



# 05

Shareholders and investors:  
returns and transparency

05/01 | communications with shareholders

Telefónica has made multiple channels available for shareholders' requests for information

**CALLS ANSWERED**

**103,255**

*Shareholder information line*

05/02 | complete, transparent information

Shareholders have access to all types of information about the Company on the Telefónica Website

**DOWNLOADS**

**1,224,502**

05/03 | responsible investment

Telefónica is listed on the DJS and FTSE4good Index

**0.75%**

*of the Employees Pension Fund invested with sustainability criteria*



Our shareholders' trust is based on our capacity to return their investment profitably, and on our commitment to transparency and honesty

## STOCK EXCHANGES WHERE TELEFÓNICA S.A.'S SHARES ARE LISTED (05-1)

- Four stock exchanges in Spain (Madrid, Barcelona, Bilbao, 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
- Also listed in the Stock Exchange Automated Quotation System (SEAO International)

1,517,090

Telefónica, S.A. Shareholders

The Regulations of Telefónica's Board of Directors devote several articles regulating the channels through which relations between the Company and its shareholders are established. These articles cover both individual shareholders and institutional investors, and ensure that relations are conducted with maximum transparency and equity.

According to information obtained on 1 April 2005 from the *Spanish Securities Registration, Clearing and Settlement System S.A.U.* (IBERCLEAR), Telefónica has 1,517,090 shareholders.

Among the other listed companies in the Telefónica Group, Telefónica Móviles has 1,178,000 shareholders, Terra has 282,000 and TPI has over 128,000.

In the major Latin American countries where Telefónica is present, local operators have floated part of their share capital on their respective stock exchanges.

TeleSP is one such operator, and the 12.5% stake not owned by Telefónica is in the hands of 2.5 million shareholders, the result of a previous policy whereby one share in the company was awarded with each new telephone line.

In each of these countries, shareholder communication channels similar to those detailed in this chapter have been set up.

## 01 COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

## a) Departments communicating with shareholders and investors

In 1997, Telefónica set up its *Shareholder Information Service* with a view to creating transparent and fluid communication channels for individual shareholders. A total of 194,375 shareholders have now signed up for the service and receive information on the Telefónica Group's results and other Company news relating to their investment.

Telefónica has also set up an *Investor Relations Area* to provide institutional investors with a personalised service that keeps them in constant contact with national and international financial markets. Its main function is to explain the Company's key organisational, operational and business strategies, allowing forecasts to be made on its future performance, thus ensuring the price of the shares issued by the Company is set correctly.

## b) General Shareholders' Meeting

Shareholders may direct any queries they have about the General Shareholders' Meeting to the Shareholders' Information Office. This Office handled 68,816 requests for proxy voting information regarding the 2004 General Shareholders' Meeting of Telefónica S.A.

## LOCAL OPERATORS IN LATIN AMERICA (05-2)

Company	% Shares held by Telefónica	No. of shareholders
TeleSP (Brazil)	87.49	2,500,000
Telefónica del Perú	98.19	88,000
Telefónica CTC Chile	44.89	13,000
Telefónica de Argentina	98.03	3,000

## TOTAL NUMBER OF INDIVIDUAL REGISTERED SHAREHOLDERS (05-3)

Company	2003	2004
Telefónica SA	194.139	<b>194.375</b>
Telefónica Móviles	8.030	<b>8.669</b>

**PROXY VOTING REQUESTS CHANNELLED THROUGH THE SHAREHOLDERS' OFFICE FOR THE GENERAL SHAREHOLDERS' MEETING (05-4)**

(Data in units)

Company	2003	2004
Telefónica SA	69,467	<b>68,816</b>
Telefónica Móviles	444	<b>485</b>
Terra	13,682	<b>4,109</b>

The Annual General Shareholders' Meeting provides an opportunity for shareholders to put their questions to the Company's Directors. This is confirmed by the 23 questions raised by shareholders at the 2004 meeting.

Furthermore, Telefónica opens all its communication channels to its shareholders in order to field any queries they have about the General Shareholders' Meeting. In 2004, the Company's toll free information line (900 111 004) handled 31,425 enquiries related to the General Shareholders' Meeting.

Both enquiries made by individual shareholders and the opinions of analysts and institutional investors are analysed on a qualitative and quantitative basis so that the Company's Directors can keep abreast of their investors' concerns and opinions.

**c) Communication channels with shareholders and investors**

**The website**

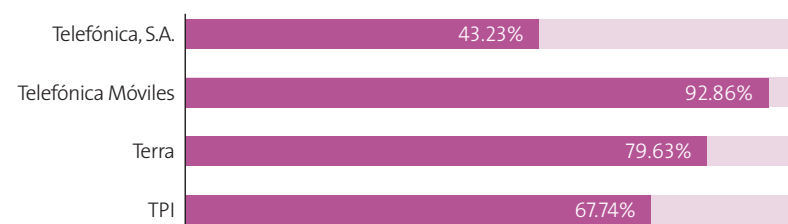
In 2004, major changes were made to the way information is relayed to shareholders and investors on the Telefónica website. In compliance with the *Transparency Act* and the new regulations of the CNMV (*the Spanish National Securities Market Commission*) new sections devoted to shareholder services, relations with investors, and corporate governance have been added on a single page available in Spanish, English and Portuguese.

As well as the new look and simpler browsing, the website for *Shareholders and Investors* also features specific areas on:

- Dividends, results and communications to the markets, relevant facts and General Shareholders' Meetings, etc.
- Equity data, *ratings*, debt profile and corporate presentations to the investment community.

**QUORUM AT THE GENERAL SHAREHOLDERS' MEETING (05-5)**

(Data in percentage)



- Consultation and downloading of documents including Annual Reports, the Regulations of the General Shareholders' Meeting and the Board of Directors, Company By-laws and the Official Company Information Registers.
- The *Stock Market* section features the Group companies' share prices online and allows users to generate interactive graphics, compare share prices with those of other sector companies and the leading indexes, calculate Telefónica's profitability in any given period and compare it with the main indices.
- *The Shareholders' Corner* is a personalised interactive space where small investors can ask questions and request specific information. It also features a ticker and an alerts service providing important, up-to-the-minute information on the Company.
- Online audio and video webcasts of conference calls and key appearances by the Company's senior managers.
- Access to the shareholder and investors' websites of Telefónica Móviles, TPI and Terra.

Since the website was updated in June, it has received 473,641 sessions, an estimated increase of 20% over the previous year.

**Shareholders' Information line**

Telefónica's toll free *Shareholder Information Line* handled 103,255 enquiries in 2004, approximately the same figure as in 2003. Telefónica Móviles, Terra and TPI also provide the same service for their shareholders. In addition to calls made to the toll free line, a total of 4,519 enquiries were received via email and post.

**Acción Telefónica**

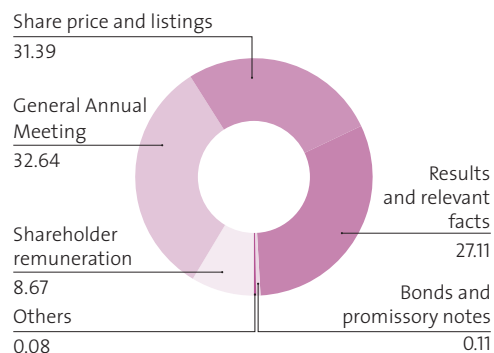
Telefónica issues a quarterly magazine to its shareholders called *Acción Telefónica*. In 2004, the Company sent out 165,000 copies of the publication every quarter.

**900 111 004**

Toll-free shareholder information line number

**BREAKDOWN OF ENQUIRIES MADE VIA SHAREHOLDER INFORMATION LINE (05-6)**

(Data in percentage)



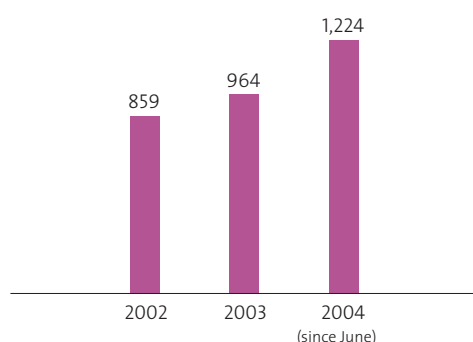
**Other communication channels with analysts and investors**

In 2004, the Company liaised with institutional investors and financial analysts in numerous ways: presentations at forums and meetings, and conference calls; the holding of roadshows at major financial exchanges; and the convening of the *Fourth Investors' Conference*, held in April 2005.

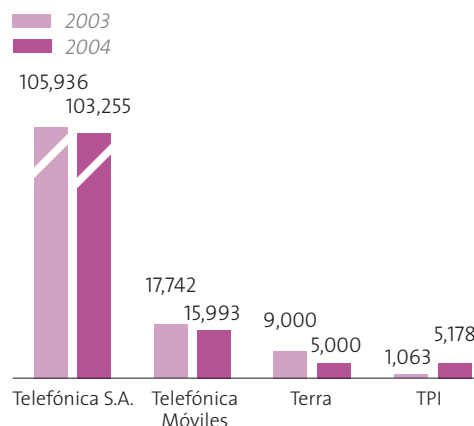
- Meetings were held with a total of 591 investors. Contacts with 195 of these were established at nine roadshows in Europe and the US, most of which were attended by Company senior managers.
- Presentation of results through quarterly conference calls. Audiences range between 200 and 300 for each conference, including telephone and Internet channels.
- Info bulletins sent to registered analysts and investors.
- Participation in major conferences on fixed and variable yield securities organised by financial institutions at the main exchanges in Europe and the US.

**INFORMATION DOWNLOADED BY TELEFÓNICA INVESTORS (05-8)**

(In thousands of downloads)



**ENQUIRIES HANDLED BY SHAREHOLDER INFORMATION LINES (05-7)**



- The Company also met up with minor shareholders at the *Bolsalia 2004* Forum in Madrid (part of the stock market exhibition “Salón de la Bolsa y Otros Mercados Financieros”)

**02 COMPLETE, TRANSPARENT INFORMATION**

**a) Information on business growth**

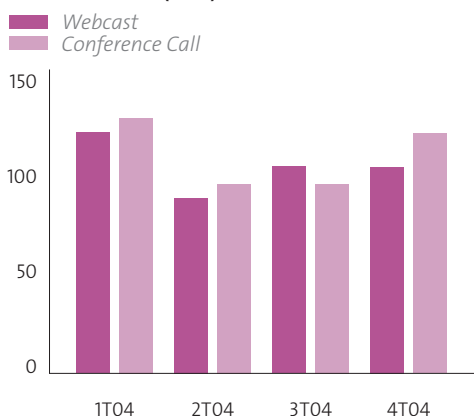
The Investor Relations department is responsible for designing and executing the communications strategy for domestic and international financial markets. Its work includes the quarterly release of Telefónica’s financial statements, which meet all transparency and equity requirements and are published through the following distribution channels: the Company website, the CNMV Register, *Acción* magazine and conference calls.

The focal point of the Group’s communications with analysts and investors is the *Annual Report*. In 2003, the Annual Report was the subject of 17,566 online consultations and 198,546 downloads, with 24,000 hard copies also issued. All the Annual Reports published by Telefónica since its foundation in 1924 are also available on the Company website.

In compliance with legal requirements, Telefónica provides all regulatory bodies governing the markets on which its shares are traded with information pertaining to all significant events involving its businesses. In 2004, a total of 42 relevant facts were reported to the CNMV for this purpose.

The Company also provides information through a series of official registers issued both annually (providing complete, in-depth information on the Company), and abbreviated documents registered before stock market regulatory bodies on the occasion of specific operations.

### ATTENDEES AT QUARTERLY RESULTS PRESENTATIONS (05-9)



The companies in the Telefónica Group published within large number of files for shareholders in 2004. Following the website redesign in May 2004, a total of 1,224,502 files were downloaded from the website.

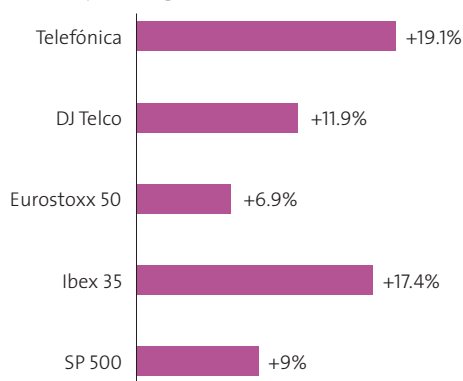
#### b) Shareholder remuneration policy

In July 2003, Telefónica's Board of Directors published a statement confirming its commitment to the shareholder remuneration policy, extending it to 2004, 2005 and 2006. The main policy-related decisions were as follows:

- In its session held on 26 January 2005, Telefónica's Board of Directors resolved to raise the dividend paid in the current financial year by 25% up to 0.5 euros per share (charged to 2004). The Board stated its intention to maintain the minimum dividend of 0.5 euros per share through to 2006 (charged to 2005).
- It also resolved to maintain the shareholder remuneration policy by undertaking the necessary transactions to reduce share capital by amortization of own shares. In line with these changes, on 10 October 2003 Telefónica announced it would be investing 4 billion euros in the period 2003-2006 in the buyback of own shares.
- At its session on 24 November 2004, the Board of Directors resolved to propose at the 2005 General Shareholders' Meeting a resolution for the allocation of treasury stock among its shareholders at a ratio of one share for every 25, charged to the Issue Premium Reserve.

### SHAREPRICE PERFORMANCE IN 2004 (05-10)

(Data in percentage)



## 03 SOCIALLY RESPONSIBLE INFORMATION

### a) Listing on socially responsible investment indexes

In 2004, Telefónica was listed on the European and World indices of the *Dow Jones Sustainability Index (DJSI)*, comprised of sustainability leaders in all sectors. Telefónica's presence on the *DJSI* indices is due reward for its commitment to corporate responsibility as a central driver in its telecommunications business strategy.

The Telefónica Group – which obtained a rating of 75, above the minimum European index entry rating of 72 and the world rating of 70 – has now positioned itself among the sustainability leaders in the telecommunications sector and in Spanish business as a whole. Telefónica Móviles has also been rewarded for its commitment to social responsibility and heads the list next companies to join the index.

In economic terms, the Company received maximum ratings for investor relations and brand management. Its excellent social performance was also recognised and other key aspects included the information provided in its *Corporate Responsibility Report*, and the Company's relationship with its stakeholders.

Telefónica maintained its presence on the *FTSE4Good* Index in 2004, which evaluates companies according to environmental, ethical and social criteria.

As well as being listed on these indices, Telefónica continued to enjoy a proactive relationship with analysts and investors who adhere to socially responsible investment criteria, as evidenced by the following:

- Publication of the second *Telefónica Corporate Responsibility Report* and the extension of corporate responsibility reports



## OFFICIAL REGISTERS BY TELEFÓNICA IN 2004 (05-11)

Prospectus	Body	Date
Continued Prospectus for financial year 2003	Comisión Nacional del Mercado de Valores (Spain)	30/07/2004
Annual Prospectus in 20F format	Securities Exchange Commission (USA)	9/07/2004
Annual IAN Prospectus	Comissao de Valores Mobiliarios (Brazil)	31/05/2004
Annual Propsectus SRS	Japan Securities and Clearing Corporation Tokyo Stock Exchange	30/06/2004
Short Prospectus on Telefónica's Programme of Promissory Notes	Comisión Nacional del Mercado de Valores (Spain)	29/12/2004

to the Group's other listed companies (Telefónica Móviles, TPI and Terra).

- Response to non-financial questionnaires requested by investors and analysts adopting socially responsible investment criteria, including participation in the 2004 *Carbon Disclosure Project*.
- Meetings and/or conference calls with investors and analysts adopting corporate responsibility criteria.

#### b) Responsible investment by Pension Funds

The Telefónica Group's employee pension funds are managed in Spain by Fonditel and their profitability in 2004 ranged from between 6.4% and 7%. By year-end 2004, the total volume of assets handled through the *Telefónica de España Employees Pension Fund* was 3.885 billion euros, with a further 157.8 million euros managed by *Fonditel B*, which encompasses employee plans in the Telefónica Group's other companies.

In 2004, Fonditel continued to receive national and international awards in recognition of its management prowess. The magazine *Mi Cartera de Inversión* named Fonditel as the *Best Pension Fund Provider* in Spain. For the fourth year running, the communications group, *Intereconomía*, and *Morningstar* also recognised Fonditel as the best pension fund provider. Fonditel also won the prestigious *European IPE Award* (Investments & Pensions Europe) Award for Best Pension Fund in Spain. And even more notably, it won the *European Award for best strategy* in core/satellite investment strategy, presented to the European fund that best combines an asset portfolio and risk structure.

In terms of national profitability *rankings*, last year saw Fonditel's individual funds continue to demonstrate their high quality, occupying the leading positions in both the three- and five-year categories.

In addition, following the approval of the Steering Committees, 1% of the managed assets of the Telefónica Group's employee pension funds (managed by Fonditel) will be invested in ethical, sustainable or responsible funds.

At the end of 2004, a total of 30 million euros had been invested in these types of funds, what means some 0.75% of the total equity held in the Telefónica Group's employee Pension Funds. Approximately 80% of this amount has been invested in environmental, good corporate governance and sustainable development funds. The remainder was invested in a social rental housing developer and a forestry development company.

## CASE STUDY

**TELEFÓNICA'S AWARD-WINNING TRANSPARENCY (05-12)**

Recognised as the *Spanish company providing the most transparent and reliable corporate and financial information on the Internet* by the *Spanish Association of Accounting and Business Administration (AECA)* at its third annual awards. The judging panel assessed all the companies listed on the IBEX-35 and took into account the transparency and accuracy of Telefónica's corporate information and the financial information it provides via the Internet.

At the *Investor Relations Websites Global Rankings and Awards* (known as the MZ Awards) Telefónica S.A. and Telefónica Móviles S.A. won first and second prize respectively for their web pages for shareholders and investors, with the *Best Online Annual Report* award going to Telefónica for its latest online report.

The awards, sponsored by *JPMorgan, KPMG Independent Auditors and Linklaters*, are organised by *MZ Consult* and are made following a technical appraisal that takes factors such as content, design, technology, interactivity, responsiveness and flexibility into account. Telefónica's web pages are not just seen as the best in Spain; they also earned a higher than average rating in most criteria in the world telecommunications sector.

The Company also won the award for *Best Investor Relations* in the *Telecommunications/Fixed Telephony* Sector awarded by the Institutional Investor Research Group in its report *2004 European Equities Report* following a vote by its financial analysts.

In Brazil, Telefónica won the *Destaque Compañías Abiertas* award after it was listed tenth in the *2003 AE/Económica Ranking*. The Company was recognised for the dividends paid out to shareholders and for the low volatility of its shares as compared to the market as a whole.

**PROFITABILITY FOR THE SHAREHOLDER IN 2004 (05-13)**

The significant increase in the dividend in 2004 (making Telefónica one of the most attractive options on the telecommunications market) combined with a general rise in share prices during the year, meant that shareholders investing in Telefónica on 1 January 2004 would have seen the value of their stake rise by 22.51%. An investment in 100 shares at the beginning of the year involved a capital outlay of 1,164 euros. As of 31 December 2004, these shares would be worth 1,386 euros due to the rise in the share price, and an additional dividend payment of 40 euros would also have been made.

	<b>Per share</b>
Acquisition of 100 shares on 1 January 2004	11.64
Cash dividend (14 May)	0.2 €
Cash dividend (12 November)	0.2 €
Share price as of 1 January 2005	13.86
Total portfolio value	14.26
<b>Profitability</b>	<b>22.51%</b>