



[*Board of Directors*]

4.1 Functions

In line with the recommendations formulated by the Olivencia Commission, the Board of Directors' Regulations essentially define it as a Company control and supervisory body, delegating the Company's ordinary business management to the executive bodies (individual or collective) and to the management team.

Apart from the general function of supervision and control, the Board assumes specific responsibilities related to business management and strategy and the co-ordination of all the companies belonging to its Group. Furthermore, apart from the legal or statutory powers reserved for their exclusive knowledge, the Board is also obliged to directly exercise the following responsibilities:

1. Approval of the Company's general strategies;
2. Appointment, and where appropriate, dismissal of the most senior executives of the Company and other entities comprising the consolidated Group;
3. Appointment, and where appropriate, dismissal of the administrators in the different subsidiary companies;
4. Identification of the Company's main risks, implementation and follow-up of internal control and appropriate information systems;
5. Determination of shareholder, market and public opinion information and communication policies;
6. Establishing the repurchasing policy of the Company's own shares, which the General Shareholders' Meeting determines where appropriate.
7. Authorisation of Company operations with the Directors and significant shareholders which might present conflict of interests; and
8. In general, performing those entrepreneurial or financial operations of particular importance for the Company.

Along this same line of thinking, and bearing in mind that Telefónica is the head of an important and complex Group of companies, the Board of Directors exercises the responsibility of co-ordinating the Company's Group policy, respecting at all times the interests of any existing minority shareholders in any of these companies. Furthermore, where appropriate in each case, the adoption of agreements of specific relevance or significance by part of the subsidiary companies comprising the Telefónica Group are submitted to the Board of Directors of Telefónica for their knowledge, information or authorisation.

Pursuant to their responsibilities, in 2002 the Board took decisions on those matters of their exclusive

jurisdiction, such as the appointment or dismissal proposals of its members, the appointment or dismissal of the executives officers, the implementation and follow-up of internal control systems, the establishment of the repurchasing policy for the Company's own shares and the authorisation of Company operations with Board Members.

On the other hand, the Board of Directors has considered those operations and questions of most relevance for the Company, highlighting the following among others in 2002:

- Acquisition by «Telefónica Móviles, S.A.» of shares representing 65% of the share capital pertaining to the Mexican mobile telephone company «Pegaso Telecomunicaciones, S.A. de C.V.»
- Economic-financial situation of the Argentinian Republic, handling of Telefónica's risks in that country and management priorities in «Telefónica de Argentina, S.A.».
- Announcement of the Ordinary General Shareholders' Meeting, agenda and presentation, among other proposals, two new share capital increase operations charged to unrestricted reserves, share capital increase proposal in 2002 to attend (coverage of the referenced retribution system to Telefónica's share quotation value, destined to Endemol Group employees), likewise, to a proposal for the issuance of convertible or exchangeable fixed income securities, with the exclusion of the subscription preference right.
- Incorporation and development of a joint venture company set up between Telefónica and Portugal

Telecom, each with a 50% stake for the mobile telephone business in Brazil.

- Repositioning of the Emergia, Katalyx and Telefónica Data business lines and creation of the new Telefónica Group Business Solutions via the integration of the subsidiary companies Telefónica Sistemas, Katalyx, M-Solutions and Art-Media in the scope of Telefónica DataCorp.
- Integration of two satellite digital television platforms, Vía Digital and Canal Satélite Digital, via the exchange of Sogecable shares for Vía Digital shares.
- Restructuring of the Admira Media Group.
- Changes in the shareholder retribution policy, such as the proposal for the re-establishment of the Company dividend payments policy proposal in the 2002 Financial Year.
- The results of Telefónica and its Group for the first half of 2002, with special attention to recoveries due to value corrections in «Telefónica Móviles, S.A.» and in «Telefónica DataCorp, S.A.», regarding their investments and businesses in UMTS services in Europe, except Spain and the investment made in MediaWays, respectively.

4.2 Composition

Size and Appointments

Telefónica's Articles of Association state that the Board of Directors will have at least five members with a maximum of twenty. The Board Members will be designated at the General Shareholders'

Meeting, or provisionally by the Board of Directors, as provided by the provisions laid down in the Public Limited Company Act and the Articles of Association.

Telefónica's Board of Directors has currently twenty board members which is within the limits set by the Articles of Association.

Given the complexity of the Telefónica Group, the significant number of companies comprising, the variety of sectors where it performs its business, its multinational format as well as its economic and commercial relevance, twenty members is reasonable for the Board of Directors of the Group's head Company.

The Directors' nominating proposals submitted by the Board of Directors for consideration at the General Shareholders' Meeting, as with the nomination agreements the latter adopts by virtue of the legally attributed co-option powers, must be respectful what is stipulated in the Regulations of its Board of Directors. Furthermore, they are to be preceded by the Nomination, Retribution and Corporate Governance Committee's corresponding favourable report which will not be binding.

In this sense, it should be said that, as a general rule in Telefónica, the Board Member appointments are subject to the decision taken at the General Shareholders' Meeting. Only on certain occasions, when absolutely necessary due to variations having taken place after the General Shareholders' Meeting, is an appointment made via co-option pursuant to the Public Limited Company Act, said decision being ratified, where

necessary, at the first subsequent General Shareholders' Meeting.

In relation to Board Member appointments made in 2002, the Board of Directors has, in each case, considered the reports presented by the Nominating, Compensation and Corporate Governance Committee which were in favour of all appointments. Furthermore, the appointments made in 2002 were mediated by the Board of Directors at the General Shareholders' Meeting.

Board Member Profile

The Board of Directors and the Nominating, Compensation and Corporate Governance Committee, within their respective jurisdiction, endeavour to ensure that the selection of external or non-executive Board Members falls upon persons of known solvency, responsibility and professional experience willing to dedicate a sufficient amount of their time to the Company. Extreme precision must be shown when electing those persons requested to cover the posts of independent Directors.

Furthermore, with regards to the appointment of independent Directors, the Board of Director's Regulations establish that they may neither propose nor designate a person to cover the post of an independent Member of the Board, who either has or has had a stable relationship of specific relevance with the Company management in the last two years, or who are bound by family, professional or commercial ties with any of the executive Board Members or other senior Company executives. Moreover, they are not permitted to have any firm link with shareholding company representative Board Members or the business entities or groups they represent.

In particular, the following may not be proposed or designated as independent Board Members:

- a. Those persons who hold or have held maximum level executive posts in the Company within the last two years.
- b. Relatives –up to the fourth level of kinship- of whomsoever is or has been a Company executive Board Member or senior executive within the last two years.
- c. Those persons, who either directly or indirectly, have made relevant payments to or received from the Company which might jeopardise their independence.
- d. Those persons who have or have had other relations with the Company, which in the opinion of the Nominating, Compensation and Corporate Governance Committee, may diminish their independence.

Pursuant to their knowledge, different professional backgrounds and expertise, the independent Board Members within the Company's Board of Directors provide the Board, and Telefónica's corporate management in general, with their own personal and professional experience, safeguarding business interests from an autonomous and free standpoint.

Appointment Limitations

Directors are appointed for a five (5) year period and may be re-elected once, or several times, for equal periods of maximum duration in accordance with current legislation.

Directors are to put their posts at the disposal of the Board of Directors and resign accordingly on becoming seventy (70) years old. Members of the Board in executive functions will cease to carry those out on becoming sixty-five (65), although they may continue as Board Members, provided the Board deems this as appropriate.

On the other hand, Directors are to place their posts at the disposal of the Board of Directors and resign accordingly, not only on reaching the aforementioned age, but when they cease to hold the executive post to which their appointment was associated, or those reasons for which they were appointed disappear, or when (I) they incur one of the legally envisaged incompatibilities, or (II) when they are severely admonished by the Audit and Control Committee for defaulting on one of their obligations as Board Members, or (III) when their permanence on the Board may affect the Company's credit or reputation on the markets or by any other means place its interests at risk.

Current Composition of the Board of Directors

Telefónica's Board of Directors comprises twenty (20) Board Members, whose names, posts, year of incorporation and the nature of their membership are set out below following the classification established by the Olivencia Report to that effect:

Executive Board Members:

- Mr. César Alierta Izuel, Esq., (1997), Chairman (2000)
- Mr. Fernando Abril-Martorell Hernández, Esq., Managing Director (2000)
- Mr. Antonio Jesús Alonso Ureba, Esq., Board Secretary (2001)

(8) y (9) Luis Fernando Furlán, Esq., presented his resignation to the Company Board of Directors at their meeting held on 18th December 2002, due to his recent appointment as Minister for Industry of the Brazilian Government. The Board of Directors, at their meeting on February 26th 2003, approved the appointment of Fernando de Almansa Moreno-Barreda, Esq., by co-option as independent Board Member. See previous note.

- Mr. Luis Lada Díaz, Esq., (2000)
- Mr. Antonio Viana-Baptista, Esq., (2000)

Shareholding Company representative Board Members:

- Mr. Isidro Fainé Casas, Esq., Vice-chairman (La Caixa, 1994)
- Mr. José Ignacio Goirigolzarri Tellaeché, Esq., Vice-chairman (Banco Bilbao Vizcaya Argentaria, 2000)
- Mr. José Antonio Fernández Rivero, Esq., (Banco Bilbao Vizcaya Argentaria, 2002)
- Mr. José Maldonado Ramos, Esq., (Banco Bilbao Vizcaya Argentaria, 1999)
- Mr. Antonio Massanell Lavilla, Esq., (La Caixa, 1995)
- Mr. Gregorio Villalabeitia Galarraga, Esq., (Banco Bilbao Vizcaya Argentaria, 2002)

Independent Board Members:

- Mr. Maximino Carpio García, Esq., (1997)
- Mr. Carlos Colomer Casellas, Esq., (2001)
- Mr. Alfonso Ferrari Herrero, Esq., (2001)
- Mr. Luis Fernando Furlán⁸, Esq., (2000)
- Mr. Gonzalo Hinojosa Fernández de Angulo, Esq., (2002)
- Mr. Miguel Horta e Costa, Esq., (1998)
- Mr. Pablo Isla Álvarez de Tejera, Esq., (2002)
- Mr. Enrique Used Aznar, Esq., (2002)
- Mr. Mario Eduardo Vázquez, Esq., (2000)

Telefónica's Board of Directors respects those recommendations generally accepted in matters of corporate governance, since it has a significant number of independent Board Members (nine), and the external Board Members (shareholding company representatives and independents) constitute the vast majority over the executive ones (fifteen against five). Finally, the independent

Board Members have the majority over the shareholding company representative ones (nine against six). This composition reasonably reflects the Company's share capital structure.

Given the multinational structure of the Telefónica Group, and pursuant the recommendations formulated from some international forums on corporate governance, Telefónica considers the presence of international experience on its Board as particularly beneficial and, as such, deemed it opportune to include four foreign nationals as board members:

- Mr. Luiz Fernando Furlán⁹, Esq., (Brazilian)
- Mr. Miguel Horta e Costa, Esq., (Portuguese)
- Mr. Mario Eduardo Vázquez, Esq., (Argentinian)
- Mr. Antonio Viana-Baptista, Esq., (Portuguese)

4.3 Organisation of board meetings

Both, the Company's Articles of Association and the Board Regulations lay down that the Board of Directors will meet once a month in ordinary session, and at the Chairman's initiative as often as he or she deems it necessary for the Company's good functioning. According to this, the Board of Directors sets an annual schedule of ordinary meetings. During 2002, Telefónica's Board of Directors held thirteen meetings, each of which was approximately three and half hours' long.

Almost all the Board of Directors' meetings held were attended by all Board Members, i.e. out of the thirteen Board sessions held in 2002, eleven of them were attended by all Board Members themselves or their representatives.

In order for directors to be adequately prepared for board meetings and to have access to all relevant information, the sessions have a pre-established agenda, notified at least three days prior to the meeting along with the session calling. For the same reason, the Directors receive the documentation relating to the meeting agenda sufficiently in advance.

To facilitate Directors having all the necessary information and explanations regarding some of the matters dealt within the meeting, the main executives of the Group have almost attended all Board meetings held in 2002 to expound on matters within their jurisdiction. Likewise, on certain occasions when the opinion of a specialised external counsel was deemed necessary, the presence of external advisors has been requested

All the meetings of the Board of Directors have dealt in depth with the different matters submitted for deliberation and/or decision. Board Members have participated in all debates and discussions, putting forth, where considered appropriate, their viewpoint in such matters. The Chairman organised debates ensuring and encouraging the participation of all Board Members in the deliberation process. Furthermore, it is a common practice for him to request the opinion of the Directors individually, particularly in questions of great importance for the Company.

4.4 The Chairman of the Board

The Regulations of the Board of Directors state that the Chairman will assume the chairmanship of all the Company's governing and administrati-

ve bodies and, as such, will act as the Company's Chief Executive Officer. Consequently, all the Board of Directors' legally and statutory delegable powers are delegated to him. At all times, his action must be in line with the standards and guidelines set by the Board of Directors and its sub-Committees. Likewise, all those agreements or decisions of particular importance to the Company must be subject to the prior approval of the Board of Directors' or of the relevant control Committee. It should be highlighted that the Chairman has no casting vote within the Board of Directors.

The fact that the Chairman of the Board of Directors also holds the position of the Company's Chief Executive Officer greatly facilitates the flow of information between the Company's management and its Board of Directors.

In order for a Director to be designated Chairman, he/she must have formed part of the Board of Directors for at least three years prior to his/her designation. Nevertheless, this prerequisite is not necessary provided that such designation has a favourable vote of at least 85% of the members of the Board of Directors.

4.5 Executive Operating Officer

All the Board of Directors' functions, except those which are legally or statutorily non-delegable, has been delegated to the Telefónica's Managing Director, as well as to the Executive Chairman. Besides being a member of the Board of Directors, the Managing Director is a member of the Board's sub-Committees.

The Managing Director is the Group's Chief Operating Officer, and all the Company's activity lines report to him, except those dedicated to the media and contents which are directly reported to the Executive Chairman. The Resources and Human Resources Corporate Departments also depend on the Managing Director.

4.6 Secretary of the Board

The Secretary of the Board, as laid down in the Regulations of the Board of Directors, must essentially safeguard the Board's good functioning, ensure the formal and material legality of its actions, guaranteeing that their procedures and governing rules are respected, provide Directors with the necessary advice and information, correctly reflect the Board debates and decisions in the form of minutes and certify its resolutions.

Pursuant to the Olivencia Commission recommendations, the Secretary of the Board of Telefónica is also a Director, thereby giving more importance to such role within the Board, strengthening his authority and endowing certain guarantees of independence and stability, likewise making his responsibility more demanding.