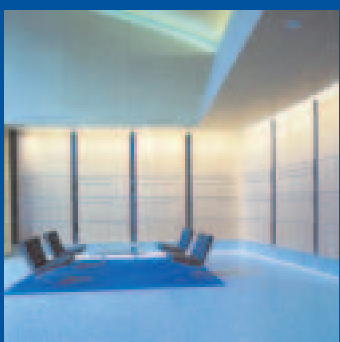

[*overview*]

(1) Report presented by the Committee specially created by the NYSE which presented its conclusions to the exchange's Board on 6th June 2002. These proposals constituted the base for the NYSE «Listing Standards» amendment, which was subjected to the consideration of the «Securities and Exchange Committee» (SEC), on 1st August 2003.
(2) Prestigious private organisation comprising the Chief Executives of the 150 most important USA undertakings.
(3) Recommendations included in this Committee's report known as the Olivencia Code.
(4) Known as the Hampel Report.
(5) Known as the Cadbury Report.
(6) Known as the Greenbury Report.

At Telefónica, S.A.'s last Ordinary General Shareholders' Meeting (hereinafter, «Telefónica» or the «Company»), held on April 12th, 2002, the Chairman renewed the Company's undertaking with its shareholders to consolidate corporate governance practices. Pursuant to this commitment, the Board of Directors approved at the meeting held on February 26th, 2003 this Report, that analyses Telefónica's current corporate governance structures and its compliance with the most recognised corporate governance recommendations.

This Report constitutes a first exercise of analysis and review on the current situation, and a starting point to consider possible long and medium-term improvement initiatives, always aiming at the governance formula which best defends shareholders' interests and value creation.

In assessing the structure and practices of Telefónica corporate governance, the Report takes into consideration the main recommendations on corporate governance put forward both at a national and international level.

In this sense, and as a way of example, the proposals of the following forums and committees have been considered:

- Special Commission Report designed to encourage markets and listed companies' transparency and security of January 8th 2003 («Aldama Commission»).
- «New York Stock Exchange Corporate Accountability and Listing Standards Committee»[1]. New York, 6th June 2002.
- The USA Business Round Table[2] May 2002.
- The OECD Council. Governance Principles for Company Management. May 1999.
- «Special Commission to consider a Code of Ethics for Companies' Boards of Directors: Listed Companies' Governance»[3]. Madrid, 26th February 1998.
- The Committee on Corporate Governance[4]. UK, January 1998.
- The Committee on the Financial Aspects of Corporate Governance[5]. UK, December 1992.
- Director's Remuneration: Report of a Study Group. UK, 1995[6].

Regarding the methodology used in this Report, it should be said that an end result approach was adopted when considering existing measures and recommendations, taking into account the spirit rather than the literal sense of such recommendations.

In summary, the main recommendations considered were the followings:

- Board of Directors' express assumption of the general supervisory function as its core and non delegable mission and the establishment of a catalogue of matters of its exclusive competence.

- Integration of a reasonable number of independent Directors.

- Non-executive Directors should be an ample majority over executive Directors.

- Multinational presence on the Board of Directors.

- Board size adjusted to the Company's characteristics but also being operative.

- Disclosure obligations (particularly on Corporate Governance matters).

- Existence of internal provisions regulating the Corporate Governance system.

- Relevance of the Secretary of the Board.

- Existence of an executive Committee similarly composed to the Board of Directors, being based the relationship of both bodies on the principle of transparency.

- Existence of Board sub-Committees exclusively composed of external Board Members, with particular responsibility for audit and control issues, appointments and remuneration.

- Measures to guarantee that the Board of Directors receive the necessary information properly and on time.

- Board Meetings: frequency, participation of all the Directors encouraged, carefully drafted minutes and an annual assessment of the efficiency of the Board.

- Formal transparent selection procedure of the Board of Directors based on the Nominating Committee.

- Establishment of an age limit to belong to the Board of Directors.

- The right of the members of the Board of Directors to obtain information and the establishment of the appropriate channels for the exercise of this right.

- An appropriate remuneration policy of the Directors, according to moderation criteria, assessed and reviewed by the Remuneration Committee. Furthermore, detailed and individualised information about them will be provided.

- Regulation of the Board of Directors obligations arising from their general loyalty and diligence duties, taking into account, in particular, their conflict of interests, confidentiality, exploitation of business opportunities and the use of business assets.

- Measures to extend the duty of loyalty to significant shareholders and senior executives.

- Measures to make more transparent the mechanism of delegation of votes thereby encouraging the Company's communication with shareholders.

- Precise, rapid and reliable information to be given to markets, therefore establishing informative statement controls and procedures within the Company.

- Periodical financial information drafted pursuant to the same professional practices and principles of the annual accounts and verified by the Audit Committee.

- Approval of compensation plans linked to the share value and approved by the General Shareholders' Meeting.

- Establishment of measures to monitor the independence of external auditors.

Regarding its structure, this Report has been divided into six sections:

1. A brief introduction describing **Telefónica's Corporate Governance model and its general principles**, highlighting the main decisions and measures taken on these grounds from the Company's last General Shareholders' Meeting;

2. Analysis of the Company's **shareholdering**;

3. Analysis of the **Board of Directors**, its placement within the Company, its composition, internal structure and functioning;

4. Analysis of the **Directors role**, considering mainly their rights and obligations within the Company, including detailed information on the compensation they have received in 2002 and on their participation on the Company's capital.

5. Analysis of the composition, responsibilities and functioning of the Board of Directors' **Executive Committee and Board sub-Committees** including specific information on their functioning during the financial year 2002;

6. Description of the principles governing the **Company's relationship with its shareholders, markets** and **external auditors.**