Telefónica, S.A.

REPORT OF THE BOARD OF DIRECTORS OF TELEFONICA, S.A. RELATING TO THE PROPOSAL FOR A RESOLUTION TO BE SUBMITTED FOR THE APPROVAL OF THE GENERAL SHAREHOLDERS' MEETING ON DELEGATION OF POWERS TO THE BOARD OF DIRECTORS FOR THE ISSUANCE OF DEBENTURES, BONDS, PROMISSORY NOTES AND OTHER FIXED INCOME SECURITIES, BE THEY SIMPLE, EXCHANGEABLE AND/OR CONVERTIBLE AND IN THIS LAST CASE EMPOWERING THE BOARD THE RIGHT TO EXCLUDE THE SHAREHOLDERS' PREEMPTIVE SUBSCRIPTION RIGHTS, AS WELL AS THOSE OF THE HOLDERS OF CONVERTIBLE SECURITIES, AND ALSO GRANTING THE BOARD THE POWER TO GUARANTEE ISSUANCES OF COMPANY SUBSIDIARIES (POINT V ON THE AGENDA OF MEETING)

1. SUBJECT-MATTER OF THE REPORT

The Agenda of the Annual General Shareholders' Meeting of Telefónica, S.A. called for April 10th and 11th, 2003 includes at point V a proposal - which is submitted for the approval of the General Shareholders' Meeting - on the grant of powers to the Board of Directors, with express power to subdelegate to the Management Committee, to issue simple debentures, bonds, promissory notes and other fixed income securities, and debentures, bonds, promissory notes and other fixed income securities exchangeable for shares in the Company or in any of the Companies in its group and/or convertible into shares of the Company, including power to provide security on behalf of the Company for issues of fixed income securities by subsidiaries.

2. REASONS FOR THE PROPOSAL

The Board of Directors believes it to be highly desirable to have the delegated powers permitted under current regulations, so that it can be in a position at all times to raise on the primary securities markets the funds necessary for proper management of the interests of the Company. The powers granted are intended to give the Company's management body the room for manoeuvre and response-capacity demanded by the competitive environment in which it operates, in which, very often, the success of a strategic initiative or of a financial transaction depends on it being able to act on it swiftly, without the delay and cost inevitably involved in calling and holding a General Shareholders' Meeting.

To that end, under article 319 of the Rules of the Mercantile Register (*Reglamento del Registro Mercantil*) and applying by analogy article 153.1.b) of the current Spanish Law of the Corporations (*Ley de Sociedades Anónimas*), which authorise the General Shareholders' Meeting to delegate power to the Board of Directors to issue, within five years and on one or more occasion, fixed income securities for cash consideration, up to not more than the stockholders' equity of the Company (article 282.1 of the current Spanish Law of the Corporations), the draft resolutions set out under point V of the Agenda, which includes also a draft resolution to revoke the resolution delegating power to issue simple bonds passed by the General Meeting on March 26th, 1999, are submitted to the General Shareholders' Meeting.

The draft resolution provides that authority be granted to the Board of Directors to enable it, in the event that it is decided to issue debentures or bonds, to designate the latter as convertible and/or exchangeable and, where they are convertible, to resolve to carry out the capital increase necessary to meet the cost of the conversion, provided that increase under delegated powers does not exceed half the share capital, in accordance with the requirement of article 153.1.b) of the current Spanish Law of Corporations.

The draft resolution also contains the terms and method for conversion of the debentures or bonds into shares, in the event that the Board resolves to use the authority granted by the General Meeting to issue convertible debentures or bonds, although it delegates to the Board of Directors itself the task of finalising those conversion terms and method for each specific issue within the limits set by the General Meeting. It will therefore be the Board of Directors which determines the conversion ratio of shares issued for conversion or those used for the exchange of fixed income securities, which ratio may be fixed or variable, and shares shall be valued in accordance with one of the procedures referred to in the following paragraphs, at its discretion, depending on what the Board of Directors considers most appropriate. In any event, should the Board resolve to effect an issue of convertible and/or exchangeable debentures or bonds under the authority requested from the General Shareholders' Meeting, it shall, at the time of approving the issue, prepare a Directors' Report setting out the specific conversion terms and method applicable to the issue in question, which shall be the subject of the corresponding report by the auditor referred to in article 292 of the Spanish Law of the Corporations .

Specifically, the resolution submitted by the Board to the General Shareholders' Meeting for approval provides that, where the issue of convertible debentures or bonds takes place with a fixed conversion and/or exchange ratio, the share price for the purposes of conversion and/or exchange set by the Board of Directors may not be below the greater of (i) the arithmetical average of the closing price of the the Company's shares on the Spanish Continuous Market *(Mercado Continuo*) over a period to be set by the Board of Directors, of no greater than three months or less than fifteen days prior to the date on which the meeting of the Board of Directors is held which, under the powers hereby delegated, approves the debenture or bond issue; and (ii) the closing price of shares on the same Continuous Market the day prior to the holding of the meeting of the Board of Directors which, under those powers, approves the debentures or bonds issue. The Board believes that is it in that way given a sufficient margin of flexibility to set the share price for the purposes of conversion on the basis of market conditions and other applicable circumstances, although that price must be, at least, substantially the same as their market price when the Board resolves to issue the debentures or bonds.

Further, where the issue is carried out with a variable conversion and/or exchange ratio, the share price for the purposes of conversion and/or exchange set by the Board of Directors shall be the arithmetical average of the closing price of the the Company's shares on the Continuous Market over a period to be set by the Board of Directors, of no greater than three months or less than five days prior to the date of the conversion or exchange, and the Board shall have power to set a premium or, as the case may be, a discount, on each price per share, which may be different for each conversion or exchange date in each issue. However, should the Board set a discount on that price per share, that discount may not be more than 30% of the quoted price of the share over such period prior to the date of the conversion or exchange of the debentures or bonds into shares as is set by the Board. Here again, the Board believes this gives it sufficient room for manoeuvre to set the variable conversion ratio in accordance with market conditions and other factors which the Board must take into account, yet setting a maximum discount to ensure that the issue rate of new shares where there is conversion does not, where a discount is allowed, differ by more than 30% from the market value of the shares at the time of conversion.

In either case is it provided, as a strict minimum, that the share price for the purposes of conversion and/or exchange of bonds into or for shares may never be less than their nominal value (as required by articles 47.2 and 292.3 of the current Spanish Law of Corporation, and must be greater than their net worth at the time of the last audited annual balance sheet approved by the General Shareholders' Meeting. It is provided also that the Board of Directors shall have power to determine whether the valuation of each debenture or bond for the purposes of conversion and/or exchange ratio of debentures or bonds into or for shares includes interest accrued and not paid at the time of their conversion and/or exchange.

Further, applying by analogy article 159.2 of the current Spanish Law of the Corporations, the power to issue fixed income securities includes, where the issue gives rise to convertible debentures or bonds, power for the Board of Directors to exclude the pre-emption right of shareholders and of the holders of convertible securities where it is necessary to do so in order to raise finance on the markets or is otherwise required in the interests of the Company. In the view of the Board of Directors this additional power, which significantly extends the room for manoeuvre and the response capacity afforded by delegation merely of the power to issue convertible debentures or bonds, is justified, on the one hand, by the flexibility and speed with which it is necessary to act on today's financial markets in order to take advantage of times when market conditions are most favourable. On the other, it is justified because the measure in question may be necessary where it is intended to raise finance on the international markets. Lastly, excluding the pre-emption right allows a reduction in the financial cost of the loan and the associated costs of the operation (including, in particular, the commissions of the financial institutions participating in the issue) compared to an issue with a pre-emption right, and at the same time causes less distortion of the trading of the Company's shares during the issue period. In any event, should the Board resolve to exclude the pre-emption right in connection with any specific issue of convertible debentures or bonds it may decide to carry out under the powers requested from the General Shareholders' Meeting, it shall, when it approves the issue, produce a report setting out the specific reasons justifying that measure in the interests of the Company, which shall be subject of the corresponding report of the Auditor referred to in article 159.2 of the Spanish Law of the Corporations.

Additionally, mindful of the fact that, in certain circumstances, it may be advantageous for the raising of funds on the international markets to be carried out by a subsidiary of the Group, incorporated and resident in a jurisdiction where the company and tax legislation is more familiar to the institutional and professional investors at whom it may be decided to target any particular issue, and since in such a situation it is vital to the success of the operation that the issue launched by the subsidiary has the full support and guarantee of the Company, the Board of Directors also requests express powers from the General Shareholders' Meeting to enable it to guarantee bonds of any kind of the subsidiaries arising from issues by them, in order to raise finance for the Telefónica Group, for the same period as the power to issue bonds to which this report relates.

Lastly, it is proposed to pass the resolutions required under the provisions in force for the securities issued under these powers to be listed on any organised or over-the-counter, regulated or unregulated, national or foreign secondary market.

3. DRAFT RESOLUTIONS SUBMITTED TO THE ORDINARY GENERAL SHAREHOLDERS' MEETING FOR APPROVAL

The resolutions proposed by the Board of Directors to the General Shareholders' Meeting for approval in relation to this matter read as follows:

Under article 319 of the Rules of the Mercantile Register (Reglamento del Registro Mercantil) and the general provisions governing regarding the issue of bonds, and applying by analogy articles 153.1.b) and 159.2 of the current Spanish Law of Corporations (Ley de Sociedades Anónimas), to grant the Board of Directors power to issue fixed income securities on the following terms:

1. *Fixed income securities may be issued on one or more occasions within no more than five years from the date on which this resolution is passed.*

2. *The total amount of the issue or issues of fixed income securities it is resolved to carry out under these powers, together with the amount of other issues by the Company in circulation at the time the power is exercised, may not exceed the paid up share capital and reserves shown on the last approved balance sheet and the balance sheet regularisation and updating accounts accepted by the Finance and Treasury Ministry (Ministerio de Economía y Hacienda) referred to in article 282.1 of the Spanish Law of Corporations.*

3. *The fixed income securities issued may be simple debentures, bonds, promissory notes and other fixed income securities, and, in the case of debenture and bonds, those exchangeable for shares in the Company or in any of the Companies in its group, and/or convertible into shares of the Company.*

4. *The powers granted to issue fixed income securities shall include power to determine the various aspects and terms of each issue (nominal value, rate of issue, repayment price, currency of the issue, interest rate, redemption, anti-dilution mechanisms, subordination clauses, issue guarantees, place of issue, listing, etc.).*

5. *It is resolved to set the following principles for determining the terms and method of the conversion and/or exchange, in the case of the issue of convertible and/or exchangeable debentures or bonds:*

   a) *Normally, the conversion and/or exchange rate shall be fixed, for which purpose fixed income securities shall be valued at their nominal value and shares at such fixed price as the Board of Directors may set, or a price capable of being determined on the date or dates indicated in the Board resolution on the basis of the Stock Exchange listed price of the Company's shares on the date or dates or for the period or periods used as a reference in that resolution. The share price shall in any event not be less than the greater of (i) the arithmetical average of the closing prices of the Company's shares on the Continuous Market (Mercado Continuo) over the period set by the Board of Directors, of no more than three months or less than fifteen days, prior to the date of the meeting of the Board of Directors which, in exercise of these powers, approves the debentures or bonds issue; and (ii) the closing price of the shares on the same Continuous Market the day preceding the date of the meeting of the Board of Directors which, in exercise of these powers, approves the debentures or bonds issue.*

   b) *Notwithstanding the provisions of subparagraph a) above, the Board may resolve to issue debentures or bonds with a variable conversion* *and/or exchange ratio. In that case, the share price for the purposes of conversion and/or exchange shall be the arithmetical average of the closing prices of the Company's shares on the Continuous Market over the period set by the Board of Directors, of no more than three months or less than five days, prior to the date of the conversion and/or exchange, with a premium or, as the case may be, a discount on that price per share. The premium or discount may be different for each conversion and/or exchange date of each issue (or, where applicable, each tranche of an issue), although where a discount is set on the price per share, that discount may not be more than 30%.*

c) Under no circumstances may the nominal value of the share, adjusted on the basis of the conversion and/or exchange ratio, be less that the rate of issue of the fixed income securities.

d) Where the conversion and/or exchange takes place, any fractions of a share which would be transferable to the bondholder shall be rounded down to the immediately lower whole number, and each holder shall receive in cash any difference arising in such circumstance.

e) On approving an issue of convertible and/or exchangeable debentures or bonds, in exercise of the powers contained in this resolution, the Board of Directors shall issue a Directors' report setting out and specifying, on the basis of the principles referred to above, the criteria and procedures for the conversion specifically applicable to the issue referred to. That report shall be accompanied by the corresponding report of the Auditors referred to in article 292 of the Spanish Law of Corporations.

6. *In any event, the powers granted for the issue of convertible and/or exchangeable debentures or bonds shall include:*

   a) *Power to increase the share capital by the sum required to meet applications for conversion. That power may only be exercised where, adding the capital increased to meet the issue of convertible debentures or bonds to any other increases in capital it may have resolved under powers granted by the General Meeting, the Board does not exceed one half of the share capital figure established in article 153.1b) of the Spanish Law of Corporations.*

   b) *Power to exclude the shareholders´preemptive subscription rights and, as well as those of the holders of convertible and/or exchangeable securities where it is necessary to do so in order to raise finance on the international markets or is otherwise required in the interests of the Company. In any event, should the Board resolve to exclude the pre-emption right in connection with any specific issue of convertible debentures or bonds it may decide to carry out under these powers, it shall, on approving the issue, produce a report setting out the specific reasons justifying that measure in the interests of the Company, which shall be the subject of the corresponding report of the Auditor referred to in article 159.2 of the Spanish Law of Corporations.*

   c) *Power to determine the terms and method of the conversion and/or exchange established in paragraph 5 above and, in particular, to determine the time of the conversion and/or exchange, which may be restricted to a predetermined period, ownership of the right to conversion and/or exchange, which may be vested in the Company or the bondholders, the method of discharging liability to the bondholder (by* *conversion, exchange or a combination of both methods, which may remain at its discretion until the time of execution), and, in general, such matters and terms as are necessary or expedient for the issue.*

7. *The Board of Directors shall also have power to guarantee, on behalf of the Company, issues of fixed income securities by its subsidiaries.*

8. *The Board of Directors shall, at subsequent General Meetings held by the Company, report to the shareholders on any use made by it to that date of the powers referred to in this resolution.*

9. *The Company shall apply for debentures, bonds and other securities issued under these powers to be listed on organised or over-the-counter, regulated or unregulated, national or foreign secondary markets, granting power to the Board to perform vis-à-vis the competent bodies of the various national and foreign securities markets the procedures and formalities required for admission.*

   For the purposes of article 27 of the Stock Exchange Rules (Reglamento de Bolsas de Comercio), it is expressly acknowledged that, in the event of a subsequent application to exclude the securities issued under these powers from listing, such exclusion shall be resolved in compliance with the formalities referred to in that article and, in such a case, the interests of any dissenting or abstaining shareholders or bondholders shall be protected, in compliance with the requirements of the Spanish Law of Corporations and consistent provisions, in accordance with the aforementioned Stock Exchange Rules and the Spanish Stock Market Law (Ley del Mercado de Valores) and its implementing provisions.

The Board of Directors is granted power to delegate the powers referred to in this resolution, in turn, to the Management Committee (under the second paragraph of article 141.1 of the Spanish Law of Corporations).

The powers to issue non-convertible fixed income securities granted by the General Shareholders' Meeting of the Company at its meeting of 26 March 1999 is revoked.