

# 01

## A commitment to Corporate Governance



<b>01</b>	<b>Ownership: Maximisation of value</b>	<ul style="list-style-type: none"><li>· Structure of ownership</li><li>· Regulations of General Shareholders Meeting</li></ul>	<b>NUMBER OF SHAREHOLDERS</b> <b>1,693,049</b> <i>Information obtained from Iberclear. 01/04/03</i>
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<b>02</b>	<b>Board of Directors: Essential role</b>	<ul style="list-style-type: none"><li>· Composition and activity of the Board of Directors</li><li>· Board Committees</li></ul>	<b>BOARD OF DIRECTORS</b> number of executives <b>5</b> executive <b>6</b> proprietary <b>8</b> independent
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<b>03</b>	<b>Management: Loyalty and active participation</b>	<ul style="list-style-type: none"><li>· High participation in the Board Commissions</li><li>· Extension of obligations under Internal Rules of Conduct to management</li><li>· External auditor</li></ul>	<b>INTERNAL RULES OF CONDUCT</b>
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<b>04</b>	<b>Information transparency</b>	<ul style="list-style-type: none"><li>· Shareholders information service</li><li>· Investor Relations Department</li><li>· Regulation on the release of information to the markets</li><li>· Annual Corporate Governance report</li></ul>	<b>VISITORS TO THE SHAREHOLDERS AND INVESTORS WEBSITE</b> <b>680,000</b>
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**STOCK EXCHANGES WHERE TELEFÓNICA, S.A. SHARES ARE LISTED**

- 4 Spanish Stock Exchanges ( Madrid, Barcelona, Bilbao and Valencia)
- London Stock Exchange
- Paris Stock Exchange
- Frankfurt Stock Exchange
- Tokyo Stock Exchange
- New York Stock Exchange
- Buenos Aires Stock Exchange
- Lima Stock Exchange
- Sao Paulo Stock Exchange
- Included in the Stock Exchange Automated Quotation System (SEAO International)

# 01. Ownership

The share capital of Telefónica, subscribed and fully paid up, is comprised of 4,955,891,361 shares, each with a face value of €1,00, and of a single class and series, represented through account entries.

**1,693,049** shareholders<sup>1</sup>

(1) information obtained from Iberclear on 1st April 2003

According to the existing information on the company, there are no individuals or corporations that exercise, or may exercise control over Telefónica, directly or indirectly. There are, however, certain shareholders who own significant stakes:

	Percentage	Shares
BBVA*	6.09	301,813,784
La Caixa**	3.50	173,456,198

(\* According to the information provided by Banco Bilbao Vizcaya Argentaria, S.A. in its annual accounts at 31st December 2003. As the bank itself indicates in this document, the stake held with the criteria of long term holding of capital in Telefónica is 5.17%.

(\*\*) According to the data provided by Caja de Ahorros y Pensiones de Barcelona, La Caixa on its web page, with information updated on 31st December 2003.

The General Shareholders' Meeting is the supreme body of deliberation and decision, through which the corporate will is expressed and the shareholders decide by majority on the matters that are the competence of the Meeting.

Telefónica intends to put forward for consideration and approval by the Ordinary General Shareholders' Meeting, to be held on 30th April 2004, the principles of this meeting organisation and operation, thus fulfilling the terms set forth in Act 26/2003, of 17th July.

Loyalty, fulfilment and

# 04. transparency

**Shareholder's Office:** provides all the relevant corporate information for shareholders and resolves any doubts they may have.

**Investor Relations Department:** designs and executes the Telefónica communication programme for the national and international financial markets. The 26th March 2003 meeting of the **Board of Directors** of the Company approved internal rules on disclosure to the markets, that regulate the basic principles of operation of the processes and control system for disclosing information.

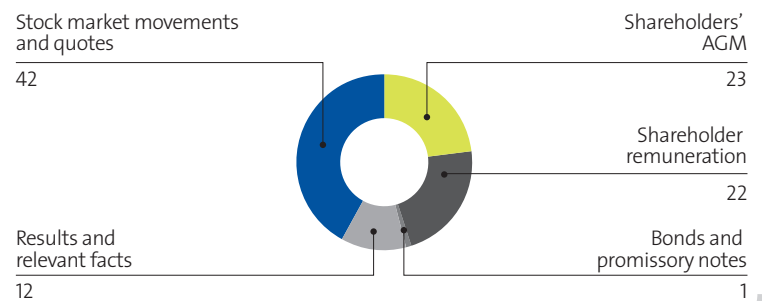
**The Annual Report on Corporate Governance** provides individual detail based on functions, of the remunerations and benefits received by directors of Telefónica during financial year 2003.

**Major web improvements** with regard to **content, relevant to shareholders and investors**, restructuring the existing information, providing new content and creating a new section specifically dedicated to matters of Corporate Governance. These sections had 680,000 visits during 2003.

- [www.telefonica.com/ir](http://www.telefonica.com/ir)
- [www.telefonica.com/accionista \(/shareholder\)](http://www.telefonica.com/accionista (/shareholder))
- [www.telefonica.com/gov](http://www.telefonica.com/gov)
- [www.telefonica.es/hechosrelevantes \(/relevantfacts\)](http://www.telefonica.es/hechosrelevantes (/relevantfacts))

**DISTRIBUTION OF SHAREHOLDER TELEPHONE ENQUIRIES**

(data in percentages)



**8** (42%)  
independent  
directors

**6** (32%)  
proprietary  
directors

**5** (26%)  
executive  
directors

## 02. Board of Directors

The Board of Directors is the body that supervises and controls the Company's activity and exercises specific responsibilities in relation to strategy and management of the business and co-ordination of its group of companies.

**19 directors**

*see table 2*

## 03. Management

The Board of Directors entrusts ordinary management of the Company business to the executive bodies and the management team.

The main executives of the Group have attended practically all the **meetings of the Board** held in 2003 to give presentations on matters within their remit.

Moreover, through the different committees of the Board of Directors, specialised analysis has been performed of the matters inherent to its competence. These committees provide a common channel between the management of the Company and the Board.

The Company has extended the obligations arising from the duty of loyalty of the top executives, through the terms provided in its **Internal Rules of Conduct** in matters of conflicts of interest.

Telefónica has established the procedures for contracting the **external auditor** to the Group to provide any kind of service, in accordance with the requisites of the Sarbanes-Oxley Act. During financial year 2003, remuneration of the different companies in the worldwide organisation Deloitte Touche Tohmatsu; to which Deloitte&Touche España, S.L., the firm of auditors to the Telefónica Group belongs; provided services other than auditing services amounting to 30% of the total fees paid, 8% less than in 2002.

During 2003, the Board of Directors of Telefónica held 13 meetings (11 ordinary and 2 extraordinary) lasting approximately four hours each.

The **Chairman of the Board of Directors** is the chief executive of the Company although, according to the terms set forth in the Regulations of the Board of Directors, his actions must comply at all times with the criteria and directives set by the General Shareholders' Meeting, by the Board of Directors and by the committees reporting to it.

The resolutions shall be passed by a majority of the directors attending, present or represented at the meeting.

**Committees of the Board of Directors of Telefónica, S.A.** Existence of a Delegate Committee, whose operation is described in the Regulations of the Board. It allows greater operativity and effectiveness to the Board of Directors. It is now formed by eight directors. In 2003, the Delegate Committee held 19 meetings with an average duration of more than 3 hours.

### OTHER COMMITTEES OF THE BOARD OF DIRECTORS

Committee	COMPOSITION (directors)		No. of meetings (2003)
	Non executive	Executive	
Audit and Control	4	—	13
Nominating, Compensation and Good Governance	4	—	10
Human Resources and Corporate Reputation	4	—	4
Regulation	2	1	8
Service Quality and Customer Service	3	—	6
International Affairs*	4	1	2*

(\*) Since May 2003

The fundamental principles of Corporate Governance of Telefónica, S.A. are set forth in its Corporate Bylaws 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.

The Annual Report on Corporate Governance of Telefónica for financial year 2003 provides all the information on the Corporate Governance structures of Telefónica and its operation, for its shareholders and investors.

**The guiding principles of Corporate Governance of Telefónica are:**

- 1. Maximising the value of the Company in the interest of the shareholders.**
- 2. The essential role of the Board of Directors in the direction and administration of the company.**

**3. Organisational flexibility.**

**4. Informative transparency in relations with employees, shareholders, investors and customers.**

In the previous pages, there is a scheme providing a summary of the most relevant information included in the mentioned Report on Corporate Governance.

To conclude this scheme of Telefónica's Corporate Governance Report, it is important to emphasise the firm intention of the Company to encourage the adoption of best Corporate Governance practices within the Group, regardless of the specific requisites on each market. At present, all the listed companies of the Telefónica Group have fulfilled common minimum standards of Corporate Governance, as detailed in the following table:

**TABLE 1. COMMON MINIMUM STANDARDS OF CORPORATE GOVERNANCE**

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**Composition of the Board of Directors**

- Majority of non executive directors, in relation to the executive directors.
- Appointment to the Board of a reasonable number of independent directors.

**Operation of the Board of Directors**

- Existence of rules of operation of the Board (Reglamento del Consejo)
- Adherence to minimum number of scheduled meetings.

**Regulation of the rights and obligations of the directors<sup>1</sup>**

**Consulting committees of the Board of Directors**

- Existence of the Auditing and Control Committee.
- Nominating, Compensation and Good Governance Committee<sup>2</sup>
- Comprised exclusively of non-executive directors.

**Transparency**

- Shareholder information service.
- Investor relations department
- Information on Corporate Governance published annually in the Annual Report or specific report.
- Web page on Corporate Governance (including Relevant Facts)<sup>3</sup>

**Others**

- Control systems on the financial, accounting information.
  - Internal Rules of Conduct in matters related to the stock markets.
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*(1) Regulations set forth either in internal rules, or in the local by-laws.*

*(2) All the Spanish listed companies in the Group have this Committee. This practice will be extended to other companies in the Group, according to the specific characteristics of each one of them.*

*(3) In the case of Spanish listed companies in the Group, the content in matters of Corporate Governance on these pages is adapted to the requirements of Ministerial Order 3722/2003, of 26th December, on the annual report on Corporate Governance and other instruments of information on the listed stock companies and other entities.*

TABLE 2

# Governing Bodies

BOARD OF DIRECTORS	Delegate commission	Audit and Control	Nominating, Compensation and Corporate Governance	H.R. and Corporate Reputation	Regulation	Quality of Service and Customer Service	International Affairs	Executive	Proprietary	Independent
<i>Directors</i>										
Mr. César Alierta Izuel	■							■		
Mr. Isidro Fainé Casas	■								■	
Mr. José Antonio Fernández Rivero		■			■				■	
Mr. Fernando de Almansa Moreno-Barreda							■			■
Mr. Jesús María Cadenato Matía	■								■	
Mr. Maximino Carpio García	■	■	■							■
Mr. Carlos Colomer Casellas	■					■				■
Mr. Alfonso Ferrari Herrero			■	■			■			■
Mr. José Fonollosa García									■	
Mr. Gonzalo Hinojosa Fernández de Angulo		■				■				■
Mr. Miguel Horta e Costa										■
Mr. Pablo Isla Álvarez de Tejera			■	■						■
Mr. Luis Lada Díaz							■	■		
Mr. Antonio Massanell Lavilla		■		■		■			■	
Mr. Enrique Used Aznar				■	■		■			■
Mr. Mario E. Vázquez								■		
Mr. Antonio Viana-Baptista	■							■		
Mr. Gregorio Villalabeitia Galarraga	■		■				■		■	
<i>Director-Secretary to the Board</i>										
Mr. Antonio Alonso Ureba	■				■			■		
<i>Vice Secretary to the Board</i>										
Mr. Ramiro Sánchez de Lerín García-Ovies		■			■					

■ Chairman of the Commission   ■ Member of Commission   ■ Director

• **Audit and Control Committee**

Supporting the Board in its monitoring, and in particular supervising the drawing up of financial information, relations, the work of the external auditor and the internal control systems of the Company.

• **Nominating, Compensation and Good Governance Committee**

Ensuring the integrity of the selection processes of Directors and high-ranking officers, advising the Board to determine and supervise of remuneration of directors and high-ranking officers. Likewise it performs duties in the sphere of corporate governance.

• **Human Resources and Corporate Reputation Committee**

Analysing, informing and proposing the adoption of appropriate resolutions and encouraging development of the Corporate Reputation Project, and implementation of the central values pertinent to this sphere.

• **Regulatory Committee**

Analysing the main regulatory issues order that affect the Group from time to time and acting as a channel of communication and information between the management team and the Board of Directors in matters of regulation.

• **Quality of Service and Customer Service Committee**

The study and follow-up of standards in the quality of the main services rendered by the Companies of the Group, as well as standards in commercial attention given to their customers.

• **International Affairs Committee**

Analysing the international affairs pertinent to the Group, giving special attention to institutional relations in the countries where the companies of the Group operate, the competitive positioning of the Company, the issues relative to corporate strategy and image, as well as action plans of the different Foundations of the Company in all these countries.