

06

Relations with shareholders and markets



06.01 OPERATION OF THE GENERAL SHAREHOLDERS' MEETING

The General Shareholders' Meeting is the supreme deciding body through which the corporate will is expressed and, in that sense, the shareholders, legally and validly constituting the General Meeting, decide by majority on the matters that lie within the remit of the Meeting, attributed to it by Law or the Articles of Association.

6.1.1 Existence and description of the Regulations of the General Shareholders' Meeting

Telefónica foresees submission for consideration and approval, if appropriate, at its next Ordinary General Shareholders' Meeting, of its Regulations of the General Shareholders' Meeting, in which it establishes the rules and principles of its organisation and operation, thus fulfilling the terms of Act 26/2003, of 17th July. Until this takes place, the organisation, operation and development of the General Shareholders' Meeting of Telefónica is governed by the terms of the Mercantile Laws in force and the Articles of Association of the Company.

The General Shareholders' Meeting of the Company is called by its Board of Directors, which approves not only convening of the Meeting, but also the matters that are to be submitted for deliberation and, if appropriate, resolution by the Meeting (Agenda), as well as the Proposals of Resolutions that are submitted for its approval, along with the reports that may be required on those Proposals in each case.

Calling of the General Shareholders' Meeting, as well as its Agenda, are published for the shareholders and public at large in the Official

Journal of the Mercantile Registry of Spain and in several national newspapers published in the city where the Company has its registered office (Madrid, Spain). Likewise, the calling and Agenda of the Meeting shall be announced in other newspapers that are widely read in the foreign countries where the Company shares are listed, when the regulatory rules there so require, and also in a financial daily that is widely read in the financial world.

6.1.2 Rights of the shareholders in relation to the General Shareholders' Meeting

The rights of each and every one of the shareholders, in relation to holding the General Shareholders' Meeting, are subject to thorough respect and treatment by the Company, on the terms and conditions established in the applicable laws in force and in the Articles of Association.

Those rights are, apart from to impugn the corporate resolutions passed by the Meeting pursuant to the requisites established in the Act, the right to information, the right to attend and the right to vote.

In order to facilitate and make possible the exercise of the right to information by any shareholder, the proposals of resolutions to be submitted for approval of the Meeting and the documents and mandatory reports related to them, are made available to the shareholders on the terms and conditions established in the Spanish Companies Act, from when the announcements to call the Meeting are published.

Likewise, the Company attends, within the possibilities of the requests for information in relation to the matters on the Agenda of the

General Shareholders' Meeting, formulated by any shareholder, in the days immediately prior to holding the Meeting, as well as on the day of the actual Meeting being held, the agenda of which expressly includes a turn for shareholders to speak, in which all shareholders attending the Meeting may speak and their interventions shall always be replied to by the Chairman of the Company.

As to the rights to attend and vote at the General Shareholders' Meeting, the Company facilitates exercise of such right to the greatest extent, always within the framework provided by the applicable laws in force and the Articles of Association, especially that of representation of the shareholders at the General Shareholders' Meeting, which may be granted in favour of any person, even if not a shareholder.

Lastly, the manifestation of respect and guarantee ensured by the Company of the rights of the shareholders in relation to the General Shareholders' Meeting, it must mention, on one hand, that formation of the roll of attendance and calculation of the *quorum* of attendance for valid constitution of the Meeting are entrusted to a firm of recognised prestige in its sector of activity, that acts subject to accredited professional practice; and on the other hand, that the Board of Directors requires the presence of a Notary Public to take the Minutes of the General Shareholders' Meeting.

6.1.3 Data on attendance at previous General Meetings of Shareholders

In the last three years, the General Shareholders' Meeting of Telefónica has held three ordinary sessions, the attendance data of which is as follows:

Ordinary General Shareholders' Meeting of 15 June 2001

Shareholders present:	907
Shareholders represented:	110,936
Total shareholders	111,843
Shares present:	2,277,209
Shares represented:	1,772,729,452
Total shares	1,775,006,661
Percentage of share capital	39.02%

Ordinary General Shareholders' Meeting of 12 April 2002

Shareholders present:	864
Shareholders represented:	121,069
Total shareholders	121,933
Shares present:	2,220,812
Shares represented:	1,688,052,956
Total shares	1,690,273,768
Percentage of share capital	35.47%

Ordinary General Shareholders' Meeting of 11 April 2003

Shareholders present:	1,139
Shareholders represented:	115,411
Total shareholders	116,550
Shares present:	2,848,105
Shares represented:	2,032,297,555
Total shares	2,035,145,660
Percentage of share capital	41.05%

6.1.4 List of the resolutions passed by the General Shareholders' Meeting

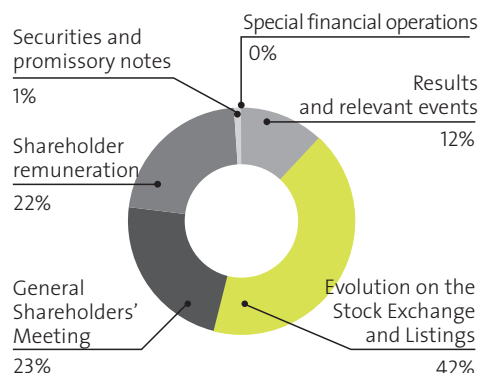
During financial year 2003, the Ordinary General Shareholders' Meeting of Telefónica, at its meeting held on 11th April 2003 (the only one that took place during that financial year),

passed the resolutions stated below, that were subject to the relevant notification to the CNMV as a relevant fact on 11th April 2003. The section of the Company web page on the General Shareholders' Meeting also provided information on these resolutions.

The resolutions passed by the Ordinary General Shareholders' Meeting, held on 11th April 2003, are summarised as follows:

- *Point I of the Agenda:* Approval of the Annual Accounts and Management Report, of Telefónica and its Consolidated Group of Companies, as well as the proposal for application of the result (compensation of losses against reserves) by Telefónica and on the management by its Board of Directors, all in relation to financial year 2002.
- *Point II of the Agenda:* Modifications within the Board of Directors: it proceeded to re-election of Mr Miguel Horta e Costa, to ratification of the appointment by pre-emption of the Director Mr Fernando de Almansa Moreno-Barreda, performed by the Board of Directors on 26th February, and appointment as Company Directors of the said Mr Fernando de Almansa Moreno-Barreda, Mr Jesús María Cadenato Matía, and Mr José Fonollosa García.
- *Point III of the Agenda:* Appointment of the Accounts Auditor for financial year 2003, granted to the firm of auditors Deloitte & Touche España, S.L. (formerly called Deloitte España, S.L. and prior to that Arthur Andersen y Cía. S.Com) as Accounts Auditor to audit the Annual Accounts and Management Reports of Telefónica and its Consolidated Group of companies for financial year 2003.
- *Point IV of the Agenda:* Authorisation to acquire own shares, directly, or through companies in the Group.
- *Point V of the Agenda:* Delegation in favour of the Board of Directors of the power to issue bonds, promissory notes and other fixed yield bills, simple, exchangeable and/or convertible, with the attribution, in the latter case, of the power to exclude the pre-emptive right of the shareholders and holders of convertible securities, and the power to guarantee issues by the subsidiary companies.
- *Point VI of the Agenda:* Reduction of the share capital by amortisation of own shares, with exclusion of the shareholders' right to opposition.
- *Point VII of the Agenda:* Amendment of article 28 of the Articles of Association (transparency and publicity of remuneration of the Directors), creation of a new article 31 bis (Audit and Control Committee of the Board of Directors), and addition of a new section 4 to article 35 (distribution in species of dividends and return in species of the issue premium or contributions in the case of capital reduction).
- *Point VIII of the Agenda:* Setting the limit to the annual remuneration to be received by the Board of Directors as a whole pursuant to new article 28.1 of the Articles of Association.
- *Point IX of the Agenda:* Extraordinary distribution of the issue premium in money and in species: (a) Distribution in money: Distribution of the issue premium by payment of each and every one of the current shares in the Company of 0.25 euros per share, making the relevant charge in the Premium Reserve for

DISTRIBUTION OF QUERIES ADDRESSED TO THE SHAREHOLDER'S OFFICE CALL CENTER



Share Issue; (b) Distribution in kinds: Distribution of the Premium Reserve for Share Issue, by delivery to the shareholders of Telefónica, S.A. of shares representing 30% of the stock capital of Antena 3.

- *Point X of the Agenda*: Delegation of powers to formalise, interpret, correct and execute the resolutions passed by the General Shareholders' Meeting.

06.02 TRANSPARENCY AND DISCLOSURE

Several articles of the Regulations of the Board of Directors of Telefónica are assigned to regulate the channels through which relations are established between the Board of Directors and the shareholders of the Company (of the individual shareholders, as well as the institutional and investment shareholders) so it may thus ensure the greatest possible transparency in those relations.

It also expressly establishes that the Board of Directors, in its relations with the shareholders, is obliged to guarantee equal treatment.

6.2.1 The Shareholders' Office

In order to maintain permanent, exclusive contact with its shareholders, Telefónica has a Shareholders' Office. This service facilitates and discloses all the relevant information for the shareholders and attends specifically to the queries that may be raised by any shareholder, managing them through its call center, its web page, or by mail.

As to the operation of this service during financial year 2003, the following data is provided:

- The number of calls received by Telefónica on the Toll Free Line, 900 111 004 (operates from Monday to Friday, 9 to 19 hours) amounted to 105,936.
- The queries made through the Customer Service Web Site amounted to 2,313.
- On a quarterly basis, more than 660,000 copies were distributed of a publication that provides information on the quarterly results, as well as economic-financial events that may be relevant to the shareholder.
- Individual information was sent by mail to 2,640 addresses and 2,313 queries were attended through the Customer Service Web Site.

Telefónica also participates in specialised Forums on the stock exchanges and other markets (Madrid, Barcelona and Valencia) aimed at the specific investor, where presentations were made on management and the perspectives of the Company and its Group.

Lastly, in order to improve the quality of the information that the Shareholders' Office supplies, all the queries managed through a call center, web page and mail are computer processed to be able to perform qualitative as well as quantitative analysis, and thus to improve the channels of communication and correct possible deficiencies. The distribution of queries by matters of interest to Telefónica shareholders in 2003 is analysed in the chart *Distribution of queries addressed to the shareholder's office call center*.

6.2.2 Investor Relations Department

On the other hand, in order to provide personal attention to Institutional Investors, Telefónica

has an Investor Relations Department. That department has the most relevant duty of designing and executing the communication programme at Telefónica for the national and international financial markets, in order to publicise and explain the main strategic, organisational, operational and business actions of the Company, as well as to periodically report on the financial results arising from its activity. Through this department, Telefónica informs the financial markets of all necessary relevant information to form expectations on its future performance, thus participating actively to adequate setting of the price of the securities issued by the Company.

In 2003, following the policy of transparency in the communication and disclosure of information to institutional investors and financial analysts, a high level of activity has been maintained through presentations at forums, in holding meetings and conference calls, organisation of road shows in the main financial cities, and in holding the Third Annual Investors' Conference. In this sense, excluding the later, meetings were held throughout 2003 with nearly 350 investment institutions, with the Company management team participating actively in the communication tasks.

The central axis of communication with investors and analysts are the quarterly presentations of results by the Company, in relation to which the Investor Relations department makes a special effort at communication in which it combines the preparation of the Quarterly Report on Results and registration at the CNMV, with conference calls in which the management team analyses the results obtained, that may be followed by telephone or on the Internet (webcast),

guaranteeing universal access to the information in real time. The conference calls in 2003 had an total average audience of approximately 190 participants, between telephone calls and the Internet.

The same means and structure are applied to specific conference calls organised to explain relevant strategic operations and decisions to the financial markets, after the appropriate notification to the relevant regulatory bodies. This category includes placement of an issue of bonds amounting to 2,000 Mg completed in the first quarter of 2003.

Within the Company Communication Programme, along with the quarterly presentations of results, one must especially mention the Third Investors' and Analysts' Conference held on 9th and 10th October in Madrid, at which the main landmarks of the Strategic Plan 2004-2006 were reviewed, as presented by the Chairman and Executives of the main business lines of the Telefónica Group. On that occasion, the company gathered more than 280 participants, continuing with the clear trend in improving the quality of the audience as, for the second consecutive year, there was an increase in participation by institutional investors. Another sign of the scope of the Conference was shown by the number of hits on the specific web site designed for that purpose, that received half a million page visits just in the month of October and exceeded 77,000 files downloaded.

The Communication Programme prepared by the Investor Relations department was completed by eight road shows in Europe, the United States and Brazil, in which meetings were held with nearly 200 investors, as well as participation in the main sectorial fixed and variable yield conferences

organised by financial institutions in the main European and American cities.

In recognition of the effort at communication made during financial year 2003, the Investor Relations department was named the second best team in the European Telecommunications sector by the Thomson Extel Pan-European Survey, a benchmark survey on the financial markets, in which more than 1,000 listed companies participated, as well as the main investment banks and fund management firms.

6.2.3 Market disclosure

In compliance with the terms foreseen in the applicable laws, the Company informs each and every one of the regulatory bodies of the markets on which its securities are traded, through the relevant communications of relevant facts and other communications, punctual information on any significant event that arises in relation to its business. During financial year 2003, Telefónica issued a total of sixty six (66) communications, as shown in the *Table 6, Market disclosure*.

On the other hand, the company provide information to the investors and shareholders through different Informative Prospectuses published, of annual as well as exhaustive global information on the Company, its business and economic-financial information, as well as the brief ones that have been recorded at the different regulatory bodies of the securities markets due to a specific operation. Thus, during 2003, Telefónica registered the following Prospectuses:

- *The Continued Informative Prospectus on financial year 2002*, registered on the official

registries at the National Stock Exchange Commission on 16 September 2003.

- *The brief Informative Prospectus on the Public Offering to Acquire Shares made by Telefónica for all the shares of Terra Networks, S.A.*, registered on the official registries of the National Stock Exchange Commission on 19 June 2003.
- *Annual Informative Prospectus in 20F format*, which was registered on 30 June 2003, at the U.S. Securities Exchange Commission.
- *The Annual Informative Prospectus IAN*, registered on 16 July 2003, at the Comissao de Valores Mobiliários (CVM) in Brazil.
- *The Annual Informative Prospectus S.R.S.* which was registered on 30 June 2003, at the Japan Securities and Clearing Corporation and at the Tokyo Stock Exchange.
- *The brief Informative Prospectuses on two capital increases against freely available reserves*. Due to the two capital increases that the Board of Directors of Telefónica agreed to execute during financial year 2003, the relevant Prospectuses were registered on the official registries of the National Stock Exchange Commission on capital increase, the first of them registered on 16 January 2003, and second on 27 February 2003.
- *The brief Informative Prospectus on the Promissory Note Programme of Telefónica*, that was registered on the official registries at the National Stock Exchange Commission on 18 December 2003.

Lastly, one must point out that the policy of transparency and information of the Telefónica Group has been backed up by the following international awards:

- Best performance in European Investor Relations in telecommunications (2003, Thomson Extel Survey).
- Best web prize of the Ibox 35, awarded by the magazine Dinero, on 5th February 2003. This prize was awarded on the basis of a study made in collaboration with Look & Enter, a company specialised in Internet marketing and communication.
- Prize for Financial Information, granted by Pricewaterhousecoopers (PWC) that prepares the annual "Value Reporting Review".
- Special Mention "Best Financial Media Relations", granted by IR Magazine Eurozone Awards 2003, as one of the companies that maintains the best relations with the financial media.
- Third position in the Spanish Corporate Reputation Monitor, 2003 edition, prepared by the Analysis and Research Institute at the Complutense University of Madrid.

6.2.4 Information provided through the web page

During 2003, important work was carried out on reviewing the Telefónica web page, as to relevant information for shareholders and investors, creating a new section specifically dedicated to matters of Corporate Governance, restructuring the pre-existing information and including new content.

It is also necessary to point out that the Telefónica web page contains all the information required by "Ministerial Order 3722/2003, of 26th December, on the annual report on corporate governance and other instruments of information of listed stock companies and other entities", published last 8th January.

This page received a total of 680,000 visits during 2003. The following information may be accessed on it:

Content related to corporate governance

- *Relevant documentation:* Articles of Association, Regulations of the Board of Directors, Internal Code of Conduct in, Annual Report on Corporate Governance for financial year 2002, etc.
- *Shareholding Structure:* most significant stakes and number of shareholders.
- *General Shareholders' Meeting years 2001, 2002 and 2003:* resolutions passed, quorum and results of voting, speeches and presentations made.
- *The Board of Directors:* duties, composition and the number of Telefónica's shares held by the Directors.
- *Committees of the Board of Directors:* duties and composition of each of them.
- *The Management Team:* identification of the members of the top management of Telefónica and the top executives of its main lines of business.

TABLE 6
MARKET DISCLOSURE

Type of information	Number
Investment and divestment operations of a strategic nature	12
Presentations of quarterly results	10
Changes in the Board of Directors and other governing bodies and relevant information on Corporate Governance	6
Presentations on the Company	9
Information on strategy, objectives and strategic agreements	8
Law suits, litigation, relevant penalisation proceedings	1
Other communications of relevant facts	20
Total	66

- *Remuneration policy:* Information on remuneration of the Directors, executives and on remuneration schemes linked to the evolution of existing shares.
 - *Market opinion:* consensus of analysts on Telefónica, comparing target prices, last reports published.
- Content in financial and stock exchange matters*
- *Financial information:* Annual reports from 1998, and quarterly results of the last three years.
 - *Other relevant information:* financial calendar of the Company, corporate profile, basic indicators, etc.
- General information on the business*
- *Official Records:* Informative Prospectuses registered before the different regulatory bodies of the stock markets where the Company is listed.
 - Information on the structure and stakes in the Telefónica Group.
 - Press releases issued during the financial year.
 - *Corporate presentations:* most relevant corporate presentations made over the last two financial years, including presentations on agreements and acquisitions, and the presentations made at the last Investor Conferences.
 - Communications of Relevant Facts and other disclosures during the financial year.
 - Corporate social liability.
- *Stock Exchange Information:* the stock exchange and listing data of the securities in real time, on the dividends, presence on the stock exchanges, pondering of the main indexes, capital increases made, etc.
- Lastly, one must mention that all the information on the web page – except for some specific documents – is provided in three languages: Spanish, Portuguese and English.

