



# 02

## Information for shareholders

*Telefónica*

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### SHAREHOLDER REMUNERATION IN 2004

The Telefónica Group provided a solid combination of growth, efficiency and profitability during 2004, leading to significant growth in the main items of the profit and loss account. All of this has led to progress in the shareholder remuneration policy, which is one of the most attractive and with greatest long-term commitment in the sector. It is important to remember that Telefónica took a decisive step in the 2003 financial year to strengthen the shareholder remuneration policy, establishing an explicit, long-term agreement consisting of one minimum payment of 0.40 euros per share for each year from 2003 to 2006 and a share buy-back program for a minimum of 4 billion euros during the same period (\*). Hence, in compliance with this shareholder remuneration program in 2004, Telefónica paid a 0.4 euro dividend per share, while accelerating the share buy-back program started the previous year. As of February 15th 2005, 67% of this program had already been completed, treasury stock representing 4.966% of the share capital.

The Telefónica Group continued its policy of increasing shareholder remuneration during the 2004 financial year. Along these lines, the measures taken and approved by the last Ordinary General Shareholders' Meeting on April 30th 2004 were:

- The payment of a cash dividend charged against the profits of 2003 for the set sum of 0.20 euros per share. This dividend was paid on May 14th 2004.
- The payment of a cash dividend charged against Paid-in Capital Reserve for the set sum of 0.20 euros per share. This dividend was paid on November 12th 2004.

*\* On april 26th, Telefónica communicates its decision to execute a renewed and extended 6 billion euros share buyback program until 2007. This 6 billion euros includes the pending execution of the 2003-2006 Program.*

The Company has also agreed to submit to the General Shareholders' Meeting to be held in 2005 a proposal for a resolution to distribute share capital already in treasury stock in the proportion of one share for every twenty-five (1x25), hence shareholder remuneration is to continue to increase during 2005.

Lastly, and also in keeping with the aforementioned shareholder remuneration program, and thanks to the positive performance of cash flow generation, Telefónica agreed to pay a dividend of 0.5 euros per share, representing an increase of 25%. For this purpose, the Board of Directors has resolved to pay an interim cash dividend from 2004 profits in a set sum of 0.23 euros per share, and also intends to propose to the next General Shareholders' Meeting the payment of a cash dividend of 0.27 euros per share from the Paid-in Capital Reserve.

The Board of Directors intends to maintain the minimum dividend of 0.5 euros per share for 2006 (payable from 2005 earnings).

### TELEFÓNICA ON THE STOCK EXCHANGE

For the second year running, international equity markets have ended the year with positive results, in most cases above or close to 10% reaching the highest levels since July 2001. This good performance was basically fuelled by solid economic growth, with the US and China providing the greatest contribution, and the two-digit growth in corporate earnings results.

Stock exchange performance can be divided into three stages for 2004:

1. The first two months recorded a growth tendency promoted by good macroeconomic and earnings forecasts, in line with the trend of 2003.
2. March gave way to a bear market, with investors collecting profits following the



terrorist attacks in Madrid, the strong rise in oil prices and the start of rising interest rates in the US, which led indexes to record annual minimums by mid-August.

- From that moment on, despite the high market prices of oil and the depreciation of the dollar, markets bounced back to record strong growth thanks to third-quarter corporate earnings results, Bush's victory in the presidential elections and the liquidity accumulated among investors.

Oil prices were one of the factors to influence the markets the most during 2004, having recorded maximum historic levels of over 51 dollars per barrel of Brent, with regards to Europe, and 55 dollars per barrel of West Texas Intermediate, with regards to the US. This increase in crude oil prices is basically attributable to the increase in demand, geopolitical tension in Iraq and the Middle East and the crisis of the Russian oil company Yukos, together with the activity of speculative funds.

The performance of the dollar must also be mentioned, which ended the year at a historic low against the European single currency (1.3554 dollars per euro). Depreciation of the dollar in 2004 amounted to 8.5% in relation to the euro, due to the current account deficit, the public deficit and the exchange rate interventionist policy of Asian countries, among other factors.

This year special mention must be made of the strong revaluations obtained by emerging markets, notably Latin America (Merval in Argentina +28.3%, Bovespa in Brazil +17.8%, IGPA in Chile +22.2% and IGRA in Lima +52.4%), thanks to the better performance of macroeconomic indicators, the reactivation of foreign investment, greater demand for raw materials and an environment of low interest rates.

In Europe, the Ibex-35 recorded the best relative performance in 2004, recording a 17.4%

reevaluation in comparison with the 7% increases of the comparable FTSE-100, CAC-40, Dax and Eurostoxx-50 indexes, thanks to greater economic growth than the European average and the stabilizing of Latin America due to the exposure of the main Spanish companies in the region.

In line with market performance, the European telecommunications sector ended the year with a revaluation of 11.9%. The operator companies recorded positive progress supported by financial discipline (reduction in the level of debt and the stabilizing of balance sheets), the materialization of shareholder remuneration policies (dividends and buy-backs), the stabilizing of the economic-financial results as of the second half of the year, the combination of growth and returns and by the lower flow of paper than expected. Among the companies comparable to Telefónica, Telecom Italia recorded the best relative performance in 2004 with a positive result of 28.1%, followed by Deutsche Telekom (+14.8%), KPN (+14.2%), Portugal Telecom (+14.0%), BT (+7.8%) and France Telecom (+7.5%).

Telefónica shares were revalued by 19.1% in 2004 to end the year at a market price of €13.86/share. This progress can basically be attributed to the following: a good combination of growth and return, solid progress of operations, attractive shareholder remuneration policy, the good performance of Latin America, the solid financial position, strong foundations and the favorable opinion of the main investment banks.

Telefónica's average daily trading volume was 41.4 million shares, up on the 36.8 million shares traded in 2003. The company's market capitalization by the end of the year amounted to 68,689 million euros (93,097 million dollars).

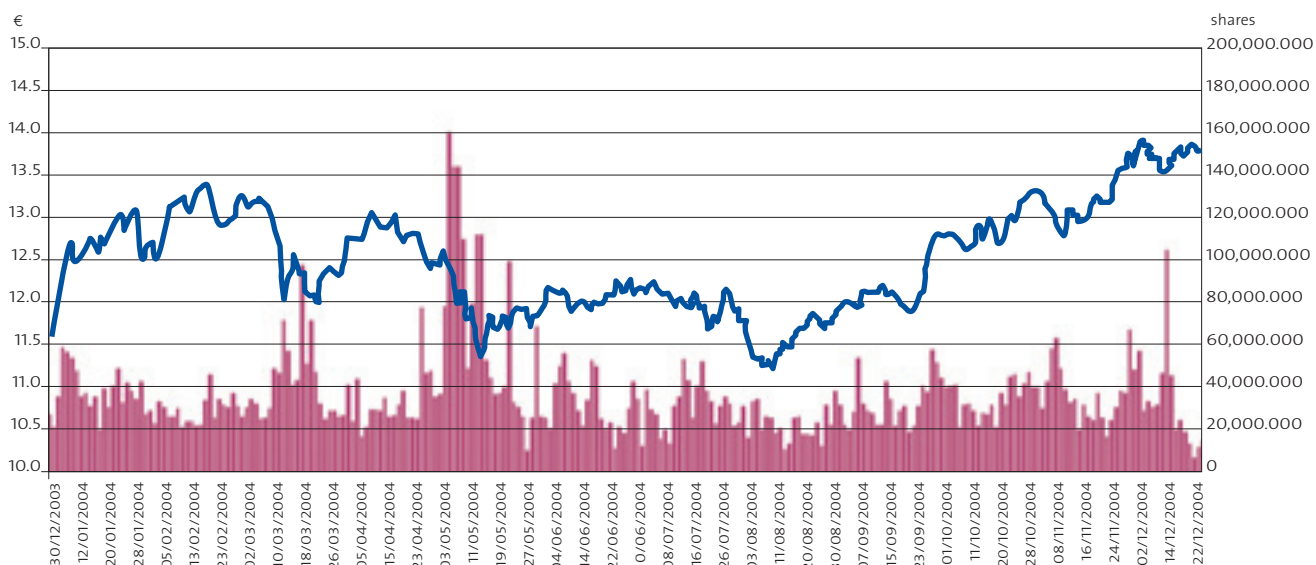
**STOCK EXCHANGES WHERE TELEFÓNICA SHARES ARE TRADED**

Telefónica shares trade on the following stock exchanges:

- Spanish computerized trading system (within the selective Ibex 35 index) and Four Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia)
- London Stock Exchange
- Paris Euronext
- 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 (SEAQ International)

**PRICE/VOLUME**



**PORTFOLIO OF 100 SHARES AT JANUARY 1ST 2004**

	per share	100 shares
Acquisition	11.64	1,164.00
Cash dividend May 14th	0.20	20.00
Cash dividend November 12th	0.20	20.00
Share value at January 1st 2005	13.80	1,386.00
Total return on portfolio		1,426.00
<b>% profitability</b>		<b>22.51%</b>

**STOCK PERFORMANCE IN 2004**



## RETURNS FOR SHAREHOLDERS

The significant increase in dividends during 2004 which made Telefónica one of the most attractive shares on the telecommunications market in this sense, coupled with stock exchange progress throughout the year, have led to total return of 22.51% for shareholders who invested in Telefónica on January 1st 2004. Hence, investing in 100 shares at the start of the year would have resulted in a payment of 1,164 euros, which would have risen to 1,386 euros by December 31st 2004, due to the increase in market prices, as well as the extra 40 euros in dividends. Table 1 shows the return of these one hundred shares.

## COMPANY SHARE CAPITAL

The latest share capital modification arose as a result of the reduction in treasury stock with the amortization of shareholder equity (- 101,140.640 euros), placing corporate share

capital at 4,955,891,361 euros by the end of 2003, which was maintained throughout 2004.

## NUMBER OF SHAREHOLDERS

According to the information obtained from “Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores” (Securities, Recording, Clearing and Settlement Systems Management Company) (Iberclear) dated 1<sup>st</sup> april, 2005, the number of shareholders in Telefónica, according to separate records in favor of individuals and corporations, amounted to 1,517,090 shareholders.

## SIGNIFICANT SHAREHOLDINGS

Telefónica shares are recorded by the book entry system and therefore the Company does not keep a shareholders’ registry, which makes it difficult to know the exact ownership structure. However, the following shareholders hold title to significant shareholdings (pursuant to Ministerial Order 3722/2003, of 26 December):

Total	Direct shareholding		Indirect shareholding			
	Percentage	Shares	Percentage	Shares	Percentage	Shares
BBVA	5.731%	284,024,849	1.79%	89,027,259	3.93%	194,997,590
“La Caixa”	5.377%	266,476,222	1.86%	92,380,486	3.51%	174,095,736

## SHARES HELD BY MEMBERS OF THE BOARD OF DIRECTORS

According to data in the possession of the Company, The total number of Telefónica S.A. shares held individually, either directly or indirectly, by the current company Directors stands at 898,378 shares (0.018 % of the company’s share capital).

Name	Direct Shareholding	Indirect Shareholding	Number of shares held
Mr. César Alierta Izuel	632,012	—	632,012
Mr. Isidro Fainé Casas (1)	7,164	—	7,164
Mr. José Antonio Fernández Rivero (2)	115	—	115
Mr. Fernando de Almansa Moreno-Barreda	2,112	—	2,112
Mr. Jesús María Cadenato Matía (2)	9,906	—	9,906
Mr. Maximino Carpio García	5,836	—	5,836
Mr. Carlos Colomer Casellas	543	—	543
Mr. Alfonso Ferrari Herrero	1,811	99,500(4)	101,311
Mr. José Fonollosa García (2)	—	—	—
Mr. Gonzalo Hinojosa Fernández de Angulo	37,958	—	37,958
Mr. Miguel Horta e Costa	354	—	354
Mr. Pablo Isla Alvarez de Tejera	386	—	386
Mr. Luis Lada Díaz	30,000	—	30,000
Mr. Antonio Massanell Lavilla (1)	2,106	642 (3)	2,748
Mr. Enrique Used Aznar	19,450	17,988 (4)	37,438
Mr. Mario E. Vázquez	10	—	10
Mr. Antonio Viana-Baptista	21,994	—	21,994
Mr. Gregorio Villalabeitia Galarraga (2)	53	—	53
Mr. Antonio Alonso Ureba	8,438	—	8,438
<b>TOTAL</b>	<b>780,248</b>	<b>118,130</b>	<b>898,378</b>

(1) Appointed on proposal from La Caixa.

(2) Appointed on proposal from BBVA.

(3) Shareholding held through first-degree kinship.

(4) Shareholding held through one 60% controlled company and one fully controlled company.