



# 03

## Structure of the Board of Directors



The rules of organisation and operation of the Company's Board of Directors, and its Sub-committees are set forth in the Company's Articles of Association and in the Regulations of its Board of Directors. Both documents are available to all the shareholders and investors, at the registered office of the Company and on its web page.

### 03.01 COMPOSITION OF THE BOARD OF DIRECTORS

Telefónica's Articles of Association foresee that the Board of Directors shall be comprised of a minimum of five and a maximum of twenty members, who shall be appointed by the General Shareholders' Meeting. Provisionally, according to the provisions contained in the Spanish Companies Act and in the Articles of Association, the Board of Directors may cover existing vacancies by co-option.

Telefónica's Board of Directors is now comprised of nineteen Directors, a number that is considered adequate to ensure effective operation, considering the complexity of the Group the company heads, the significant number of companies that comprise it, the variety of sectors in which it carries out its activity, its multinational nature, as well as its economic and corporate relevance.

As of the date of this Report, the Board of Directors of Telefónica is comprised of the following persons (*see Table 4, Composition of the Board of Directors*).

On the other hand, as of the date of this Report, the positions held by the Directors on the Board

sub-committees are specified in the following *Table 5*.

As to the status of the Directors, the composition of the Board of Directors of Telefónica fully complies with the recommendations in matters of corporate governance, as it includes a significant number of independent Directors (eight) and external Directors (proprietary and independent) forming a wide majority over the executive ones (fourteen to five). Lastly, the independent Directors are in majority in relation to the proprietary ones (eight to six).

The Regulations of the Board of Directors cover the main rights and obligations of the members of the Board, especially those arising from the fundamental duties of diligence and loyalty.

### 03.02 RULES OF ORGANISATION AND OPERATION OF THE BOARD OF DIRECTORS

#### 3.2.1 Procedures for selection, appointment and removal of Directors

The main principles of organisation and operation of the Board of Directors are set forth in the Articles of Association and Regulations of the actual Board, approved on 29th January 1997 and amended on 22nd July 1998, which is available for consultation at the registered office of the Company and on its web page. Those Regulations also regulate the organisation and operation of the Executive Committee and the Board sub-committees.

As already mentioned, according to the Articles of Association, the Board of Directors will be comprised of a minimum of five and a maximum of twenty members.

**TABLE 4**  
**COMPOSITION OF THE BOARD OF DIRECTORS**

Name	Post	Type of director	Date of first appointment	Date of last appointment
Mr César Alierta Izuel	Chairman (1)	Executive	29-01-1997(8)	12-04-2002
Mr Isidro Fainé Casas	Vice-Chairman	Proprietary (6)	26-01-1994(8)	15-06-2001
Mr José Antonio Fernández Rivero	Vice-Chairman	Proprietary (7)	12-04-2002(8)	12-04-2002
Mr Fernando de Almansa Moreno-Barreda	Director	Independent	26-02-2003(8)	11-04-2003
Mr Jesús María Cadenato Matía	Director	Proprietary (7)	11-04-2003	11-04-2003
Mr Maximino Carpio García	Director	Independent	29-01-1997(8)	12-04-2002
Mr Carlos Colomer Casellas	Director	Independent	28-03-2001(8)	15-06-2001
Mr Alfonso Ferrari Herrero	Director	Independent	28-03-2001(8)	15-06-2001
Mr José Fonollosa García	Director	Proprietary (7)	11-04-2003	11-04-2003
Mr Gonzalo Hinojosa Fernández de Angulo	Director	Independent	12-04-2002	12-04-2002
Mr Miguel Horta e Costa	Director	Independent	17-03-1998	11-04-2003
Mr Pablo Isla Alvarez de Tejera	Director	Independent	12-04-2002	12-04-2002
Mr Luis Lada Díaz	Director (2)	Executive	10-08-2000(8)	15-06-2001
Mr Antonio Massanell Lavilla	Director	Proprietary (6)	21-04-1995	15-06-2001
Mr Enrique Used Aznar	Director	Independent	12-04-2002	12-04-2002
Mr Mario E. Vázquez	Director (3)	Executive	20-12-2000(8)	15-06-2001
Mr Antonio Viana-Baptista	Director (4)	Executive	12-01-2000(8)	04-02-2000
Mr Gregorio Villalabeitia Galarraga	Director	Proprietary (7)	27-02-2002(8)	12-04-2002
Mr Antonio Alonso Ureba	Director-Secretary (5)	Executive	28-03-2001(8)	15-06-2001

(1) Executive Chairman of the Company.

(2) General Manager of Development, Planning and Regulation at Telefónica.

(3) Executive Chairman of Telefónica de Argentina, S.A

(4) Executive Chairman of Telefónica Móviles, S.A.

(5) Secretary General of Telefónica.

(6) Appointed at the proposal of La Caixa.

(7) Appointed at the proposal of BBVA.

(8) Appointed by the pre-emptive procedure, that appointment being confirmed at the General Shareholders' Meeting immediately following.

**TABLE 5**  
**COMPOSITION OF THE BOARD OF DIRECTORS**

Directors	Executive Committee	Audit	Appointment	Human Resources	Regulation	Quality	Internat. Affairs
Mr César Alierta Izuel	X						
Mr Isidro Fainé Casas	X						
Mr José Antonio Fernández Rivero		X			X		
Mr Fernando de Almansa Moreno-Barreda							X
Mr Jesús María Cadenato Matía	X						
Mr Maximino Carpio García	X	X	X				
Mr Carlos Colomer Casellas	X					X	
Mr Alfonso Ferrari Herrero			X	X			X
Mr José Fonollosa García							
Mr Gonzalo Hinojosa Fernández de Angulo		X				X	
Mr Miguel Horta e Costa							
Mr Pablo Isla Alvarez de Tejera			X	X			
Mr Luis Lada Díaz							X
Mr Antonio Massanell Lavilla		X		X		X	
Mr Enrique Used Aznar				X	X		X
Mr Mario E. Vázquez							
Mr Antonio Viana-Baptista	X						
Mr Gregorio Villalabeitia Galarraga	X		X				X
Mr Antonio Alonso Ureba	X				X		

The proposals for appointment of Directors must be preceded by a favourable report by the Nominating, Compensation and Corporate Governance Committee, which shall not be binding.

In this sense, one must point out that the appointment of Directors at Telefónica is subject, as a general rule, to the decision of the General Shareholders' Meeting. Only on certain occasions when it is indispensable due to vacancies arising since the last General Shareholders' Meeting, may it proceed, as established in the Spanish Companies Act, to appointment by co-option, with a prior report by the Nominating, Compensation and Corporate Governance Committee, that decision being ratified, in all cases, by the first General Shareholders' Meeting held thereafter.

The only appointment by co-option performed during financial year 2003 was submitted by the Board of Directors for ratification to the General Shareholders' Meeting and was granted a favourable report by the Nominating, Compensation and Corporate Governance Committee. That appointment was ratified by the Ordinary General Shareholders' Meeting held on 11th April 2003 that also approved appointment of another two members of the Board.

The appointment of external or non-executive Directors must be assigned to persons of recognised solvency, competency and professional experience, who are willing to dedicate a sufficient amount of their time to the Company, being extremely thorough in relation to the selection of the persons called to cover an independent Director position.

As to the appointment of independent Directors, the Regulations of the Board of Directors establishes that it may not propose or appoint to cover an independent Director position any person who has, or who has had a stable relation of certain relevance with the management of the Company, or who are linked for family, professional or commercial reasons to any of the executive Directors or other top management of the Company, and must also lack stable relations with the proprietary Directors and with the entities or corporate groups represented by them.

The Directors are appointed for a period of five (5) years and may be re-elected one or more times for equal times of maximum duration, and must submit their letter of resignation to the Board of Directors when they reach the age of seventy (70) years. The executive Directors shall cease to hold office when they reach the age of sixty five (65), although they may continue to be Directors if so decided by the Board itself.

Besides, the Directors must hand in their resignation to the Board of Directors and formalise the relevant resignation: (i) when they cease to hold the executive post linked to their appointment as Director, or when the reasons for which they were appointed disappear, (ii) when they incur in any legally foreseen causes of incompatibility or prohibition, (iii) when they receive a severe admonition by the Nominating, Compensation and Corporate Governance Committee due to having failed to fulfil any of their obligations as Directors, or (iv) when their remaining on the Board may affect the credibility or reputation the Company has on the markets, or put its interests at risk in any other way.

### 3.2.2 Operation of the Board of Directors

The Board of Directors is the supervisory and controlling body of the Company's activity and exercises specific responsibilities in relation to the strategy and direction of the business and co-ordination of its Group of companies, entrusting ordinary management of its business to the executive bodies and management team.

The Articles of Association and Regulations of the Board of Directors foresee that the Board of Directors shall hold its ordinary meeting once a month and, at the initiative of the Chairman, as often as deemed appropriate for proper running of the Company. According to this, the Board of Directors sets an annual calendar of ordinary meetings. During financial year 2003, the Board of Directors of Telefónica held 13 meetings – 11 of them ordinary and two extraordinary – of approximately four hours duration each.

As established in the Regulations of the Board, and except in cases in which another quorum has specifically been set, the resolutions shall be adopted by the majority of the Directors appearing at the meeting, present or represented.

In order to guarantee adequate preparation of the sessions and in order for the members of the Board to have all the necessary information, the sessions have a pre-established Agenda, which is notified at least three days before the date set for the meeting to be held, along with the calling of the session. To that same end, the Directors are sent the documentation related to the Agenda sufficiently in advance, it being completed with the documentation and written presentations that are provided when holding the meeting.

To provide the necessary information and clarifications in relation to some of the matters dealt with, practically all the meetings of the Board held in 2003 were attended by the main executives of the Group, to matters within their remit.

In order to provide information on the activity carried out by this body during financial year 2003, it is pointed out that the Board of Directors of Telefónica has known, debated or taken the relevant decisions on the matters within its competence, among which the following must be emphasised as the most outstanding:

*a) In relation to the Company's finances:*

- *Results:* On a monthly basis, a detailed presentation has been made to the Board summarising the consolidated results of the Telefónica Group and its main Lines of Activity.
- *Periodic financial information:* The Board has been presented financial information on each quarter, or in each semester, on financial year 2003, prior to its presentation to the Markets and their regulatory Bodies.
- *Economic information on Latin America:* Given the importance to the Telefónica Group of its interests in Latin America, the Board has periodically monitored the economic situation, as well as the evolution of the business in the countries in that Region in which the Group is present.
- *Other matters of a financial nature:* The passing of resolutions on financial matters by the Board has always been preceded by the Directors being provided all the relevant information. Thus, during financial year 2003,

the following operations, among others, have been considered: issues of bonds by Telefónica Europe, B.V., scheme to issue corporate promissory notes, re-structuring of debt at Telefónica Argentina, S.A., etc.

*b) In relation to the business of the Group :*

- *Strategic aspects and objectives:* The Board has deliberated and adopted decisions on strategic aspects and objectives of the Group overall, and of its main Lines of Activity.
- *Monitoring the activity:* Apart from monitoring the activity and controlling management of the Group business, which is performed monthly when the Board is provided the preview of the consolidated results and the results of each Line of Activity (the Agenda of each meeting contains a point titled "Management Report"), on several occasions throughout financial year 2003 have been subject to a monographic examination of the situation and the objectives and strategies of the diverse business in the Group, with intervention before the actual Group by the top executives of each Line of Activity.
- *Regulatory aspects:* The Board has been periodically informed and over the last financial year has amply debated the main regulatory matters that affect the telecommunications Operators in the Group. Considering that, during financial year 2003, a new General Telecommunications Act was published in Spain, this new regulatory framework has been analysed in special detail – especially as to fixed telephony –. Consideration has also been given, on diverse occasions, to the regulatory aspects of the

diverse telecommunications businesses in Latin America.

*c) In relation to the structure and organisation of the Company:*

- *Organisational Structure:* The Board, following examination and a report by the Nominating, Compensation and Corporate Governance Committee, has considered matters during that financial year related to the organisational structure of the Company and its Group, and has passed major resolutions on restructuring and design of the organisation in the months of September and December 2003.
- *Directors and Top Management:* The Board, following a report by the Nominating, Compensation and Corporate Governance Committee, passed 15 resolutions during financial year 2003 on appointment of Directors and Top Management.

*d) In relation to the internal control systems and other matters:*

- *Company's market disclosure policy.* In addition to the Board having disclosed specific market decisions or operations, at its meeting on 26th March 2003, the Board of Directors approved the Disclosure Controls and procedures Regulation that regulates the processes of communication, both of specific and periodic information, establishing the general principles that must be respected by the Company in its communications.
- *Operations with Significant Shareholders:* The Board of Directors, following a report by the Nominating, Compensation and Corporate



Governance Committee, has considered and approved, as appropriate, transactions with the holders of significant stakes in the Company, in order to fulfil the terms established in the Regulations of the Board of Directors.

Moreover, during financial year 2003, after the appropriate analyses and reports, the Board approved diverse important operations and transactions, among which the following may be emphasised as most relevant:

- *Strategic alliance between Telefónica and Terra Lycos* to replace the strategic resolution of 16th May 2000, to which the company Bertelsmann A.G. was a party. Moreover, Telefónica, Terra Networks, S.A., Lycos Inc, and Bertelsmann A.G. signed a preferential interest agreement that will continue to allow them to explore opportunities of mutually providing communication services, developments and contents to the "on line" market.
- *Integration of the digital satellite television platforms, Via Digital and Canal Satélite Digital*, through an agreement between Telefónica de Contenidos, S.A.U., a subsidiary of Telefónica, and Sogecable, S.A.
- Formulation by Telefónica of a *Take-over to Acquire all the shares of Terra Networks, S.A.* listed on the Spanish securities trading system and the NASDAQ of the United States.
- *Process of divestment by Telefónica in relation to its shareholding in Antena 3 de Televisión, S.A.*, a process that was mandatory to fulfil the terms established in the regulatory laws on private television then in force. That process of divestment was structured through two

operations both approved by the Board of Directors of Telefónica. On one hand, the Board of Directors resolved to propose to the Ordinary General Shareholders' Meeting, held on 11th April 2003, distribution of the Premium Reserve for the Issuance of Shares, by delivery to the Telefónica's shareholders of shares representing 30% of the Antena 3 share capital; and, on the other hand, at its meeting on 30th April 2003, the Board agreed to accept the offer presented by the Planeta Group for 25.1% of the Antena 3 de Televisión, S.A. share capital.

Furthermore, as to the relation between the Board of Directors and its sub-committees, one must point out – notwithstanding what is detailed in section 3.2 of this Report concerning the activity by these Sub-committees –, that at each ordinary monthly meeting of the Board of Directors, the Chairman of those sub-committees reports to the Board on the activity and main tasks and actions carried out by these during the period immediately preceding; to which end, the Agenda of practically all the ordinary sessions of the Board includes a point called "Activities by the Board of Directors sub-committees".

### **3.2.3 The Executive Committee**

The Board of Directors, as well as subject to the legal provisions in force, has delegated its powers and attributes, except those that may not be delegated by law or statute, upon a Executive Committee. That Committee provides the Board of Directors greater operativity and efficiency in performing its duties, providing it the necessary support through the work it carries out, especially to the extent that its composition is smaller than that of the Board and it meets more frequently than it.



The relations between both bodies are based on a principle of transparency, so the Board always has full knowledge of the decisions adopted by this Committee. Thus, the Board of Directors is informed at each of its meetings of all the resolutions passed by the Executive Committee, to which end a summary of the Minutes of the meetings of that Committee are distributed to all the Directors, also proceeding to ratify those resolutions.

On the date of this Report, the Executive Committee of the Board of Directors is formed by the following persons:

Members	Date of appointment
Mr César Alierta Izuel, Chairman	27 January 1999
Mr Isidro Fainé Casas, Vice-Chairman	26 January 1994
Mr Jesús María Cadenato Matía, Spokesman	30 April 2003
Mr Maximino Carpio García, Spokesman	25 October 2000
Mr Carlos Colomer Casellas, Spokesman	28 March 2001
Mr Antonio Viana-Baptista, Spokesman	23 February 2000
Mr Gregorio Villalabeitia Galarraga, Spokesman	27 February 2002
Mr Antonio Alonso Ureba, Secretary	28 March 2001

The rules of operation of this Committee are set forth in the Regulations of the Board, which govern its composition, operation, and its relation to the Board of Directors.

Resolutions will be passed by the majority of the Directors attending, and the Chairman shall cast

the deciding vote. The acting Chairman and Secretary to the Executive Committee shall be the same persons as hold these offices on the Board of Directors.

The meetings of the Executive Committee shall be called at least three days before the date foreseen to hold them (normally, they are sent out on the Friday prior to the Committee meeting, which takes place on Wednesday), and that calling includes an advance on the foreseeable Agenda of the meeting.

The Regulations of the Board foresee that the Committee shall hold its ordinary meetings every fifteen days, and as often as called by its Chairman. In 2003, the Executive Committee held 19 meetings, with an average length of 3 hours, most meetings having the intervention of the main Executives of the Group to explain matters related to their respective area of competence. No external advisors have attended the meetings of the Executive Committee.

During financial year 2003, the Committee has examined, in addition to matters related to the ordinary management of the Company, matters related to investment and divestment operations by the Company, and other strategic matters.

### 3.2.4 Other Committees of the Board of Directors

The Board of Directors of Telefónica has the following sub-committees:

- The Audit and Control Committee,
- The Nominating, Compensation and Corporate Governance Committee,
- The Human Resources and Corporate Reputation Committee,
- The Regulation Committee,

- The Service Quality and Customer Service Committee, and
- The International Affairs Committee.

#### 3.2.4.1 Audit and Control Committee

AS of the date of this Report, this Committee is formed by the following members:

Members	Date of appointment
Mr Antonio Massanell Lavilla, Chairman	30 August 2000
Mr Maximino Carpio García, Spokesman	29 January 1997
Mr José Antonio Fernández Rivero, Spokesman	12 April 2002
Mr Gonzalo Hinojosa Fernández de Angulo, Spokesman	26 June 2002

All the members of the Audit and Control Committee are non executive Directors. Moreover, according to the most recent international recommendations in this matter, all the members of this Committee have financial training, specifically, its Chairman has ample professional experience in financial and accounting matters. The General Vice-Secretary and Vice-Secretary to the Board of Directors, Mr Ramiro Sánchez de Lerín, is the acting Secretary of this Committee.

As to the object and duties of this Committee, one must mention that the Board of Directors of the Company, in fulfilment of the obligation established by "Act 44/2002, of 22nd November, on Measures to Reform the Financial System" – additional provision eighteen –, submitted introduction of a new article 31 bis to the Articles of Association for approval by the Ordinary General Shareholders' Meeting held on 11th April

2003, that grants statutory rank to that Committee and regulates its composition and minimum competencies, pursuant to the new legal requisites. That Ordinary General Shareholders' Meeting approved that amendment to the Articles of Association with sufficient majority of capital.

The Audit and Control Committee has a fundamental role in supervising the process of preparation and reporting of the Company's financial information, acting as the controller and co-ordinator of the different players involved in them. In that sense, its work is aimed at four fundamental matters:

1. To know the process of financial information and evaluate the system for accounting verification of the Company,
2. To safeguard the independence of the External Auditor, supervising its work and providing a channel for communication between the Board of Directors and External Auditor, between it and the management team of the Company.
3. To supervise the internal audit services and
4. To supervise the adequacy and integrity of the internal control systems for financial information.

According to what is provided in said article 31 bis of the Articles of Association, the Audit and Control Committee must meet at least once a quarter and as often as appropriate, when called by the Chairman, at his own decision, or when requested by two of its members or the Executive Committee. The Audit and Control Committee is validly constituted by direct

attendance, or representation of at least half its members, and it passes its resolutions by majority of those present. In the event of a draw, the Chairman shall cast the deciding vote.

However, in order to hold a greater number of meetings, the Audit and Control Committee resolved, for financial year 2003, to meet at least ten times a year, to which end it prepared a schedule of meetings, arranging to meet on the Friday prior to the week when the Board of Directors of Telefónica meets. That Committee has also met when the circumstances and matters to be dealt with have so required. Thus, during financial year 2003, the Audit and Control Committee held thirteen meetings.

The meetings were held according to the pre-established Agenda and sent to the members of the Committee in advance, along with the calling to each meeting. The deliberations by that Committee and the resolutions and decisions passed by it are documented in the minutes of each meeting.

These meetings were regularly attended by the partner responsible for the Telefónica's Accounts Auditor to explain and clarify, at the requirement of the Committee, aspects of the audit report and the work performed by the External Auditor. Moreover, at the requirement of the Committee, other members of the management team of the Company and its subsidiaries have participated to explain specific matters that affect their respective areas of competency. Specifically, participation by those responsible for the financial area and accounting consolidation as well as those responsible for internal audit is emphasised. The members of the Committee held separate

meetings with each of the contacts when this was considered necessary.

To better perform its duties, and just as expressly set forth in the Regulations of the Board, the Auditing and Control Committee may obtain the advice of external experts. The Committee has not made direct use of this right, although it has dedicated some of its meetings to analyse specific matters that required more in-depth knowledge, which were presented by experts at the Company or by the External Auditor.

On the other hand, the Audit and Control Committee dedicated a monographic session in the month of July to review its own operation and activity, taking the aforementioned legislative novelties into account. Due to that meeting, the Audit and Control Committee approved an annual plan of activities, in which the main matters that must be dealt with by this Committee were dealt with during each financial year, in relation to the following matters: (i) External Auditor, (ii) examination of the integrity of the Financial Statements, (iii) internal auditing and control systems, and (iv) intra-group relations.

Specifically, as to the work carried out by this Committee during financial year 2003, the following matters are emphasised:

*(i) In matters of financial-accounting information*

- As to the Annual Accounts and the Management Report, the Audit and Control Committee analysed and debated the most relevant aspects at the end of financial year 2002, with special attention to the accounting of the main operations performed during that financial year.

(2) Act 44/2002, of 22nd November, on Measures for the Reform of the Financial System ("Financial Act"), and Act 26/2003, of 17th July, that amends Act 24/1988, of 28th July, on the Stock Market, and the remodelled text of the Stock Company Act, approved by Legislative Royal Decree 1564/1989, of 22nd December, in order to reinforce the transparency of the Spanish listed companies ("Transparency Act").

- This Committee has also been informed, prior to their public disclosure, on the quarterly and semester results of the Company.

*(ii) In relation to the External Auditor*

- The Committee analysed the proposal of appointment of the Accounts Auditor to Telefónica and its consolidated Group of companies, later raising that proposal to the Board of Directors, in order for it propose its appointment to the Ordinary General Shareholders' Meeting.
- In one of the meetings of this Committee, the External Auditor provided a report on the relations between it and the Telefónica Group, as well as its view of the actual duties of the External Auditor in keeping with the legislative changes that had taken place up to date.
- On the other hand, after publication of the regulations implementing the Sarbanes-Oxley Act in matters of External Auditor independence, the Committee considered its obligations in the matter and ordered the procedures to engage the External Auditor to the Group to provide any kind of permitted service. Thus, the Committee has approved, after analysis and justification, the provision by the Accounts Auditor to the Company of certain non-audit services.
- The Committee approved the fees of the External Auditor, in relation to the actual work auditing the annual accounts, as well as to perform audit related or other kind of services.

*(iii) In relation to internal control and internal audit and intervention matters.*

- The Committee has been informed in detail of the actions carried out by the internal audit and intervention units of the Group.

- The Committee has analysed the risk map of the Group and its control model, and it has been informed of the evaluations made from the internal audit services on the operation of the systems aiming at controlling the information reported by the Company to the markets, and on the financial-accounting information control systems.

- Likewise, in the first session of the year, the internal audit services presented their annual plan, and in October the Committee considered the proposal for orientation of the work by the internal auditor for financial year 2004. Moreover, the Committee was informed in several different sessions of specific situations related to the work performed by these services.

*(iv) Other matters of interest analysed by the Audit and Control Committee.*

- Analysis of the most relevant legislative and regulatory novelties that may affect the Company, either Spanish<sup>2</sup> or foreign, with special attention in the latter case to the regulations published by the SEC implementing the Sarbanes-Oxley Act.
- Presentation and information on the "Audit Committees Information System" (e-SICA) – a computer system through which the members of the Committee are kept permanently up to date with the work being performed by the Audit and Control units without detracting from the confidentiality of the information – and the "System for self-

evaluation of internal control” – a system that aims to provide a measure of the internal control of all the companies of the Telefónica Group, by the managers filling out questionnaires adapted specifically to the Group.

- Analysis of the present situation of the new International Financial Reporting Standards (IFRS).
- Presentation on Computer Auditing: evolution of the activity and plans for financial year 2004.

#### 3.2.4.2 Nominating, Compensation and Corporate Governance Committee

On the date of this Report, the composition of the Nominating, Compensation and Corporate Governance Committee was as follows:

Members	Date of appointment
Mr Alfonso Ferrari Herrero, Chairman	30 May 2001
Mr Maximino Carpio García, Spokesman	30 August 2000
Mr Pablo Isla Alvarez de Tejera, Spokesman	26 June 2002
Mr Gregorio Villalabeitia Galarraga, Spokesman	27 February 2002

All the members of this Committee are external or non executive Directors. The Secretary General and of the Board, Mr Antonio Alonso Ureba, acts as Co-ordinator of this Committee.

The main duties of this Committee are, among others, the following:

1. To report on the proposals for appointment of the Company Directors and executive officers; on the members of the Executive Committee and other Committees of the Board of Directors, as well as the organisational structure of the Company;
2. To determine the Executive Chairman remuneration regime and, if appropriate, that of the Managing Director; to set the Directors remuneration regime and review them periodically to ensure their adequacy for the duties they perform, as well as to report on the variable remuneration of the top management;
3. To report on the incentive plans;
4. To prepare the Annual Report on Corporate Governance.

The Nominating, Compensation and Corporate Governance Committee set up a schedule of meetings for 2003 that allowed organisation of the tasks and responsibilities it has been entrusted, it usually holding a monthly meeting in the days prior to that of the Board of Directors.

Ten meetings were held during 2003. Prior to holding the meeting, the Directors who are members of it are convened and sent the agenda foreseen in advance, as well as the documentation related to each of the points on that agenda, for review and analysis by the Directors on the Committee.

The Co-ordinator of the Meeting, Mr Antonio Alonso Ureba, General Secretary and Secretary to the Board, takes the minutes of each one of the meetings and keeps the relevant documentation.

Throughout financial year 2003, the Nominating, Compensation and Corporate Governance Committee has had knowledge and has reported, favourably in all cases, for later approval by the Board of Directors or by the Executive Committee, on all Top Management appointments and changes in the structure of the organisation that have taken place at Telefónica, as well as any of the subsidiary companies, as well as appointment of the new members of the Board of Directors of subsidiaries, for later approval by the Board of Directors of the relevant company. To perform that task, the Committee has examined the statutory report on the post to be covered, issued by Human Resources, the Curriculum and profile of the candidate, for adequate assessment of the office and the person proposed.

Likewise, throughout 2003, the Nominating, Compensation and Corporate Governance Committee reported that there were no conflicts of interest in relation to members of the Board of Directors or Top Management of the Company and it has supervised that the different operations performed with significant shareholders BBVA and La Caixa, have been performed under market conditions and have respected the principle of parity in treatment of the shareholders.

At the request of the Chairman of Telefónica, in the first quarter of the year, the Nominating, Compensation and Corporate Governance Committee reported on the Top Management bonuses for financial year 2002, and in 2003 a significant reduction was applied in relation to the economic results of the Group, that had an especial effect on the Chairman and Managing Director.

As a duty of that Committee, the Stock Option schemes of the different companies in the group were examined, concentrating analysis of these on the problems of their application in relation to some of the parties who benefit from them.

Likewise, in fulfilment of one of the main recommendations of Corporate Governance, an evaluation of the Directors' compensation for financial year 2003 has been undertaken, according to the terms set forth in article 28 of the Articles of Association, and collaboration has been requested, as in preceding years, by a specialised external consultant, to prepare a report on the listed companies

Board members compensation.

Throughout financial year 2003, modifications have been presented on two occasions in the Organisational Structure of the Telefónica Group by the Chairman of the Company, proceeding to study, analyse this and issue the favourable report required by the Regulations of the Board.

In fulfilment of its basic responsibility, throughout 2003, this Committee has reported on the appointment by co-option of a Board of Directors member and on the creation of a new Board of Directors sub-committee, the International Affairs Committee.

Nominating, Compensation and Corporate Governance Committee provided a favourable report on the Regulations on Communication of Information to the Markets, prepared due to the need to comply with the Sarbanes-Oxley Act, and according to the commitment acquired by the Board of Directors at the last General Shareholders' Meeting to adopt the best corporate governance practices.

In order to comply with the Transparency Act for listed companies, the Nominating, Compensation and Corporate Governance Committee supervised commencement of the work to prepare the Regulations of the General Shareholders' Meeting and undertook the work to adapt the Regulations of the Board to the Transparency Act.

Finally, to continue the work undertaken last financial year 2002, it continued the task of examining the situation of the Group considering the recommendations of the different Corporate Governance Codes, the draft of this Corporate Governance Report being presented and reviewed by this Committee several times.

#### 3.2.4.3 Human Resources and Corporate Reputation Committee.

On the date of this Report, the composition of the Human Resources and Corporate Reputation Committee is as follows:

Members	Date of appointment
Mr Pablo Isla Alvarez de Tejera, Chairman	26 June 2002
Mr Alfonso Ferrari Herrero, Spokesman	26 June 2002
Mr Antonio Massanell Lavilla, Spokesman	22 July 1998
Mr Enrique Used Aznar, Spokesman	26 June 2002

All the members of this Committee are external or non executive Directors.

Notwithstanding others it may be attributed by the Board of Directors, this Committee has the

main duties, on one hand and in matters of Human Resources, of analysing, reporting and proposing that the Board pass the appropriate resolutions on matters of Company personnel policy; and on the other, in matters of Corporate Reputation, to encourage progress on the Corporate Reputation Project of the Telefónica Group and implementation of its central values, to which end the relevant instruments and tools shall be provided within organisation of the Group.

During 2003, the Human Resources and Corporate Reputation Committee held four meetings. The meetings were held according to the Agenda previously set and sent to the members along with the calling of each meeting. At all the meetings, the different matters submitted for deliberation and, if appropriate, decision, were discussed in due depth, with active intervention by all the members in the different debates. The deliberations of the Committee, the resolutions and decisions made by it, are recorded in the minutes of each meeting, prepared by the Secretary, Ms Consuelo Barbé Capdevila, Under-Director General of the Corporate Department, and later distributed among the members for their approval and remarks. It is then submitted for approval, as point one of the Agenda, of the next meeting of the Committee that is held.

The meetings of this Committee are usually attended by members of the management team responsible for the corporate areas of Human Resources and Corporate Reputation.

During 2003, this Committee examined, debated and analysed the following main matters:



*(i) In matters of Human Resources:*

- The Committee was informed about the situation of the staff at Telefónica de España, S.A.U. and as to alternatives to following in relations with it, as well as the situation of the Collaborating Company system in matters of health assistance.
- Presentation of a new model of variable remuneration of the Telefónica Group and analysis of the situation of the matters in course on human resources, in all the lines of activity of the Telefónica Group.
- Specifically, those responsible for Human Resources of the main lines of business of Telefónica, –Telefónica de España, Telefónica Móviles and Telefónica Internacional –, presented the Management Report on Human Resources in each one of those lines to the Committee at a monographic session held on 23rd June 2003.

*(ii) In relation to Corporate Reputation matters:*

- The Committee was presented the Memorandum on Corporate Reputation and the statement of the activities carried out in matters of corporate reputation during 2002, and those foreseen for 2003.
- The “Monitoring Report on Corporate Reputation” was presented to the Committee, detailing the lines of work established to improve the corporate reputation within the Telefónica Group in aspects in which it is considered that these must be reinforced.

#### 3.2.4.4 Regulation Committee

On the date of this report, the composition of the Regulation Committee is as follows:

Members	Date of appointment
Mr Enrique Used Aznar, Chairman	26 June 2002
Mr José Antonio Fernández Rivero, Spokesman	26 June 2002
Mr Antonio Alonso Ureba, Spokesman	26 June 2002

This Committee is formed by two external or non executive Directors and by an executive Director.

The main objectives of the Regulation Committee are the permanent monitoring of the main matters of regulatory order that affect the Telefónica Group at each moment and to provide a channel for communication and information between the management team and the Board of Directors in regulatory matters.

The meetings of the Regulation Committee are generally held monthly, except when its Chairman decides not to convene it as no event of especial relevance that need be debated by the Committee has arisen during the period. There is an annual schedule of meetings that is approved at the last meeting of the year immediately preceding. During 2003, the Committee met on eight occasions.

The meetings were held according to a pre-established Agenda and sent to the Committee members in advance, along with the calling for each meeting. The deliberations by this Committee and the resolutions passed by it are recorded in the minutes of each meeting.

The meetings of this Committee are usually attended by Mr Luis Lada Díaz, General Manager of Development, Planning and Regulation, and Mr Javier de la Pinta García, Sub-director General of Corporate Regulation, as well as the Vice-Secretary General and of the Board of Telefónica, Mr Ramiro Sánchez de Lerín, who also acts as Secretary to it, and the Director of the Legal Department of Telecommunications, Ms María Victoria Cerezo Rodríguez-Sedano. Her essential function is to support the Chairman of the Committee in more complex regulatory matters, or those requiring technical knowledge of the matter.

During financial year 2003, the Regulation Committee analysed and debated the most relevant regulatory matters, to which end the corporate regulatory and juridical departments prepare a general document on the regulatory situation of the Telefónica Group, that is updated at each meeting. Moreover, when the matter required, those responsible for regulation and executives of the different Telefónica business Lines were invited to provide a detailed presentation of the regulatory problems in their businesses.

Among the most relevant regulatory matters subject to analysis by the Committee during financial year 2003 one may point out the following:

1. *Analysis of the regulatory situation in Spain:* the process of development of the General Telecommunications Act and relevant Regulations, the actions of the Telecommunications Market Committee (CMT) that affect the Telefónica Group and the files open at different Companies, the situation of tariff re-balance at Telefónica de

España, the undertakings acquired by Telefónica to develop the cable network, development of the wide band services in Spain, setting the new framework of tariffs and prices of Telefónica de España in the year 2004, and flexibility of the financial commitments linked to the UMTS third generation mobile telephony licence.

2. *Analysis of the regulatory situation in Latin America:* the process has been followed to update the tariff framework in Argentina, and claim measures against the Republic of Argentina. The situation that has arisen in Peru due to the proposal to eliminate the basic rental has been analysed at several meetings, and the Committee was informed on the impact on revenue and the actions taken. Likewise, specific monitoring has taken place at several meetings of the claim of unconstitutionality concerning the concession contract with Telefónica del Perú (TdP) that finally was not successful, and the Committee was informed of the proceedings to request an extension to the concession agreement. The process of renegotiation of the concession agreement with Telesp and the issues related to the tariff readjustment in fixed telephony were the most relevant matters dealt with by the Committee in relation to Brazil. As to Chile, the Committee has monitored the process of negotiation of the new tariff framework for 2004-2009.

3. *Analysis of the regulatory situation in Europe:* The Committee was also informed of the possible impact in Spain of the European Recommendation on relevant markets and the draft of Recommendation on Remedies prepared jointly by the European Committee and the European Group of National

Regulators, as well as the activities performed by Telefónica along with other operators and major companies in the European sector in the “Brussels Round Table” initiative.

In 2003, the Regulation Committee commissioned diverse studies by consultancy firms and external legal advisors, related to specific matters of special impact for the Company, related to tariff re-balance of Telefónica de España and in relation to the new General Telecommunications Act.

#### 3.2.4.5 Service Quality and Customer Service Committee

As of the date of this Report, the composition of the Service Quality and Customer Service Committee is as follows:

Members	Date of appointment
Mr Gonzalo Hinojosa Fernández de Angulo, Chairman	26 June 2002
Mr Carlos Colomer Casellas, Spokesman	26 June 2002
Mr Antonio Massanell Lavilla, Spokesman	26 March 1999

All the members of this Committee are external or non executive Directors.

The Service Quality and Customer Service Committee has the fundamental mission of study and monitoring the quality levels of the main services provided by the companies in the Telefónica Group, as well as the standards of customer service.

In order for this Committee to know and be able to analyse the fulfilment of the goals set, its

Chairman commissioned a summary of the variables-objectives for each business line in the Telefónica Group for the year 2003. Moreover, a working method has been provided that allows a quarterly report on each line of activity, related to the evolution of its objectives, based on quality indicators and ratios set for each on of its businesses.

This Committee has met six times during 2003. The meetings follow a fixed Agenda, that is sent along with the relevant documentation, approximately fifteen days before the date of the meeting. At each session, the Secretary to the Committee, Ms Marta Turégano Martínez, Director of litigation Matters, takes the relevant minutes. The meetings of the Committee have been attended by diverse representatives of the different lines of activity.

The main matters analysed during 2003 were as follows:

- Analysis of the management charts sent by the different lines of business, based on the indicators used for the quality monitoring, in order to set objectives for 2003 and to show the results obtained the previous year for to maintain at least the quality levels.
- Presentation of the Quality Plan for Latin America, called T-Latam Regional Plan, aimed fundamentally at setting global objectives to allow effective quality monitoring and perceived within the management organisation of the regional area.
- Presentation of the satisfaction study project of the Telefónica Group, that has the fundamental objective of evaluating the risk of customer loss and its reasons, as well as the priorities of the

Group when dealing with policies aimed at customer loyalty, considering the variety of countries in which the Group operates.

- Analysis of the model proposed by the marketing area for correct evaluation of the level of satisfaction generated by the commercial brands of the Telefónica Group and their effects on the perception and evaluation of the Group.

#### 3.2.4.6 International Affairs Committee

The International Affairs Committee was created by the Board of Directors on 26th February 2003 and formally constituted by a resolution of the Board of Directors on 28th May 2003. As of the date of this Report, the composition of this Committee is as follows:

Members	Date of appointment
Mr Fernando de Almansa Moreno-Barreda, Chairman	28 May 2003
Mr Alfonso Ferrari Herrero, Spokesman	28 May 2003
Mr Luis Lada Díaz, Spokesman	28 May 2003
Mr Enrique Used Aznar, Spokesman	28 May 2003
Mr Gregorio Villalabeitia Galarraga, Spokesman	28 May 2003

All the members of this Committee are external or non executive Directors, except for one, who is an executive Director.

During financial year 2003, this Committee held two meetings. The meetings follow a fixed agenda, which is sent with the relevant documentation approximately three days before the date of the meeting. At each meeting, the Secretary to the Committee, Ms Marta Turégano

Martínez, Director of Litigation Matters, takes the relevant minutes. Diverse representative of the different lines of activity have attended the meetings of the Committee.

This Committee has the fundamental mission of analysing the international matters that are relevant to the Telefónica Group, reporting these to the Board of Directors when appropriate. In this sense, the Committee pays special attention to institutional relations with the countries in which companies in the Telefónica Group operate, to the company's competitive position, to strategy and corporate image matters, and to the agenda and performance of the Company Foundations in such countries.

During 2003, the International Affairs Committee analysed, among others, the following matters:

- Examination of the general political-institutional situation in Latin America, with special reference to the social, political and economic situation in the countries where Telefónica operates.
- Analysis of the objectives established by Telefónica Móviles in each one of the countries in which the Company is present, and its position in relation to competitors.
- Review of the state of the Institutional Relations Plan project prepared in order to develop the presence of Telefónica in International organisations and Forums. The Committee emphasises the importance of this plan and of the creation of a corporate culture in the countries in which the Company operates, as well as in the different international organisations and forums.

(3) Moreover, one of the members of the Board of Directors, who is not resident in Spain, receives an additional annual assignment of 60,101.21 euros, due to the special interest he has to the Company due to his experience and dedication in relation to Latin America.

### 03.03 REMUNERATION OF THE BOARD OF DIRECTORS MEMBERS

The remuneration of the Directors of Telefónica consists of a fixed monthly allowance and per diems for attending the meetings of the Board sub-committees. Executive Directors may also receive the relevant fees for performing their executive duties.

Their regulation is set forth in article 28 of the Articles of Association, that indicate that the sum of the remuneration to be paid by the Company to the Board of Directors is set by the General Shareholders' Meeting, it being the actual Board of Directors which later distributes that sum among the different Directors. In that sense, the General Shareholders' Meeting held on 11th April 2003, set the annual maximum gross sum of remuneration to be received by the Board of Directors at 6 million euros, for fixed assignment and per diems for attending the meetings of the Board sub-committees. In that sense, we may point out that, in line with the best practices in this field, remuneration of the Directors is linked to results.

The total amount of remuneration received by the Directors of Telefónica during financial year 2003 amounted to 10,900,943.98 euros: 3,339,958.34 euros by fixed assignment, including the remuneration received for belonging to the Board of Directors of other companies in the Telefónica Group; 120,247.86 euros in per diems for attending the meetings of the Board sub-committees, including per diems for attending the sub-committees of Boards of Directors of other companies in the Telefónica Group; 7,275,864.86 euros in wages and variable remuneration of the executive Directors; 114,872.92 euros in remuneration in kind in

favour of executive Directors, that include life insurance premiums; and 50,000 euros in contributions by the Company, as promoter, and in favour of the executive Directors, to pension schemes.

The following tables detail the compensation and sums received by the Directors of Telefónica in that year:

**Board of Directors.** Annual amount of the set allowance received by each Director (in euros)

Offices	2003
Chairman	90,151.92
Vice-Chairmen	150,253.02
members <sup>3</sup> :	
Executive	90,151.92
Proprietary	90,151.92
Independent	90,151.92

**Executive Committee.** Annual amount of the fixed assignment received by each Director (in euros):

Offices	2003
Chairman	60,101.19
Vice-Chairman	60,101.19
members	60,101.19

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

**Other Board sub-committees.** Annual amount of the per diems paid during financial year 2003 for attending the meetings of the

Board sub-committees, received by the Directors overall:

Board-subcommittees	2003
Audit and Control	Per diem for meeting: 858.61 euros No. of meetings paid: 9 Total received: 26,616.91
Nominating, Compensation and Corporate Governance	Per diem for meeting: 858.61 euros No. of meetings paid: 6 Total received: 24,899.69
Human Resources and Corporate Reputation	Per diem for meeting: 858.61 euros No. of meetings paid: 6 Total received: 20,606.64
Regulation	Per diem for meeting: 858.61 euros No. of meetings paid: 5 Total received: 12,879.15
Service Quality and Commercial Care	Per diem for meeting: 858.61 euros No. of meetings paid: 4 Total received: 8,586.1
International Affairs	Per diem for meeting: 858.61 euros No. of meetings paid: 2 Total received: 7,727.49

**Executive Directors.** Total amounts received by the set of executive Directors for each one of the following matters (in euros).

Items	2003
Wages	3,811,030.07
Variable remuneration	3,464,834.79
Remuneration in kind	114,872.92
Contributions to pension schemes	50,000

The executive Directors Mr César Alierta Izuel, Mr Fernando Abril-Martorell Hernández (who

presented his resignation from the position of Managing Director of the Company on 24th September 2003), Mr Antonio J. Alonso Ureba, and Mr Luis Lada Díaz, acting as directors of the Telefónica Group, were the beneficiaries of a remuneration scheme linked to the listed value of the Telefónica share, for the directors of the Group, called "Plan TOP", the term of which ended during financial year 2003, without them exercising their options to Telefónica shares that were the object of that scheme, so those options were extinguished and became void. The cost to Telefónica of that remuneration scheme during financial year 2003, as to the Executive Directors participating in it, amounted to 1.02 million euros.

Moreover, one must point out that during 2003 the non executive Directors did not receive any remuneration whatsoever in pensions or life insurance, nor did they participate in remuneration schemes linked to the listed value of the shares.

Lastly, the Company does not grant, nor has it granted during 2003, any advances, loans or credits whatsoever to the Directors, nor to any of its main executives, in fulfilment of the requisites of the Sarbanes-Oxley Act published in the United States, which is applicable to Telefónica as a company listed on that market.

#### 03.04 ADDITIONAL INFORMATION ON MEMBERS OF THE BOARD OF DIRECTORS

##### 3.4.1 Directors appointed in relation to Significant Shareholders

Just as stated in section 2.1 of this Report, certain members of the Board of Directors have been appointed in relation to the significant shareholders.

Thus, the following directors have been appointed in relation to BBVA:

- Mr Jesús María Cadenato Matía
- Mr José Antonio Fernández Rivero
- Mr José Fonollosa García
- Mr Gregorio Villalabeitia Galarraga

Moreover, in relation to La Caixa, the following Directors have been appointed:

- Mr Isidro Fainé Casas
- Mr Antonio Massanell Lavilla

All the Directors mentioned have or have had a labour or mercantile relation with the companies in relation to which they have been appointed members of the Board of Directors of Telefónica. Thus, the offices held by each of these persons in those companies are detailed below:

- Mr Jesús María Cadenato Matía is the Major Industrial Corporations Manager at BBVA.
- Mr José Antonio Fernández Rivero is a former Managing Director of BBVA, now in early retirement.
- Mr José Fonollosa García is a former Managing Director of BBVA, now in early retirement.
- Mr Gregorio Villalabeitia Galarraga is a former Managing Director of BBVA, now in early retirement.
- Mr Isidro Fainé Casas is the Managing Director of La Caixa.
- Mr Antonio Massanell Lavilla is Assistant Executive Managing Director of La Caixa.

On the other hand, we must point out that none of the members of the Board of Directors of

Telefónica is, in turn, a member of the Board of Directors of either of these two companies. However, one must point out that Telefónica has knowledge of the fact that Mr José Antonio Fernández Rivero has been appointed to the Board of Directors of BBVA at the General Shareholders' Meeting of that company held on 28th February.

#### **3.4.2 Members of the Board of Directors of Telefónica with management or executive offices in other companies in the Group**

The following are identified as members of the Board of Directors of Telefónica who have management or executive offices in other companies in the Group, specifying those offices in each case:

- Mr Fernando de Almansa Moreno-Barreda is a member of the Boards of Directors of the following companies in the Group: Telefónica Móviles, S.A., Telefónica del Perú, S.A.A., Telecomunicaciones de Sao Paulo, S.A. (Telesp), and Telefónica de Argentina, S.A.
- Mr Jesús María Cadenato Matía is a member of the Board of Directors of Uno-e Bank, S.A.
- Mr Maximino Carpio García is a member of the Board of Directors of Telefónica Móviles, S.A.
- Mr José Antonio Fernández Rivero is Chairman of Adquira España, S.A.
- Mr Alfonso Ferrari Herrero is a member of the Board of Directors of Compañía de Telecomunicaciones de Chile, S.A. and Telefónica del Perú, S.A.A.
- Mr Miguel Horta e Costa is a member of the Board of Directors of Telesp Celular Participações, S.A.



- Mr Luis Lada Díaz is a member of the Board of Directors of Telefónica Móviles, S.A. and Sogecable, S.A.
- Mr Antonio Massanell Lavilla is a member of the Board of Directors of Telefónica Móviles, S.A.
- Mr Enrique Used Aznar is a member of the Board of Directors of Terra Networks, S.A., Telecomunicaciones de Sao Paulo, S.A. (Telesp) and de Telefónica del Perú, S.A.A.
- Mr Mario Eduardo Vázquez is Chairman Executive de Telefónica de Argentina, S.A. He is also Chairman of the following companies in the Group: Telefónica Móviles Argentina, S.A., Telefónica Comunicaciones Personales, S.A., Radio Móvil Digital Argentina, S.A., Radio Servicios, S.A., Telinver, S.A., Atento Argentina, S.A., Katalyx Argentina, S.A., Adquira Argentina, S.A., and Fundación Telefónica; he is also Vice-Chairman of the following companies: Telefónica Holding de Argentina S.A., Compañía Internacional de Telecomunicaciones S.A. Lastly, he is the Managing Director of the following companies in the Group: Katalyx Food Service Argentina S.R.L., Katalyx Cataloguing Argentina S.R.L., Katalyx Construction Argentina S.R.L., Katalyx Transportation Argentina S.R.L.
- Mr Antonio Viana-Baptista is Executive Chairman of Telefónica Móviles, S.A. He is also a Director of the following companies: Telefónica Móviles España, S.A., Terra Networks, S.A., on behalf of Telefónica DataCorp, Brasilcel, N.V, Tele Sudeste Celular Participações, S.A. and Telesp Celular Participações, S.A.