

04

Information on related transactions and intragroup operations



04.01 OPERATIONS PERFORMED WITH SIGNIFICANT SHAREHOLDERS

As to operations with significant shareholders, the Company has established control measures set forth under the Regulations of the Board of Directors, so it formally reserves knowledge and authorisation of any transaction between the Company and any of its significant shareholders, as well as following a report by the Nominating, Compensation and Corporate Governance Committee to analyse and evaluate the operation from the point of view of parity in treatment of the shareholders and the market conditions of the same. Moreover, the Directors related to those shareholders are obliged to abstain from the deliberation of those matters.

The two shareholders of Significant Stakes in the stock capital of Telefónica are financial institutions. According to this, the Company has performed operations with both companies within their ordinary activity, and always on market conditions. Thus, during financial year 2003, the types of operations performed were as follows:

a) As to the usual treasury transactions:

- Formalisation/renewal of financing lines.
- Formalisation of renting lines.
- Formalisation of factoring lines.
- Formalisation of banking services agreements: collection and payment of commercial and financial nature, administration and custody of bank guarantees, custody of securities, credit cards, etc.

- Temporary Financial Investments, to place treasury surplus.
- Sale of promissory notes of the company according to the Telefónica Promissory Notes Issue Programme.

b) As to capital markets transactions:

- Formalisation of bonds or any other debt instrument under any debt programme by Telefónica.
- Formalisation of operations with convertible or exchangeable bonds, own shares, shares of companies in the Group and financial stakes.
- Formalisation of syndicated loans.
- Formalisation of guarantees.
- Formalisation of derivative operations on interest rates, exchange rates, political risk or credit risk.
- Intermediation operations in stock exchange operations.

During financial year 2003, apart from operations aforementioned, the relevant operations by the Company performed with any of its significant shareholders, were as follows:

Restructuring of the debt of Telefónica Data Colombia with BBVA Banco Ganadero

The Board of Directors of Telefónica – following a favourable report of its Nominating, Compensation and Corporate Governance Committee –, resolved on 29th January 2003, to approve the restructuring of the debt that

(4) To these ends, and pursuant to the terms of Royal Decree 377/1991, of 15th March, the term executive shall be understood to mean general managers and similar who have top management duties reporting directly to the governing bodies, executive commissions or Managing Directors of the listed company.

Telefónica Data Colombia had with the Colombian institution BBVA Banco Ganadero, amounting to 26.051 million Colombian pesos (approximately 9 million euros), by novation of part of the loans granted by that Bank (amounting to approximately half that debt) and capitalisation of an amount approximately equivalent to 4.5 million euros, that involved subscription by the said creditor Bank of shares representing 35% of the stock capital of Telefónica Data Colombia.

Loan by BBVA to Telefónica Data Colombia

As resolved by the Board of Directors of Telefónica on 30th April 2003 – passed following a favourable report of its Nominating, Compensation and Corporate Governance Committee –, Telefónica Data Colombia was authorised to apply for and obtain a loan from BBVA of the sum of 5 million US dollars.

Appointment of Agent Entities to distribute the shares of Antena 3

On 24th September 2003, following a favourable report of the Nominating, Compensation and Corporate Governance Committee, the Board of Directors of Telefónica approved the hiring of BBVA and La Caixa to act as Agent Entities to distribute the shares of Antena 3 de Televisión, S.A. among the shareholders of Telefónica.

04.02 OPERATIONS PERFORMED WITH THE DIRECTORS AND EXECUTIVES OF THE COMPANY AND OF THE GROUP

According to the information provided by the Company, no member of its Board of Directors,

nor any executive⁴ of the Company, has performed operations with the Company in the course of the last financial year.

In this sense, one must point out that, according to the terms established in the Regulations of the Board, the Directors must abstain from intervening in deliberations that affect matters in which they have a direct or indirect interest, or when they affect a member of their family or a company in which they have an executive office, or hold a significant stake in its share capital. Likewise, the Director may not directly or indirectly perform professional or commercial transactions with Telefónica, or with any of the companies in the Group, unless the Board of Directors, with the abstention of the Director affected, approves the transaction with the favourable vote of at least 90% of the Directors present, and following a report by the Nominating, Compensation and Corporate Governance Committee.

Moreover, one must state that, as established in the Internal Code of Conduct for Securities Markets Issues of Telefónica, the Company directors are obliged to (a) act at all times with loyalty to the Group and to its shareholders, regardless of their own interests or those of others; (b) to abstain from intervening in or influencing any decision making that may affect the persons or entities with which conflict exists; and (c) to abstain from accessing information classified as confidential that affects that conflict. Moreover, these persons are under the obligation to inform the Regulatory Compliance Unit of the Company of such situations that may potentially lead to any conflict of interests.

04.03 SIGNIFICANT OPERATIONS PERFORMED WITH OTHER COMPANIES BELONGING TO THE SAME GROUP

Telefónica is the parent company that heads a Group of companies that perform their corporate object through their stake in these companies. According to the organisational structure of the Group and its co-ordination policies, one must point out that, among others, its financial policy and, in some cases, the actual financial management is centralised through that parent company. According to this, most of the operations performed by the Company with the companies belonging to its Group are operations of a financial nature, to cover their needs for funds and coverage of interest rate and exchange rate risks.

According to this, as to financial year 2003, as recorded in the individual Annual Accounts of Telefónica ended on 31st December 2003, the total credits to companies in the Group amounted to 23,719.81 million euros, while the debt with companies in the Group and associates amounted to 25,512.67 million euros.

As to the balances with associated companies, one must point out that on 31st December 2003, the financing provided to Sogecable, S.A. according to the commitments acquired in the agreements signed in relation to integration of the satellite platforms, the headings "Other credits" long term and "Credits to associated companies" short term on the Consolidated Balance sheet at 31st December 2003, include an amount of 222.49 and 9.27 million euros, respectively, with that company. Moreover, one must point out a long term balance of 64.65 million euros with Medi Telecom and a short

term balance with Ipse 2000, amounting to 280.58 million euros.

Likewise, attention is drawn to the headings "Debtor associated companies" and "Debts to associated companies" amounting to 48.18 and 26.74 million euros, respectively, for the companies in the Group Brasilcel. In relation to Medi Telecom, these sums amounted to 9.33 and 4.21 million euros in each heading.

On the other hand, the amount of sales and services rendered that are recorded in the Profit and Loss Account for the financial year ended on 31st December 2003, are for sales to companies in the Group, mainly the management contract with Telefónica de Argentina, S.A. In that sense, in November 1990, Telefónica and Telefónica de Argentina, S.A. entered into a management agreement in force until 2003, which regulated the advisory services provided by Telefónica and the price of these. The revenue received for that item during financial year 2003 amounted to 28.02 million euros.

Apart from these operations of an ordinary nature, the 2003 Strategic Alliance between Telefónica and Terra Networks, S.A. must be mentioned, as described in the relevant information on the decisions made by the Board of Directors in section 3.2.2 of this Report.