

04

Information for shareholders

THE REMUNERATION POLICY FOR SHAREHOLDERS OF TELEFÓNICA IS ONE OF THE MOST AMBITIOUS IN THE EUROPEAN TELECOMMUNICATIONS SECTOR



The results attained by the Telefónica Group this financial year and its gradual quarterly improvement has enabled the Company to carry out a very active shareholder remuneration policy, as well as undertaking a commitment reaching up to the year 2006. Telefónica's shareholder remuneration policy has therefore become one of the most ambitious in the European telecommunications sector.

SHAREHOLDERS REMUNERATION IN 2003

In 2003, remunerations to shareholders consisted of the following actions:

- Execution of two share capital increases through bonus share issues, charged to unrestricted reserves, assigned in the proportion of one free share for every 50 (1 x 50) shares held. The first of these was carried out on January 28, 2003 (97,213,225 share issued) and the second on March 11, 2003 (99,157,490 shares issued). These bonus share issues were approved by the General Shareholders Meeting held on April 12, 2002.
- Reduction of the company share capital through the redemption of own shares held as treasury stock (101,140,640 shares), charged to reserves and effective on June 18, 2003.
- Payment of a cash dividend of 0.25 € per share through the distribution of an extraordinary paid-in capital reserve, in two stages (0.13€/share on July 3 and 0.12€/share on October 15, 2003).
- Payment of an extraordinary in-kind dividend of the paid-in capital reserve consisting of 1 share in Antena 3 for every 295.6 shares in Telefónica, on October 21, 2003.

REMUNERATION COMMITMENTS FOR THE 2003 - 2006 PERIOD

At the same time, Telefónica took a decisive step in strengthening its shareholder remuneration policy by undertaking an explicit, long-term commitment to be implemented through two basic mechanisms:

- firstly, a return to the payment of cash dividends as a means of direct remuneration, replacing the share capital increases through bonus share issues executed since 1998.
- and secondly, depending on the share listing, the buyback of own shares as an alternative and selective means to reward shareholders.

Thus, the Company intends to pay out a minimum of 0.40 euros per share per year and undertake a buyback of shares for a minimum of 4,000 million euros in the 2003 - 2006 period.

TELEFÓNICA STOCK

The stock markets closed the 2003 fiscal year with favourable earnings after three consecutive years of losses that began with the so-called "bursting of the technological bubble". Telefónica (+43.2%) showed gains on all the major indexes, not only on the American S&P 500 (+26.4%), but also on the European EuroStoxx 50, (+15.7%), and on sector indexes such as DJ Telco (+19.0%).

Despite the economic recovery of the past year, the international stock exchanges reached their lowest levels in recent years during the month of March, shortly before the beginning of the war in Iraq. From that moment on, the positions taken by investors caused an upward trend that continued until the end of the year.

The primary factors that marked the trends in 2003 were:

1. Confirmation of economic recovery in the USA, which has been the engine behind global



growth. Macroeconomic indicators continued to be favourable in the second half of the year and consumer confidence increased monthly.

2. The reduction of interest rates both in the USA and Europe, to 1 and 2% respectively, had a positive impact on variable yields by lowering the cost of capital and encouraging investment.
3. The growth in company profits, which surpassed the expectations of analysts, justified the current valuation of the stock markets to a large degree.
4. The countries in Latin America recovered stability throughout the year. All the economic and social indicators in Argentina showed improvement with respect to the previous year. Brazil was able to meet the economic obligations undertaken by its new Government and the country's risk rating fell to its lowest level in the last five years. This situation was reflected in gains on the region's stock exchanges; both the Merval index in Argentina and the Bovespa index in Brazil rose nearly 100% during this period.
5. The dollar depreciated with respect to the major international currencies, with a particularly notable fall in its value against the euro. Greater interventionism by the central Asian banks, particularly the Japanese, slowed the appreciation of the yen against the dollar to a large extent.

In this context and after a first quarter dominated by uncertainty, the markets closed the year with significant revaluations. The MSCI International equity index registered an increase of 30.8% based on the excellent performance of emerging markets. The foremost international stock exchanges obtained gains of 26.4% on the American S&P 500, 37.1% on the German DAX (the most accurate European indicator), and 15.7% on the EUROSTOXX 50. The Spanish IBEX 35 closed the year with an increase of 28.2%. By countries, perhaps the most outstanding results were the

gains of approximately 100% on the Merval in Argentina and the Brazilian Bovespa; by sectors, the excellent performance of technology was reflected in the annual gains on Nasdaq (+50.0%).

In line with the rest of the market, the telecommunications sector (+19.0%) showed an upward trend in 2003. The relative strength line of the main securities in the sector was determined by the market perception of the reorganisation processes initiated in the previous year. The positive results of such processes were reflected by a generalised improvement in the credit ratings of the majority of the companies in the sector. After cost cutting and upgrading efficiency, the greatest concern of analysts has now become the use of the cash flow generated, earmarked to a large extent for reducing the high degree of immobility and increasing shareholders remuneration in those companies where this is possible. The remaining key indicators in the sector for this period were: pressure on income from traditional fixed telephone service, compensated to a large degree by the favourable performance of broadband services; the delay in launching third generation mobile telephone services, although excellent progress was made in this respect; growth of the cellular client base, primarily in the emerging markets (Latin America and Asia); and a more positive perception by the chief investment banks toward the sector, which continues to be among those preferred in model portfolios for 2004.

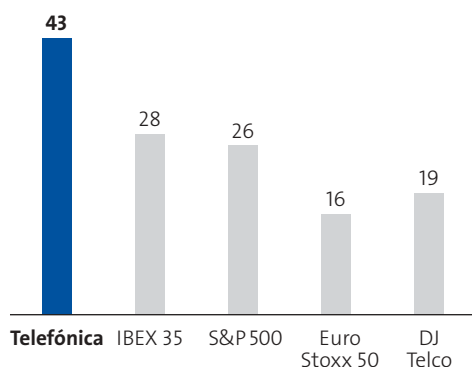
The performance of the companies in the sector was favourable, particularly for those that had poorer results in the previous fiscal year. France Telecom and Telefónica showed clear progress far beyond that of other comparable companies. The former rose 56.9% in 2003, after revamping its management team and stabilising its financial situation, while Telefónica grew 43.2%. The remaining incumbent companies also showed gains (Deutsche Telekom +18.5%, Telecom Italia +14.3% and Portugal Telecom +21.8%), with the exception of BT and KPN (-3.5% and -1.3%

respectively), which had undertaken a significant part of their reorganisation the previous year.

With respect to stock-exchange performance in 2003, Telefónica shares closed with a listing of 11.64 euros as compared to 8.128€ (adjusted to reflect the two share capital increases) in 2002. This favourable performance was due largely to Telefonica's unique profile among the comparable companies, which combines the prospect of growth in earnings, efficient operations, strong cash flow generation and high returns to shareholders. In addition, other factors worthy of note were: 1) the economic, political and social recovery in Latin America, 2) the favourable performance of the domestic market, both in fixed and mobile telephony, 3) a solid financial position, 4) the efficient reorganisation of non-profitable businesses, and 5) the positive perception of the majority of market analysis firms. With regards to returns for shareholders, the company has undertaken a commitment to pay a minimum of 0.40 euros per share per year in the next three years and to conduct a share buyback for a minimum value of 4.000 million euros in the 2003 - 2006 period. The revaluation of Telefónica shares in 2003 was supplemented by the Company's commitment to shareholder remuneration.

STOCK MARKET REVALUATION 2003 TELEFÓNICA AND MARKET INDEXES

(Percentage)



STOCK MARKET CAPITALISATION OF TELECOMMUNICATIONS COMPANIES

(Millions of dollars)

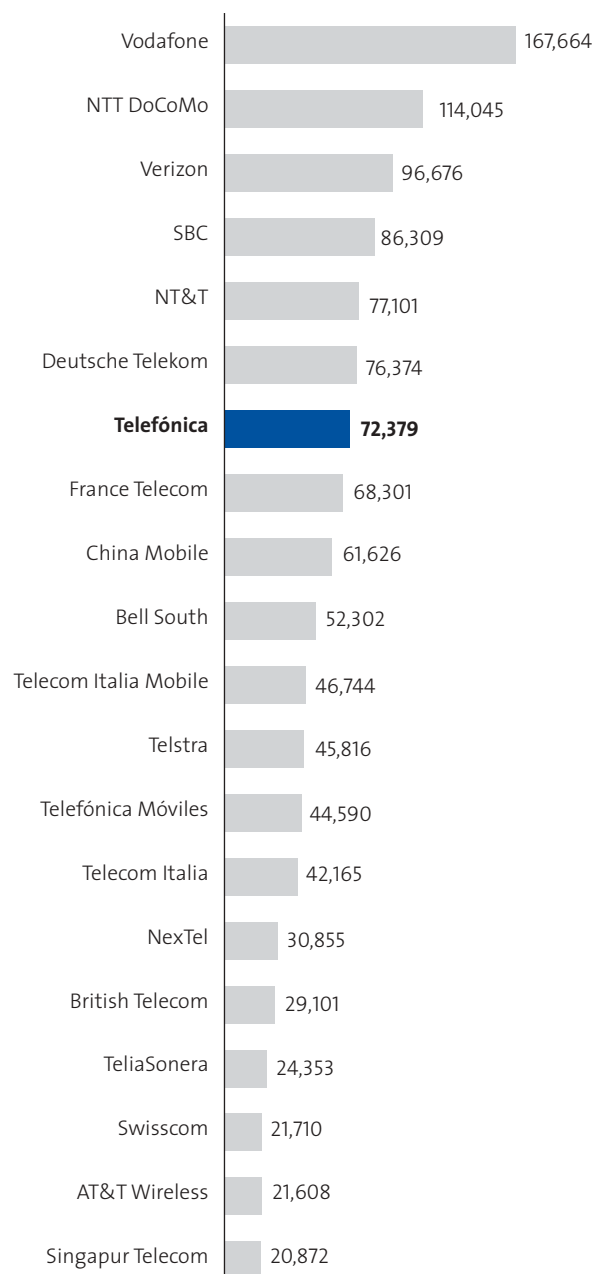


TABLE 1

Share Portfolio			Re turn on Portfolio	
Date	Reason	No. shares acquired	No. shares in portfolio	Net Amount
01/01/03	Acquisition of 100 shares at 8.53€ *	100	100	—
28/01/03	Capital increase due to bonus share issue 1x50	2	102	—
11/03/03	Capital increase due to bonus share issue 1x50	2	104	0.34€ (assuming the sale of 2 rights at 0.17€ **)
03/07/03	Cash dividend of 0.13€/share	—	104	13.52€
15/10/03	Cash dividend of 0.12€/share	—	104	12.48€
21/10/03	In-kind distribution of 1 A3 share for every 295.6 TEF shares	—	104	8.87€ (0.35 shares of A3 sold at 25.2€, the amount established for the settlement of fractions)
31/12/03			104	35.21€
	Portfolio Value 01/01/03			853€ (100 shares at 8.53€ *)
	Portfolio Value 31/12/03			1,210.56€ (104 shares at 11.64€)
	Total return on portfolio			35.21€
	Total value to the shareholder at 31/12/03			1,245.77€
	Profitability 2003			46%

(*) Listing not adjusted by bonus share issues or redemption of treasury stock

(**) Average price of the right to free subscription on the stock exchange

(***) Final listing date of subscription rights

PROFITABILITY FOR SHAREHOLDERS

The combination of active shareholder remuneration and the favourable performance of the shares on the stock exchange during the 2003 fiscal year benefited the company shareholders, who obtained 46% profitability on their Telefónica holdings in the period from January-December 2003. A shareholder investing 853 € in Telefónica shares on January 1, 2003 would find that his/her portfolio was valued at 1.211€ (+42%) on December 31 of that same year and would have received a further 35€, primarily in dividends (+4%).

Table 1 details the profitability obtained by 100 shares of Telefonica acquired on January 1, 2003 and held for twelve months:

EVOLUTION OF THE COMPANY SHARE CAPITAL

At the end of the fiscal year 2003, Telefónica's share capital stood at 4,955,891,361 euros,

comprised of an equal number of ordinary shares in a single series, with a par value of one (1) euro each, fully paid-up.

During 2003 there were two capital increases due to bonus share issues, as approved by the General Shareholders Meeting of April 12, 2002 and a share capital reduction through the redemption of own shares, likewise approved by the General Shareholders Meeting of 11 April 2003.

The latest modifications to share capital executed by the Company in the past three years are shown in table 2.

Number of Company Shareholders:

According to information obtained on March 3, 2004 from the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), the specific share registry records for both private individuals and legal entities showed a current total of 1,663,780 shareholders in Telefónica.

TABLE 2

Date	Modifications in Share Capital	No. Shares after Modification
June-03	Reduction of Share Capital through the redemption of 101,140,640 own shares.	4,955,891,361
March-03	Share Capital Increase through Bonus Share Issue 1 x 50. No. of shares issued: 99,157,490	5,057,032,001
Jan-03	Share Capital Increase through Bonus Share Issue 1 x 50. No. of shares issued: 97,213,225	4,957,874,511
March-02	Share Capital Increase through Bonus Share Issue 1 x 50. No. of shares issued: 95,307,084	4,860,661,286
Jan-02	Share Capital Increase through Bonus Share Issue 1 x 50. No. of shares issued: 93,438,317	4,765,354,202

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 (see table 3).

TABLE 3

	Total		Direct Shareholding		Indirect Shareholding	
	Percentage	Shares	Percentage	Shares	Percentage	Shares
BBVA (*)	6.09 %	301,813,784	1.81%	89,701,634	4.28 %	212,112,150
"La Caixa" (**)	5.37 %	266,476,222	1.86%	92,380,486	3.51 %	174,095,736

(*) At December 31, 2003

(**) At March 25, 2004

Shares Held by Members of the Board of Directors

The total number of Telefónica shares held individually, either directly or indirectly by the current Company Directors stands at 747,763 shares (0.015 % of the company share capital). See table 4.

TABLE 4

Name	Direct Shareholding	Indirect Shareholding	Number of shares held
Mr. César Alierta Izuel	481,397	—	481,397
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
Total	629,633	118,130	747,763

(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.