

# corporate governance

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### The Board of Directors of Telefónica S.A.

#### Composition of the Board of Directors

→ **75%**  
Non-executive directors

→ **45%**  
Independent directors

→ International representation

#### Workings of the Board

- Monthly meetings
- Attendance of the principal directors to discuss relevant issues
- Appointment of a Delegated Committee

#### Directors

- Age limit
- Appointments, Remuneration and Good Governance Committee

#### Board Committees

	Non-executive directors	Executive directors	Number of sessions
Audit and Control Committee	4		8
Appointments, Remuneration and Good Governance Committee	4		8
Human Resources and Corporate Reputation Committee	4		3(*)
Regulations Committee	3	1	4(*)
Service and Commercial Quality Committee	4		2(*)

(\*) Since June 2002

The relations between Shareholders and the Board of Directors are based on three core values: loyalty towards the owners of the Company; enforcement of the resolutions and decisions taken by the General Meeting; and transparency in the management of daily affairs. Telefónica is at the forefront of companies applying the best practices in good corporate governance and its Regulations of the Board of Directors are proof of this. However, we want to go one step further in our commitment to corporate governance by extending Telefónica's best practices to all our stakeholders.

Chairman of Telefónica. General Shareholders' Meeting. 12 April 2002

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... has firmly committed to informational transparency...

→ 1,698,326

registered minority shareholders  
(as of 3<sup>rd</sup> March 2003)

**Regulations applicable to records, disclosure and control of financial and accounting information**

(28 November 2002)

**Regulations governing the disclosure of information to the market**

(in planning stage)

**Annual Report on Corporate Governance**

(included in this report)

**Internet**

[www.telefonica.com/ir/esp/index\\_es.html](http://www.telefonica.com/ir/esp/index_es.html)

[www.telefonica.es/accionista](http://www.telefonica.es/accionista)

[www.telefonica.es/gobiernocorporativo](http://www.telefonica.es/gobiernocorporativo)

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... and adopted the best practices of corporate governance

**Internal Code of Conduct for securities markets issues**

**Renewal of the Control Committees of the Board of Directors**

(26 June 2002)

**Disclosure of directors' compensation**

# commitment to corporate governance

«Corporate governance is the system by which companies are directed and controlled. Under this definition, good governance refers to a system which pursues the following aims: (a) strengthening the Board's ability to supervise the management of the Company while, at the same time, ensuring that all shareholders are represented and their interests protected; (b) reinforcing the duty of loyalty required from members of the Board of Directors and Management Committee; and finally (c) improving the transparency and accessibility of the information provided to shareholders and investors»

**Telefónica's Annual Report on Corporate Governance** (attached to this document) provides complete information on Telefónica's corporate governance provisions, and the good governance initiatives adopted over last year.

Telefónica's fundamental rules of corporate governance are contained in the Company's Corporate Statutes and in the regulations of its Board of Directors, approved January 29, 1997, and modified July 22, 1998.

The principles inspiring Telefónica's corporate governance policies are:

- Maximization of the company's value in the interest of its shareholders.
- The essential role of the Board of Directors in the management and administration of the company.

- Organizational flexibility.
- Informational transparency in relationships with employees, shareholders, investors and clients.

## 1 The Board of Directors of Telefónica S.A. ...

Telefónica's Board of Directors meets the highest corporate standards within its sector as far as its composition, operation, member profiles, and relations with the Company and markets are concerned.

### Composition of the Board

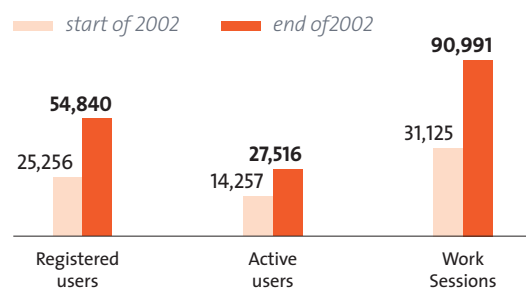
The Board of Directors of Telefónica S.A. shows the following characteristics :

- 75% non-executive members
- 45% independent members
- International presence

### Operation of the Board and its Managing Committee

- The Board of Directors meets monthly in accordance with a preset annual calendar. There is a pre-established agenda for each meeting, which is forwarded to each board member in advance along with the necessary documentation.
- In order to provide any necessary information and clarification regarding the issues discussed, in 2002 the Group's highest-level executives attended all Board Meetings, so as to discuss those matters for which they are responsible.
- The existence of a Managing Committee provides the Board of Directors with greater operability and efficiency in the performance of its duties,

### Evolution of the «a+» service



## The Committees of the Telefónica S.A. Board of Directors

	Non-executive members	Executive members	Number of sessions
Auditing and Control Committee	4	–	8
Appointments, Compensation and Good Governance Committee	4	–	8
Human Resources and Corporate Reputation Committee	4	–	3(*)
Regulation Committee	3	1	4(*)
Service Quality and Business Services Committee	4	–	2(*)

(\*) Since June, 2002.

with full respect for the principle of transparency in its relationship to the Board.

practices as the annual accounts, verified by the Auditing Committee.

### Board Members

- Establishment of an age limit for performing duties.
- Formal, transparent selection procedure for Board Members, starting with a proposal from the Appointments, Retributions and Good Governance Committee.
- An adequate Board Member compensation policy, based on criteria of moderation. (Starting this year, specific information regarding such compensation will be released.)
- Regulation of the obligations arising from the members' duties to be diligent and loyal. Such loyalty obligations also apply to significant shareholders and high-level executives.

### Board's Committees

- Existence of Advisory or Control Committees composed almost entirely of external members.
- The Board comprises a committee responsible for audit and control and a further committee whose responsibility it is to make appointments and set the remuneration policy.

### Company's relationships with markets, shareholders and external auditors

- Existence of important communication channels through the shareholders office and the investor relationships area.
- Establishment of measures to ensure the independence of external auditors.
- Quick, accurate, reliable information to markets, and the establishment for this purpose of information communication procedures and controls.
- Periodic financial information prepared in accordance with the same principles and professional

## 2 ... has firmly committed to informational transparency...

Telefónica Group has firmly committed to ensuring that all Company owners, shareholders with significant numbers of shares, institutional investors, small shareholders (minority shareholders), etc. receive all necessary information at the right time, in the proper form.

Telefónica is the Spanish multinational with the greatest number of minority shareholders. In accordance with the information obtained from the «Servicio de Compensación y Liquidación de Valores» (the Spanish Central Securities Depository), at closing on March 3, 2003, the number of Telefónica shareholders was 1,698,326, in the light of individual records of natural persons and legal entities.

The Company has established different communication channels in order to transmit all information required by the different stakeholders, for markets and institutional investors as well as minority shareholders. These channels are constantly being improved, as shown by the recent launch of the shareholders' website, where Telefónica's minority shareholders are provided with the same information given to the Company's institutional investors via the Investor Relations website.

During 2002, Telefónica approved two sets of internal regulations about procedures and controls on recording, preparing and issuing both financial and non-financial information.

## Stock Exchanges where Telefónica is listed

4 Spanish Stock Exchanges (Madrid, Barcelona, Bilbao and Valencia)

London Stock Exchange

Paris Stock Exchange

Frankfurt Stock Exchange

Tokyo Stock Exchange

New York Stock Exchange

Buenos Aires Stock Exchange

Lima Stock Exchange

Sao Paulo Stock Exchange

Included in the Stock Exchange Automated Quotation System (SEAO International)

### Regulations on records, communication and control of financial/accounting information

These regulations were approved by Telefónica's Board of Directors during the meeting held on November 28, 2002. They regulate the internal procedures and control mechanisms for preparing Company financial/accounting information, and are intended to ensure the application of homogeneous accounting practices and policies throughout the Group, and to establish a periodic evaluation system for the operation of this system.

### Regulations on the release of information to markets

These internal regulations govern the basic operational principles of the processes and systems to control the release of company information, in order to ensure the priority, quality, and control of the information divulged to the bodies regulating stock markets, and markets in general. These regulations are now awaiting approval by the Board of Directors, having been approved by the Auditing and Control Committee and the Appointments, Retributions and Good Governance Committee.

These two sets of internal regulations meet the legal requirements in this area established by the legislation of the different markets on which the Company's securities are traded.

The preparation of an **Annual Report on Corporate Governance** provides further evidence of the Company's commitment to ensuring that markets, shareholders and investors receive complete information on the Company. This report contains in-depth information on Telefónica's corporate governance provisions and its good governance practices, providing specific information on how the company's management operates.

Also to be found on the Internet, on a specific section of the Company's website, there is complete information on Telefónica's corporate governance policies. This includes all relevant documents on Company regulations and internal operation (statutes, regulations of the Board of Directors, and the Internal Conduct Regulations), information on all corporate and management bodies, the Company's capital structure, etc.

### 3 ... and adopted the best practice of corporate governance which have placed Telefónica in the highest level of compliance in this field

At the beginning of 2002, Telefónica's Board of Directors set out to analyze the Company's corporate governance practices in order to make any necessary improvements, and to adopt the strictest standards now being imposed before they actually took effect.

For this purpose, the following measures were adopted during 2002:

#### Approval of new Internal Conduct Regulations concerning the stock markets

These regulations involve adopting new rules of conduct regarding the use of privileged information, such as making use of such information in order to purchase and/or sell Company securities.

Telefónica decided to make these regulations applicable to all persons who more frequently access to privileged information. This not only includes high-level company executives and members of the Board of Directors, but also personnel in some areas who frequently handle privileged information as part of their jobs.

Shareholders Office  
[www.telefonica.es/accionista](http://www.telefonica.es/accionista)

Corporate Governance  
[www.telefonica.es/gobiernocorporativo](http://www.telefonica.es/gobiernocorporativo)

Investor Relations  
[www.telefonica.com/ir](http://www.telefonica.com/ir)



**Gobierno Corporativo**

Inicio | Participaciones | Relaciones con el | Estatutos y | Reglas |  
 Accionistas | Empleados | Auditor Externo | Reglamentación | Portugal

**Gobierno**

**Administración**

Declarado en los Estatutos Sociales de Telefónica, la administración de la sociedad depende de Administración, a su Presidente, a la Comisión Delegada y, en su caso, a los Consejeros Delegados.

La administración se compondrá de un mínimo de cinco y un máximo de veinte miembros nombrados por la Junta General de Accionistas. Los Consejeros ejercerán su cargo durante un periodo de cinco años, y podrán ser reelegidos una o más veces por periodos de igual duración. Actualmente, el Consejo de Administración está integrado por veinte miembros, de los cuales once son Consejeros Delegados y nueve son Consejeros no Delegados.

Composición | Derechos y Deberes | Funciones del Consejo | Composición

**Relaciones con Inversores**

Inicio | Servicio de Atención al Accionista | Información | Opinión de Junta de Accionistas | Propiedad | Empleo |  
 Estructura y Participaciones | Información | Opinión de Junta de Accionistas | Propiedad | Empleo |  
 Participaciones | Información | Opinión de Junta de Accionistas | Propiedad | Empleo |

**mundo de Relaciones con Inversores de Telefónica.**

Eventos y eventos

PERIÓDICO

Resultados

Resultados Enero - Diciembre 2002: Telefónica S.A. hará públicos los resultados financieros correspondientes al año 2002 el día 27 de febrero de 2003.

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Incrementó la generación de caja El 62,2% hasta los 7.995,2 millones de euros. La deuda neta en 6.405,3 millones.

These regulations go further than strict requirements of current legislation by also prohibiting operations with Company securities one month before the Annual Accounts are presented by the Board of Directors, and before quarterly and biannual financial information is released by the Company.

In addition, the internal regulations set forth the principles to be followed in situations where there is a conflict of interests.

To ensure proper compliance with these regulations, an Enforcement Committee is being created, along with an Enforcement Unit in charge of enforcing compliance with the obligations described.

### Renewal of the Board of Directors' Advisory and Control Committees

The duties of the Advisory and Control Committees provide support in the different areas handled by each Committee. Proper operation of these committees is important in order to constantly examine and monitor the areas that the Board has deemed especially relevant to good company governance.

Telefónica is well aware of the importance of these committees. For this reason, on June 26, 2002, the Board of Directors approved the reorganization of the Board's Control Committees, assigning new duties in the area of corporate governance to the Appointments and Retributions Committee, and in the area of corporate reputation to the Human Resources Committee.

In addition, in keeping with the most widespread good governance recommendations, the composition of these committees was renewed so that they are

almost completely composed of external and non-executive members.

### Information on Board member compensation

One of the issues that markets increasingly demand, which is repeated on numerous questionnaires for inclusion in investment indexes, is whether the company provides individualized information on the compensation provided to Board members or not. This is a good governance practice widely demanded of large companies, and Telefónica has decided to provide this information, specified individually by position or title on the Board and its commissions.