



[*Members of the Board*]

The Regulations of the Board of Directors specifically dedicates a section to the same. It comprises 12 articles describing in detail the rights and obligations of the Directors, establishing as their main function that of orientating and controlling the Company's management to maximise the Company's value to the benefit of the shareholders. Likewise, they regulate, in detail, conflict of interest situations, non-public information, use of corporate assets and use of business opportunities which arise in connection with the director's position as such.

5.1 Rights

The Regulations of the Board of Directors acknowledge the individual right of each Director to gather and obtain all the information necessary to fulfil his/her supervisory functioning. These rules also expressly extend such right to the information regarding the different subsidiary Companies comprising the Telefónica's consolidated Group.

Furthermore, the external Board Members have the possibility, of hiring, when they deem it necessary, at the Company's expense, legal, accounting and financial advisors as well as other experts to aid them in performing their functions.

5.2 Obligations

As previously mentioned, the Regulations of the Board of Directors, set out in detail the main duties

arising out of their general obligations of diligence and loyalty so as to encourage Directors to become aware of the commitments they are assuming when taking office and to account for their actions.

The Directors' general obligations are those arising from their duty of diligence including, among others, the obligation to inform themselves and to prepare appropriately for the meetings of the Board and sub-Committees which they belong to and to attend meetings of such bodies. Likewise, they must participate actively in debates, accept responsibility for the decisions adopted, investigate any irregularity in the Company's management coming to their attention and monitor any situations of risk for the Company that may arise.

The basic obligations arising from the fundamental fiduciary duty contemplated in the Regulations of the Board of Directors are as follows:

- Duty of confidentiality, requiring Directors to keep in confidence the Board of Directors and Committees' deliberations which they belong to and generally to refrain from disclosing any information to which they might have had access in the course of their work. This obligation will continue even after resignation from their post.
- Obligation of non-competition, i.e. Directors are banned from performing professional services or those of any kind to any Company's competitors

and to any competitor of any of the Companies within the Group. Furthermore, prior to accepting any executive position in another Company or entity whose activity is directly or indirectly related to the one carried out by Telefónica or by any of the companies integrated in their consolidated Group, Directors must consult the Nominating, Compensation and Corporate Governance Committee.

- The handling conflict of interest situations. The Regulation of the Board of Directors establish that Members of the Board should abstain from participating in those debates affecting matters where they are directly or indirectly involved, or which affect a member of their family or a company where they hold an executive position or has a significant stake in the share capital. Likewise, Directors shall not directly or indirectly carry out professional or commercial transactions with Telefónica or any of the companies within the Group, unless the Board of Directors approves the same with a favourable vote of at least 90% of the attending Board Members and prior to a report from the Nominating, Compensation and Corporate Governance Committee.
- No misappropriation of the Company's assets. Directors shall not use the Company's assets or take advantage of their position in the Company to obtain patrimonial advantage, unless an appropriate consideration has been satisfied.
- No benefiting from business opportunities. Directors are banned from using for private purposes business opportunities which arise in connection with the director's position as such, unless they are offered by the Company and with the prior report

of the Nominating, Compensation and Corporate Governance Committee.

- Disclose their shareholdings in Telefónica. Directors are required to disclose the number of shares they or their closest relatives hold directly or indirectly in the Company, likewise they are required to disclose all the offices and activities at other companies or entities and, in general, any event or situation which might be material to their actions as directors of the Company.

Extension of fiduciary duties

Significant Shareholders

Pursuant to the Olivencia Report recommendation regarding the extension of fiduciary duties to significant shareholders, the Regulations of the Board of Directors state that the Board of Directors must formally reserve the right to authorise any transaction between the Company and any of its significant shareholders. Under no circumstances will it authorise the transaction if the Nominating, Compensation and Corporate Governance Committee has not previously issued a report assessing the transaction from the viewpoint of equal treatment for all shareholders and of market conditions.

Furthermore, as already mentioned, the Board Members are required to abstain from voting in those decisions of the Board in which they have a direct or indirect interest. In that respect, any matter affecting a company where board members hold an executive position or a significant shareholding will be deemed as being of the directors interest.

The Board of Directors disclose in the Company's annual report any transactions with significant

shareholders. Moreover, pursuant to the new requirements established by the new Spanish Financial Law, the Company must provide detailed information in their biannual reports of the operations carried out both, with Board Members and with significant shareholders.

Senior Management

The Internal Code of Conduct for Securities Markets Issues of Telefónica has extended compliance of certain obligations arising from the directors fiduciary duties to those persons carrying out senior management functions in the Company. In that respect, General Manager, Executive Officers and Deputy General Manager must report to the Regulatory Compliance Unit, created by the Internal Code of Conduct, those situations which could give rise to conflicts of interest due to their activities outside the Telefónica Group, their family relations, their patrimony or for any other reasons. Furthermore, it establishes the general principles of action to be observed in order to handle this kind of situations.

Remuneration and other benefits

The retribution of the Telefónica's Board Members consists of a monthly fixed allowance and of certain per diems for attending the Board of Directors' and its sub-Committees meetings. Besides, executive Board Members receive payments for carrying out their executive functions.

The Company's Board of Directors will, at the next Ordinary General Shareholders' Meeting, propose an amendment to the Company's Articles of Association on this matter, which has been granted with the favourable report of the

Nominating, Compensation and Corporate Governance Committee. This proposal for reform involves two brief but important amendments: the first one consists of a new wording for the first section of article 28 of the Company's Articles (retribution), which will entrust the General Shareholders' Meeting with the setting of the Board of Directors' retribution cap; the second, consists of adding a new fourth section to this same article which will establish how to disclose the Board members' retribution in the Annual Report.

Three important objectives are intended to achieve with the first measure:

1. **publicity**, since the amounts that the Board of Directors will receive will be established in a clear, direct and firm way.
2. **control**, provided that the General Shareholders Meeting which is the maximum representation body within the Company will determine those amounts; and
3. **efficiency**, since the retribution of the Members of the Board (especially that of the external Board members which is contemplated in the first section of article 28) should not be linked to objectives or results, according to the best practices in this field as recommended by the Aldama Commission among others, which point out the need to circumscribe the forms of variable retribution to the executive Board Members (Indeed, this is the policy favoured and effectively implemented by this Board of Directors up until now).

On the other hand, article 28 of the Company's Articles of Association, currently in force, did not contain any provision on disclosure of the retribution of the Members of the Board. This loophole is expected to be eliminated with the inclusion of a new fourth section to this article that will intend to provide due transparency to the remuneration paid to the Board of Directors. The proposal –in line with the demands deriving from the Olivencia and Aldama Reports- responds to the need for making the retribution for Board Members public and individualised in the Annual Report, (i.e. by reference to the positions held by each member in the Board of Directors and its Executive Committee and sub-Committees). As to the retribution which might correspond to Directors for other reasons, and in particular for carrying out executive functions, it will be sufficient to indicate the same by way of aggregate in the Annual Report, with the appropriate breakdown of the different entries or retribution concepts.

The total amount of payments made to the Directors of Telefónica during 2002 was 11,907,088.40 Euros (3,312,042.31 Euros for fixed allowance; 76,416.29 Euros for expenses for attending the Board sub-Committees meetings; 8,405,975.34 Euros for salaries and variable remuneration to the executive Board Members; 69,537.84 Euros for retributions in kind to the executive Board Members, amongst these there are life insurance premiums; and 43,116.62 Euros for Company contributions to Board Members pensions schemes.)

The retributions and benefits received by Telefónica Board Members in the above-mentioned year are broken down in the following tables:

Board of Directors

Annual amount of fixed allowance received
by each Board Member (in euros)

Office	year 2002
Chairman	90,151.82
Vice-chairmen	150,253.03

Members¹⁰:

Executives	90,151.82
Domanials	90,151.82
Independents	90,151.82

Executive Committee

Annual amount of fixed remuneration received
by each Director (in euros):

Office	year 2002
Chairman	60,101.21
Vice Chairman	60,101.21
Members	60,101.21

The Directors do not receive any class of per diems for attending the meetings of the Board of Directors and the Executive Committee.

Other Committees of the Board of Directors

Overall figure of the total annual amount of fees received for attending the sub-Committees meetings.

Committees	Attendance fee per meeting	year 2002
Audit and Control	858.61	24,041.08
Nº. of meetings: 8		
Nominating, Compensation and Corporate Governance	858.61	26,616.91
Nº. of meetings: 8		

(10) Two independent Board Members of the Board of Directors, one of whom resigned office in December 2002, have an additional annual allowance of 60,101.21 euros each, because of their special interest for the Company, their experience and their dedication in relation to South America.

Human Resources and Corporate Reputation	858.61	10,303.32
Nº. of meetings: 3		
Regulation	858.61	11,161.93
Nº. of meetings: 4		
Service and Commercial Quality	858.61	4,293.05
Nº. of meetings: 2		

index-linked to the stock market value of the Company's shares.

Lastly, the Company does not grant, nor did grant in 2002, any advance payments, loans or credit of any class to Directors or executives officers, thus complying with the requirements in this regard contained in the Sarbanes-Oxley Act- enacted in the United States and applying to Telefónica as a listed Company in that market.

Executive Directors

Overall figure of the total amount of fees received by all the Executive Directors for each of the following items (in euros).

Item	year 2002	
Salaries	4,096,718.56	
Variable remuneration	4,309,256.78	
Remuneration in kind	69,537.84	
Pension plan contributions	43,116.62	

The Executive Directors, in their capacity as directors of the Telefónica Group, receive remuneration under the «TOP» scheme which is index-linked to the listing value of the Telefónica shares and is addressed to all directors of the Group; the cost of the aforementioned remuneration with respect to the Executive Directors participating in the plan amounted to 1.2 million Euros in 2002.

It is also worth highlighting that non-executive Directors do not receive, nor have received in 2002 any remuneration from pension plans or life insurance policies, nor do they participate, as mentioned previously, in remuneration plans which are

Participation of the Directors in the Company's capital

Name	Direct Ownership	Indirect Ownership	Number of Shares Held
Mr.César Alierta Izuel	471,959	–	471,959
Mr. Isidro Fainé Casas (1)	1,628	–	1,628
Mr. José Ignacio Goirigolzarri Tellaeché (2)	3,400	–	3,400
Mr. Fernando Abril-Martorell Hernández	31,513	–	31,513
Mr. Antonio Alonso Ureba	8,273	–	8,273
Mr. Maximino Carpio García	5,722	–	5,722
Mr. Carlos Colomer Casellas	532	–	532
Mr. José Antonio Fernández Rivero (2)	113	–	113
Mr. Alfonso Ferrari Herrero	1,776	–	1,776
Mr. Fernando de Almansa Moreno-Barreda	1,058	–	1,058
Mr. Gonzalo Hinojosa Fernández de Angulo	37,214	–	37,214
Mr. Miguel Horta e Costa	348	–	348
Mr. Pablo Isla Álvarez de Tejera	379	–	379
Mr. Luis Lada Díaz	29,172	–	29,172
Mr. José Maldonado Ramos (2)	30	–	30
Mr. Antonio Massanell Lavilla (1)	2,065	629 (3)	2,694
Mr. Enrique Uséd Aznar	19,450	17,988 (4)	37,438
Mr. Mario E. Vázquez	10	–	10
Mr. Antonio Viana-Baptista	21,563	–	21,563
Mr. Gregorio Villalabeitia Galarraga (2)	52	–	52
TOTAL	636,257	18,617	654,874

According to the data in possession of the Regulatory Compliance Unit, the total number of Telefónica shares belonging directly or indirectly to the current Directors on an individual basis, and as at the date of presentation of this Report, amounts to 654,874 shares (0.013% of the capital stock).

- (1) Appointment proposed by La Caixa
(2) Appointment proposed by BBVA
(3) Participation held through next of kin relatives
(4) Participation through a controlled company (93.96%)