proprietary and 8 are Independent.

c) Board of Directors Executive Committee

Subject to the legislation in effect, the Board of Directors has expressly delegated all of its powers and attributes, save those that may not be legally or statutorily delegated, to an Executive Committee with general decision-making powers.

The relationship between the Board of Directors and its Executive Committee are based on the principle of transparency, such that the Board is always fully aware of the decisions adopted by the Committee. Thus, the Board of Directors is informed at each of its sessions of all the resolutions adopted by the Executive Committee, distributing a summary of the minutes of the Committee sessions for this purpose to all the Board members, which then proceeds to ratify the aforementioned resolutions.

The Executive Committee is currently comprised of 8 Directors: 3 Executive Directors, 3 Proprietary Directors and 2 Independents.

d) The Board of Directors Consultative or Control Committees

The Regulations of the Board of Directors of Telefónica empower this body to constitute one

or more consultative or control Committees entrusted with the continual study and monitoring of an area of particular relevance for the Company's good governance, or for the monographic analysis of certain significant aspects or issues where such study is appropriate. The aforementioned Committees are not corporate bodies, but rather are structured as instruments to serve the Board of Directors, which receives the conclusions reached in the matters and issues the Committees are instructed to study.

The Board of Directors of Telefónica has created the consultative or control Committees recommended by the *Olivencia Code*: an Audit and Control Committee (established in 1997), and a Nominating, Compensation and Corporate Governance Committee, with the competencies attributed in the above mentioned Code. Also in keeping with this Code, these Committees are comprised solely of external Directors.

Furthermore, the Board has deemed it appropriate to establish 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.

e) Directors

Appointment

Proposals for appointment of Directors always respect the provisions of the Regulations of the Board of Directors and are preceded by the relevant favourable report from the Nominating, Compensation and Corporate Governance Committee.

Right and Obligations

Pursuant to the recommendations set out in the *Olivencia Code* and in the *Aldama Report*, and in compliance with the *Transparency Act*, the Regulations of the Board of Directors

BOARD OF DIRECTORS COMMITTEES IN TELEFÓNICA (01-3)

Board of Directors Committees	Non-executive Directors	Executive Directors	Nº of sessions 2004
Executive Committee	5	3	21
Audit and Control	4	-	11
Nominating, Compensation and Corporate Governance	4	-	10
Human Resources and Corporate Reputation	4	-	6
Regulation	3	1	10
Service Quality and Customer Service	3	1	4
International Affairs	4	1	6

specifically devotes its title V, comprised of nine articles, to the detailed description of the rights and obligations of Directors. This title sets out the duties arising from the obligations of diligence, fidelity and loyalty of Directors and, in particular, envisages situations of conflict of interest, the duty of confidentiality, the exploitation of business opportunities and the use of corporate assets.

Furthermore, the Regulations of the Board of Directors also includes the right of Directors to obtain the information and counsel necessary to perform their duties, as well as the establishment of the suitable channels for the exercise of such rights. In this respect, the Company has adopted the measures required to ensure that Directors are furnished in a timely manner with sufficient information specially drawn up to this effect, addressed at preparing for the sessions of the Board and its Committees.

Remuneration Policy

In terms of the remuneration policy for Directors, such policy is proposed, evaluated and reviewed by the Nominating, Compensation and Corporate Governance Committee, always in keeping with criteria of moderation. The Company furnishes individualized information each year regarding the remuneration paid for offices and posts on the Board of Directors in the Company *Annual Report*. In addition, in line with the Aldama Report, external Directors do not participate in remuneration systems linked to the market price of the Company shares.

f) The General Shareholders' Meeting

The principles of organization and operation of the General Shareholders' Meeting of are established in a set of Regulations, approved by the Meeting itself at its session on 30 April 2004. The primary objective of the Regulations of the General Shareholders' Meeting of Telefónica is to offer shareholders a framework that guarantees and facilitates the exercise of

their rights in relation to the sovereign governing Company body, with special emphasis on the shareholders' right to information and their participation in deliberations and voting, endeavouring to ensure maximum diffusion of the call and the proposed resolutions submitted to the General Shareholders' Meeting.

Above and beyond the requirements established in the current legislation, amongst the specific measures included in the Regulations of the General Shareholders' Meeting established with a view to facilitating shareholders' attendance and participation in the Meeting, are the following:

- From the date of publication of the call, posting on the Company website of all the information the Company deems appropriate for the aforementioned purpose, in addition to the documentation envisaged by law.

Through the website, shareholders may access the aforementioned documentation and information directly, or may request that such information be sent to them free of charge using the mechanisms set up on the website itself when a Meeting is called.

- Submission of suggestions from shareholders. The shareholders may, at any time and with prior accreditation of their identity as such, make suggestions related to the organization, operation and competency of the General Shareholders' Meeting through the Shareholder Information Office.

Likewise, through this office shareholders may request any type of information, documentation or clarifications they may require in relation to the General Shareholders' Meeting, either through the Company website or by telephone, using the toll-free line set up for this purpose.

COMPOSITION OF THE BOARD OF DIRECTORS OF TELEFÓNICA, S.A AND ITS DELEGATE COMMITTEES (01-4)

BOARD OF DIRECTORS	Executive Committee	Audit and Control	Nominating, Compensation and Corporate Governance	Human Resources and Corporate Reputation	Regulation	Quality of Service and Customer Service	International Affairs	Executive	Proprietary	Independent
<i>Directors</i>										
Mr. César Alierta Izuel (<i>Chairman</i>)	■							■		
Mr. Isidro Fainé Casas (<i>Vice Chairman</i>)	■								■	
Mr. José Antonio Fernández Rivero (<i>Vice Chairman</i>)		■			■				■	
Mr. Fernando de Almansa Moreno-Barreda							■			■
Mr. Jesús María Cadenato Matía	■								■	
Mr. Maximino Carpio García	■	■	■							■
Mr. Carlos Colomer Casellas	■					■				■
Mr. Alfonso Ferrari Herrero			■	■			■			■
Mr. José Fonollosa García									■	
Mr. Gonzalo Hinojosa Fernández de Angulo		■				■				■
Mr. Miguel Horta e Costa										■
Mr. Pablo Isla Álvarez de Tejera			■	■						■
Mr. Luis Lada Díaz						■	■	■		
Mr. Antonio Massanell Lavilla		■		■		■			■	
Mr. Enrique Used Aznar				■	■		■			■
Mr. Mario E. Vázquez								■		
Mr. Antonio Viana-Baptista	■							■		
Mr. Gregorio Villalabeitia Galarraga	■		■		■		■		■	
<i>Secretary to the Board</i>										
Mr. Antonio Alonso Ureba	■				■			■		
<i>Vice Secretary to the Board</i>										
Mr. Ramiro Sánchez de Lerín García-Ovies		■			■					

■ *Chairman of the Commission* ■ *Member of Commission* ■ *Director Condition*

• **Audit and Control Committee**

Assists the Board of Directors in its supervisory duties, specifically in the preparation of financial information, relations with the Company Auditor and its work, and the internal Company control systems.

• **Nominating, Compensation and Corporate Governance Committee**

Ensuring the integrity of the selection processes of Directors and high-ranking officers, advising the Board to determine and supervise of remuneration of directors and high-ranking officers. Likewise it performs duties in the sphere of corporate governance.

• **Human Resources and Corporate Reputation Committee**

Its duties are to analyse, inform and propose the adoption of the appropriate measures regarding human resources policies and to promote the Corporate Reputation project and the implementation of the core values in this field.

• **Regulation Committee**

This committee is responsible for analysing the foremost regulatory issues affecting the Group at any given moment in time, and serves as a channel for communication and information between the management team and the Board of Directors in regulatory matters.

• **Service Quality and Customer Service Committee**

This body is entrusted with the analysis and monitoring of the level of quality in the main services rendered by the Group companies, as well as the quality of the customer service provided.

• **International Affairs Committee**

This committee studies the international affairs that affect the Group, placing special emphasis on institutional relations in the countries in which the Group companies operate, as well as on the programs for actions undertaken by the various Company Foundations in those countries.