

Shareholders and investors: profitability and transparency

Contents

Letter from the chairman	4
Telefónica, driving progress for all	6
00 Telefónica in 2005	8
01 Corporate Governance	20
02 Identity	32
03 Driving progress	66
04 Customers	104
<hr/>	
05 Shareholders	168
Profitability	170
Transparency	172
General Shareholders' Meeting	174
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06 Employees	178
07 Society	226
08 The Environment	252
09 Providers	292
10 Media	304
11 ANNEX I	310



According to information obtained on April 3, 2006 from the Spanish Securities Registration, Clearing and Settlement System, S.A.U. (Iberclear), Telefónica has 1,570,039 shareholders.

CASE STUDY

80 years of Telefónica in the Stock Exchange: 1925-2005

In 2005, Telefónica completed 80 years presence on the Madrid Stock Exchange. The Compañía Telefónica Nacional de España (CTNE) was set up as a limited company on April 19, 1924, with an equity of one million pesetas. The following year, on March 31, 1925, it was launched on the Stock Exchange.

Telefónica was the first Spanish company to quote on the principal world exchanges (Paris, Frankfurt, London and Tokyo). This happened in 1985, before the business became internationalised some years later with its entry into Latin America. In 1987, the security was also incorporated into the New York Stock Exchange.

Between 1995 and 1997, through a series of IPOs, all the shares of the company remaining in the hands of the Owners were completely privatised. Telefónica is currently quoted on the Continuous Market of the Spanish Exchanges (Madrid, Barcelona, Bilbao and Valencia) and in the Exchanges of London, Paris, Frankfurt, Tokyo, New York, Lima, Buenos Aires, São Paulo and the IRS of the London Stock Exchange.

Profitability

Progress has continued in 2005 and the Company is situated as one of the most attractive in the sector, and stronger since the purchase of O2. A dividend was paid in 2005 corresponding to financial year 2004 of 0.5€/share, own shares of Telefónica S.A. representing 4% of equity have been distributed in the proportion 1x25, and the share buyback programme has continued.

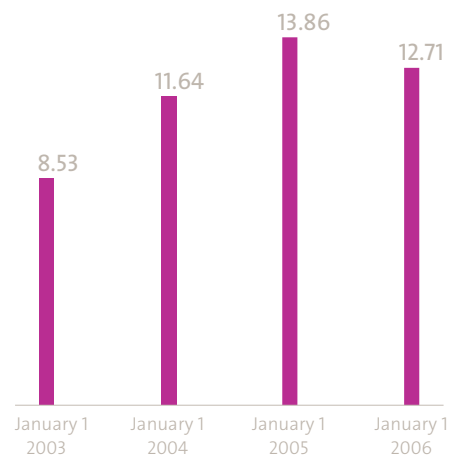
The increase in the dividend in 2005 – showing Telefónica as one of the most attractive securities in the telecommunications market in this regard – and despite the negative trend seen in the stock market in 2005, that affected the whole telecommunications sector, implies a total accumulated profitability of almost 76% for a shareholder who invested in Telefónica on January 1, 2003.

An investment in 100 shares in January 2003 at 8.53 euros involved an investment of 853 euros which, at December 31, 2005, would be 1,372.7 euros as a result of the increase in the market price, with a cash dividend received in the past three years of 129 euros.

A shareholder purchasing 100 shares on January 1, 2005, would have obtained a profit of -0.94% in financial year 2005.

Evolution of the listed value of Telefónica shares

Data in euros



Profitability per share 2003–2005

	Nº shares	Net amount euros
Value of 100 shares as at January 1 2003	100	853.0
2 Increases in capital issued 1x50 in 2003	104	-
2 Cash dividends 2003 (0.13€ July, 0.12€ Oct.)	104	26.0
Dividend in kind (1 A3 share for each 295.6 TEF shares) ¹	104	8.87
2 Cash dividends 2004 (0.20€ May, 0.20 € Nov.)	104	41.60
Cash dividend 2005 (0,23€ May)	104	23.92
Increase in capital issued 1x25 in June 2005	108	-
Cash dividendo 2005 (0.27 € November 2005)	108	29.16
Cast dividend (total) during 2003 – 2005	108	129.55
Value of 108 shares as at January 1, 2006	108	1,372.68
Profitability		76.11%

¹(0.35 A3 shares sold at 25,2 € equivalent to value set in the settlement of the fractions)

Profitability per share 2005

	Nº shares	Net amount euros
Value of 100 shares as at January 1 2005	100	1.386
Cash dividend (May 13)	100	23
Dividend in kind (June 20) per share (1x25 shares)	104	
Cash dividend (November 11)	104	28.08
Value of 104 shares as at January 1, 2006	104	1,321.8
Total portfolio value for 104 shares		1,372.9
Profitability		-0.94 %

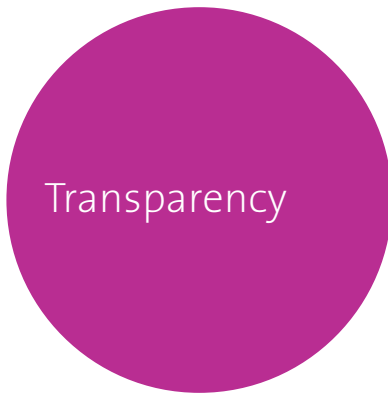
CASE STUDY

Telefónica in the DJ Global Titans 50 and “The Global Spanish Entrepreneur” Prize

The Spain-US Chamber of Commerce gave the president of Telefónica, César Alierta, “The Global Spanish Entrepreneur” Prize in recognition to the Telefónica Group for its recent entry in the Dow Jones Global Titans 50 stock chart in New York. Telefónica is the first Spanish and one of the few European companies to form part of this important index of the 50 largest firms in the world.

As well as this recognition, César Alierta, accompanied by the president of the New York Stock Exchange, Marsh Carter, opened the New York Exchange trading session with the famous “Opening Bell”.





Transparency

Shareholders

Toll-free shareholder
information line number
Helpline

900 111 004

Transparency

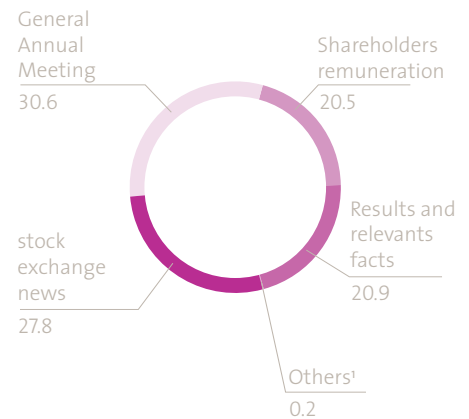
The Regulations of Telefónica's Board of Directors devote several articles to regulating the channels through which relations are established between the Company and its shareholders, whether individual shareholders or institutional investors, and ensures that these relations are conducted with the maximum transparency and equity.

In 1997, Telefónica set up its Shareholder Attention Service with a view to establishing transparent and fluid communication with individual shareholders. Currently a total of 194,784 shareholders are registered in this service, and receive all the Telefónica Group information, results and any other Company news that may be important for their investment.

In order to give personalised attention to institutional investors, Telefónica has an Investor Relations Area, to maintain constant communication with national and international financial markets. Its main function is to explain the main organisational, operating and business strategies of the Company, helping to form expectations about its future performance, and thus to set suitable prices for the securities issued by the Company.

Breakdown of queries made via shareholders' helpline 2005

Data in percentages



¹Includes Bonds and promissory notes

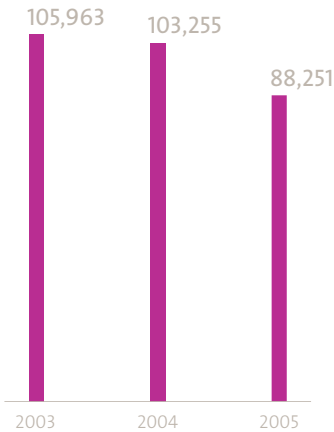
Shareholders' and investors' Website

The number of visits to the website of Shareholders and Investors rose to 1,182,729, an estimated increase of 150% compared to the previous year's figure.

The Shareholders' and Investors' website includes specific spaces on:

- Dividends, results and communications to the markets, relevant facts or General Annual Meetings, among others.
- Equity data, ratings, debt profile and corporate presentations to the investment community.
- Consulting and downloading documents, including the Annual Reports, the Regulations of the General Shareholders Meeting and of the Board Directors, Company By-laws and the Official Company Information Registers.
- The Stock Exchange section features the online share prices of the Group, and allows users to generate interactive graphics, compare share prices with those of other sector companies, calculate the profitability of Telefónica in any given period chosen by the user, and compare it with the main indices.
- The Shareholders' Corner offers small investors a personalised interactive area to make queries and receive specific information, a configurable ticker and an alerts service with important Company information.
- Online audio and video webcasts of conference calls and significant statements by the Company's Senior Managers top Company executives.

Queries handled by shareholder helplines



Shareholder Information Line Helpline

Telefónica has a free Shareholder Helpline that answered 88,251 queries in 2005. As well as the calls to this service, it also attended 3,139 email and/or postal queries.

Annual Report

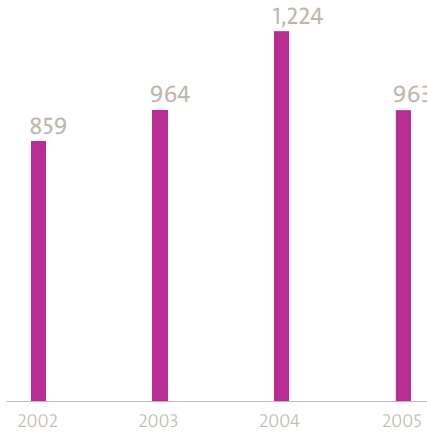
The main tool means of communication with analysts and investors is the Annual Report, and its 2005 edition received more than 20,000 queries through the web and 300,000 file downloads, as well as its print edition of more than 18,000 copies. All the annual reports published by Telefónica, since its foundation in 1924, are available on its website.

“Acción Telefónica” magazine

The physical means of periodically communicating with registered shareholders is the quarterly Telefónica shareholders’ magazine, called “Acción Telefónica”, and in 2005, 165,000 copies were sent quarterly to their homes.

Information downloaded by Telefónica investors

Thousands of downloads



Other channels of communication with analysts and investors

A high level of activity was maintained in 2005 with institutional investors and financial analysts; through presentations in forums, meetings and conference calls, the organisation of roadshows in the main financial centres and the convening of the Fifth Investors' Conference, held in May 2006.

There were also important Company presentations made to minority shareholders in the 2005 Bolsalia Forum in Madrid (Salón de la Bolsa y Otros Mercados Financieros) and in Borsadiner (Barcelona).

CASO PRÁCTICO

The Website for shareholders and investors and of the Telefónica Annual Report, awarded as the best in Spain.

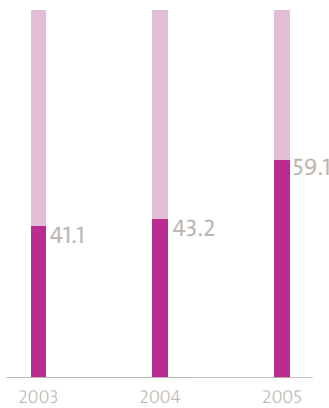
The 2005 edition of the World Awards for Investor Relations websites and Annual Reports Online (known as the MZ Awards) gave first and second prize in Spain, respectively, to the Internet pages for Shareholders and Investors of Telefónica S.A. and of Telefónica Móviles S.A. and that for Best Annual Report Online in Spain to the latest online report of Telefónica.

The awards judged such factors as content, design, technology, interactivity, timeliness and flexibility. The online pages of Telefónica were considered not only the best in Spain, but also better than the world average in the telecommunications sector in most of the criteria.

General Shareholders' Meeting

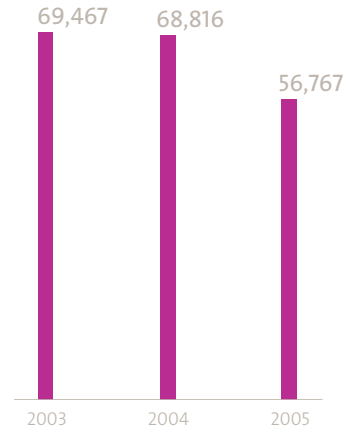
Quorum at the General Shareholders' Meeting

Data in percentages



Proxy voting requests channelled by the Shareholders Office for the General Shareholders' Meeting

Data in units



CASO PRÁCTICO

Quarterly presentation results and Business evolution

The Investor Relations area is in charge of designing and running the communications strategy for national and international financial markets. This includes particularly the quarterly publication of Telefónica's financial statements which, to meet transparency and equity requirements, uses various distribution channels: website, the CNMV register, publication in Acción magazine and quarterly conference calls to present the results.

Attendees at quarterly results presentations

	Conference Call	Webcast
1Q05	130	137
2Q05	99	101
3Q05	116	153
4Q05	144	282

General Shareholders' Meeting

The By-laws of Telefónica's General Shareholders' Meeting aim to offer the shareholders a framework which will ensure and facilitate the exercise of their rights in relation to the governing board of the Company, paying particular attention to the shareholders' right to information and to participation in the discussions and votes, aiming to make the call and the proposals presented for agreement to the General Meeting as widely known as possible.

The 2005 General Shareholders' Meeting was held on May 31, and the quorum of attendance was 59.163% of the equity. The shareholders are supported by the Shareholders' Office in all issues related to the Shareholders' General Meeting. In the 2005 meeting, the shareholders' office handled 56,767 proxy voting requests.

According to the provisions of the By-laws of the Company General Meeting, those shareholders may attend the General Meeting who own at least a number of shares representing a minimum nominal value of 300 euros. Every share present or represented in the General Meeting has the right to one vote, unless they are non-voting shares, as stipulated by the Law. On the other hand, no shareholder can exercise a number of votes above 10% of the equity with voting rights at any time, regardless of the number of votes they may possess.

Apart from those required by current applicable legislation, among the specific measures included in the Meeting By-laws in order to ease shareholder attendance and participation in the Meeting, are the following:

- Everything that the Company considers useful for these purposes, in addition to the legally required documents and information, is placed on the Company website, from the date of announcing the call. The shareholders can obtain this documentation and information directly from the website, or can request it to be sent to them free of charge, through the mechanisms set up on the site related to the Meeting.
- The shareholders can make suggestions. At any moment, and after showing their identity as shareholders, they can make suggestions about the organization, running and competency of the General Shareholders' Meeting, through the Shareholder Helpline. Shareholders can also request any kind of information, documentation or clarification that they may need about the General Meeting, either through the Company website, or through the Shareholder Helpline.

The General Shareholders' Meeting is an opportunity for those shareholders who wish, to be able to present their queries to the Company Administrators, This is confirmed by the 24, interventions raised by of shareholders in the General Meeting held in 2005.

At the same time, Telefónica puts all its communication channels at the service of its shareholders so that they can make queries about the Meeting. In financial year 2005, 25,293 queries were dealt with concerning the General Shareholders Meeting on the free shareholder help-line. Both enquiries made by private shareholders and opinions of the analysts and institutional investors, are analysed qualitatively and quantitatively in order to keep the management of the Company informed about the concerns and opinions of its investors.

CASE STUDY

Leaflets registered by Telefónica in financial year 2005

The Company has provided information through the various information leaflets it has published, either annually, which offer complete and exhaustive information about the Company, or as abbreviated ones, that were registered with security market regulatory bodies when specific operations have taken place.

Complying with the provisions in the legislation, Telefónica keeps each and every regulatory body in which its securities are traded aware of the specific information about any important event related to its business. During financial year 2005, a total of 51 significant events have been registered with the CNMV.

Leaflet	Body	Date
Annual Information Leaflet in 20F Format	Securities Exchange Commission (USA)	15.04.2005
Annual Information leaflet S.R.S	Japan Securities and Clearing Corporation Tokyo Stock Exchange	29.06.2005
Annual Information Leaflet IAN	Comissão de Valores Mobiliarios (Brazil)	12.07.2005
Registry Document about financial year 2004	Comisión Nacional del Mercado de Valores (Spain)	22.12.2005
Abbreviated information leaflet on Telefónica's Programme of Company Promissory Notes	Comisión Nacional del Mercado de Valores (Spain)	12.01.2006

Credits

Departments that collaborated in the preparation of the report

Capítulo	Áreas implicadas
01 Corporate Governance	Secretariat General / Internal Auditing Department
02 Identity	Communication (Brand, Reputation and CSR) / Human Resources Office / Sponsorship / Internal Auditing Department
03 Driving Force for Progress	Finance (Consolidation, Management Control), Tax, Regulatory Affairs, Innovation, Telefónica I+D, Institutional Relations, Information Systems, Investor Relations
04 Customers	Corporate Marketing Development / Quality, marketing and customer service departments of the main business lines (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica) / Secretariat General / Communication / Security
05 Shareholders	Shareholders' Office / Investor Relations / Secretariat General
06 Employees	Corporate Human Resources / Human Resources Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica, TPI, Terra, Atento, T-Gestiona) / Communication / Health and Safety / Fundación Telefónica / ATAM / Fonditel
07 Society	Main lines of business (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles) / Institutional Relations / Management Control / Regulatory Affairs / Reputation and Corporate Social Responsibility / Fundación Telefónica / ATAM / Sponsorship
08 Environment	Internal Auditing / Reputation and Corporate Social Responsibility / Environmental Departments of the main lines of business (Telefónica de España, Telefónica Móviles, Telefónica Latinoamérica)
09 Suppliers	Purchasing / Internal Auditing / Reputation and Corporate Responsibility
10 Media	Communication
Annex 1: About the Report	Reputation and Corporate Responsibility
Annex 2: Verification Report	Ernst&Young. Report
Coordination	Reputation, Brand and Corporate Social Responsibility (G.D. of Communication)

