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Introduction



The Annual Report on Corporate Governance of Telefónica, S.A. (hereinafter “Telefónica” or the “Company”) for financial year 2003, approved by its Board of Directors, at its meeting held on 25th February 2004, after the Nominating, Compensation and Corporate Governance Committee report, aims to provide a detailed explanation of the structures of the corporate governance system of Telefónica and its practical operation to inform its shareholders and investors.

The Board of Directors provides the shareholders this Report, in fulfilment of the obligation established under “Act 26/2003, of 17th July, that amends Act 24/1988, of 28th July on the Stock Exchange, and the reviewed text of the Spanish Companies Act, approved by Royal Decree 1564/1989, of 22nd December, in order to reinforce the transparency of the Spanish listed companies” (Transparency Act). In any case, one must point out that the Company already published a first Report on Corporate Governance relating to financial year 2002, prior to this report legally required.

In preparing this Report, the provisions of said Act 26/2003 have been complied with, as well as the provisions complementing such Act in “Order/3722/2003, of 26th December, on the annual report on corporate governance and other information instruments for listed companies and other firms”. Moreover, information has been included on other matters that may be of interest to shareholders and investors, such as that on the work carried out by the Board of Directors and its Sub-committees during financial year 2003, or that related to the channels of information between the Company and the market. One must point out that all the data contained in this Report refers to the

financial year ended on 31st December 2003, except in the matters for which another specific date of reference is provided.

This Report also states the degree of implementation of Corporate Governance practices in other listed companies within the Telefónica Group. In this sense, one must point out that this Group has a total of 21 listed companies of six different nationalities and Telefónica has been the driving force to ensure all these companies fulfil minimum standards of common corporate governance, regardless of their nationality and the markets they are listed on, just as detailed in section 7.2 of this Report. On the other hand, the three Spanish listed companies in the Group have prepared their respective Reports on Corporate Governance to an identical structure to this Report, in order to provide the shareholders homogeneous information in the matter, respecting, in all cases, the autonomy of decision of their respective governing and executive bodies.

The fundamental principles of Telefónica’s corporate governance are set forth in its Articles of Association and the Regulations of its Board of Directors. Both documents are available to the shareholders and investors at the Company registered office and on its web page.