

04

Shareholders and investors: Returns and transparency



01

Communication channels

- Shareholder Information Service
- Investor Relations Department
- www.telefonica.com/ir
- www.telefonica.es/accionista

SESSIONS ON THE WEB

680,000

02

Complete, transparent information

- Annual Report
- Quarterly publication of results
- III Investor Conference
- Online publication files

ONLINE DOWNLOADED FILES

964,302

03

Investment with responsible criteria

- Relation with analysts and SRI
- Responsible Investment of the Telefónica Employee Fund

ASSETS OF THE EMPLOYEE FUND INVESTED

sustainable criteria **1%**

01 COMMUNICATION CHANNELS WITH SHAREHOLDERS AND INVESTORS

The Regulations of the Board of Directors of Telefónica have several articles on regulation of the channels through which relations will be established between the Company and its shareholders, whether these are individual shareholders or institutional investors, ensuring the greatest transparency and equal treatment in those relations.

a) Areas responsible for communication with shareholders and investors

In 1997, Telefónica created the Shareholder Information Service in order to establish transparent, free-flowing communication with the more than one million six hundred thousand individual shareholders¹. The Shareholder Information Service now has nearly 200,000 shareholders registered, who have all the information on the Telefónica Group available, of results, as well as any corporate event that may be relevant to their investment. The physical media used is the quarterly shareholder magazine of Telefónica, called *Acción Telefónica*, 600,000 copies of which were distributed in 2003.

In order to provide institutional investors personalised information, Telefónica has an Investor Relations Department, through which it maintains fluent communication with the national and international financial markets. Its main purpose is to explain the main strategic, organisational, operative and business actions of the Company, providing training on expectations as to future performance, thus contributing to adequate price making for the securities issued by the Company.

b) Channels of communication with shareholders and investors

During 2003, major review work was carried out on the Telefónica web page as to communication

of relevant information for shareholders and investors. In order to reinforce the existing channels of online attention for institutional shareholders and investors, and to fulfil the requisites of the Transparency Act, a new section has been created, dedicated specifically to matters of Corporate Governance, including new content and restructuring the existing information to date. Overall, these pages (www.telefonica.com/ir and www.telefonica.es/accionista) were visited a total 680,000 times (counted as sessions) over 2003.

Telefónica has a Toll Free Shareholder Line that answered 105,936 queries in 2002. Telefónica Móviles, Terra and TPI also offer their shareholders the same service. Along with the toll free telephone lines, 4,953 queries received by e-mail and/or post were dealt with, in addition to 650 from Telefónica Móviles and 25 from Terra.

A high level of activity was kept up in 2003 with institutional investors and financial analysts, through presentations at forums, meetings and audio conferences, organisation of road shows in the main financial cities and holding the Third Annual Investor Conference.

- Meetings were held with nearly 350 investment institutions, with emphasis on eight road shows in Europe, the United States and Brazil, where meetings were held with nearly 200 investors.
- 283 investors and analysts participated in the III Investor Conference, held in Madrid in October 2003.
- Quarterly audio conferences to present results, with an annual audience of 563 investors by telephone and 567 by Internet.
- Information dispatched to pre-registered analysts and investors. Specifically, during 2003, 231 releases were sent. Telefónica Móviles dispatched 88 and Terra, 30.

(1) According to the information obtained on 3rd March 2004, from Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), the number of shareholders of Telefónica S.A., according to individual records, in favour of individuals as well as corporations, came to 1,663,780 shareholders.

900 111 004

Toll free number for Telefónica, S.A. shareholders

- Participation in the main fixed and variable yield conferences in the sector organised by financial institutions in the main European and American financial cities.
- Presentation of the Company to the minority shareholders of the BOLSALIA forums held in Madrid, Barcelona and Valencia during 2003.

The shareholders have the support of the Shareholders' Office in all matters related to the General Meeting of Shareholders. At that of Telefónica S.A., held in 2003, 69,467 vote delegations for representation were managed.

The General Annual Meeting provides shareholders who so wish an opportunity to put their questions to the company directors, as confirmed by the 15 interventions by shareholders at the General Meeting of Shareholders held in 2003. To complement this, Telefónica makes all its communication channels available to the shareholders so they may pose queries concerning the Meeting (23% through the Shareholder Information Line).

The queries made by individual shareholders as well as the opinions of analysts and institutional investors are analysed in qualitative and quantitative terms in order to keep the Company management informed of the concerns and opinions of its investors.

The transparency and information policy of the Telefónica Group toward its shareholders and

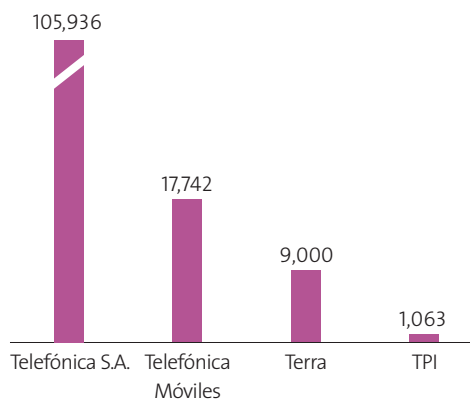
REGISTERED MINORITY SHAREHOLDERS

(Data in units)

Company	No. of registered minority shareholders
Telefónica, S.A.	194,139
Telefónica Móviles	8,030
Terra	108

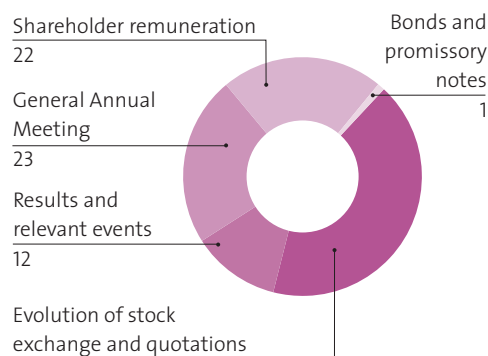
NUMBER OF CALLS TO SHAREHOLDER INFORMATION LINE

(Data in units)



DISTRIBUTION OF TELEPHONE QUERIES TO THE SHAREHOLDER INFORMATION LINE AT TELEFÓNICA SA.

(Data en percentages)



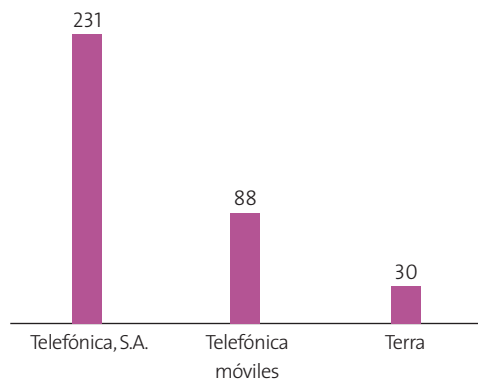
No. OF VOTING DELEGATIONS MANAGED FOR THE GENERAL ANNUAL MEETING

(Data in units)

Company	No. who delegated vote at the General Meeting of Shareholders
Telefónica, S.A.	69,467
Telefónica Móviles	444
Terra	13,682

PIECES OF INFORMATION RELEASED TO THE FINANCIAL COMMUNITY

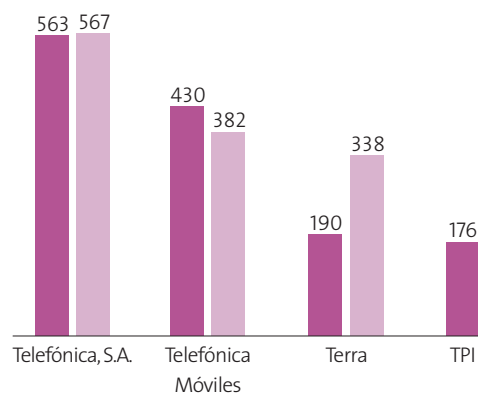
(Data in units)



ATTENDEES TO QUARTERLY RESULTS CONFERENCE CALLS

(Annual data in units)

■ No. attendees per conference call
 ■ No. attendees per webcast



investors has been backed by international recognition:

- Best performance in Investor Relations in telecommunications in Europe (2003, Thomson Extel Survey)

- Special mention for Best Financial Media Relations, awarded by the IR Magazine Eurozone Awards 2003, as one of the companies that has best relations with the financial media.
- Mention in Financial Information in the Value Reporting Review by PwC.
- Prize for the best web of the Ibex 35, awarded by the magazine Dinero, on 5th February 2003.
- The prizes TOP 5 and POP+ in the competition AMERI-MZ Consult 2003 were awarded for the web site Relación con Inversionistas (RI) of Telefónica CTC Chile.
- For second consecutive year, the Investor Relations Department at Telefónica CTC Chile obtained the "IR Magazine Awards" prize.

02 COMPLETE, TRANSPARENT INFORMATION

The main means of communication with shareholders and investors is the Annual Report, the 2002 edition of which (published in 2003) was consulted 150,000 times on the Telefónica web page with 270,000 electronic file transfers, in addition to a print run of 31,500 copies (25,000 in Spanish and 6,500 in English). In 2003, the Telefónica web included an online version of all the annual reports published by Telefónica since it was founded in 1924.

The role of the Investor Relations Department is to design and execute the communication strategy vis-a-vis the national and international financial markets. A key element is the quarterly publication of the financial statements of Telefónica which, fulfilling the requisites of transparency and equity, are distributed over diverse distribution channels: web page, registration at the CNMV, publication of the magazine Acción and audio conferences. A figure that shows the interest in such

information is that downloads from the web page number more than 240,366.

Telefónica convened the Third Investor Conference in October 2003, in order to present the management teams of the different lines of business to the financial community. The presentations were published on the web page, from which a total 92,349 downloads were made.

In compliance with legal provisions, Telefónica sends, to each and every one of the regulatory bodies on the markets on which its securities are traded, timely information on any significant event related to its business. During financial year 2003, it issued a total of 66 releases.

The Company has provided information through different informative prospectuses. Some of these are annual publications providing complete, in-depth information on the Company, while other shorter ones have been registered before the stock market regulatory bodies on the occasion of specific operations.

The companies in the Telefónica Group published nearly 400 files for shareholders over the year 2003. The volume of information

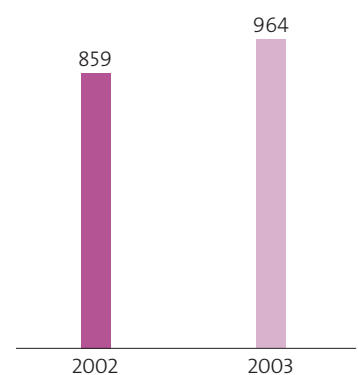
downloaded by shareholders and investors who accessed the web during 2003, amounted to 964,302 files.

Telefónica renewed the Shareholders' Portal in 2003, offering individual investors and shareholders economic – financial information on the Telefónica Group and several sections of interest, including:

- The Stock Exchange Today, with the listing of the Group companies, the possibly of generating comparative graphs, analysis, etc.
- The Shareholders' Agenda, containing information on convocations, presentations and important events.
- Latest News, containing high-interest information (results, tariffs, products, etc.).
- A ticker with quotations almost in real time, with the possibly of personalising it to include specific companies and market indexes of interest.
- Information on relevant facts and other disclosures to the Spanish National Securities Exchange Commission (CNMV) and information on Corporate Governance of Telefónica S.A.

INFORMATION DOWNLOADED BY TELEFÓNICA INVESTORS

(Data in thousands of downloads)



NOTIFICATION OF RELEVANT INFORMATION

(Data in units)

Type of information	Number
Investment and divestment operations of a strategic nature	12
Presentation 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 agreements of a strategic nature	8
Law suits, litigation, relevant penalisation proceedings	1
Other notification of relevant events	20
TOTAL	66

OFFICIAL REGISTERS BY TELEFÓNICA IN FINANCIAL YEAR 2003

Prospectus	Body	Date
Continued Prospectus for financial year 2002	Comisión Nacional del Mercado de Valores (Spain)	16 / September / 2003
Short Prospectus on the Public Offering to Acquire Shares made by Telefónica for all the shares of Terra Networks	Comisión Nacional del Mercado de Valores (Spain)	19 / June / 2003
Annual Prospectus in 20F format	Securities Exchange Commission (EEUU)	30 / June / 2003
Annual Prospectus IAN	Comissao de Valores Mobiliarios (Brazil)	16 / July / 2003
Annual Prospectus S.R.S	Japan Securities and Clearing Corporation Tokyo Stock Exchange	30 / June / 2003
Prospectuses on two capital increases against freely available reserves	Comisión Nacional del Mercado de Valores (Spain)	16 / January / 2003 27 / February / 2003
Short Prospectus on the Telefónica Company Promissory Note Scheme de Telefónica	Comisión Nacional del Mercado de Valores (Spain)	18 / December / 2003

03 INVESTMENT WITH RESPONSIBLE CRITERIA

During financial year 2003, Telefónica has maintained a proactive attitude to the community of analysts and investors who adhere to socially responsible investment criteria, as may be seen from the following data:

- Delivery of a presentation on the Corporate Responsibility strategy of Telefónica to attendees at the III Investors' Conference.
- Answering the more than 25 non financial information questionnaires submitted by investors and analysts, with socially responsible investment criteria.
- Participation in the initiative Carbon Disclosure Project, 2003.

- Publication of the first Corporate Responsibility Report by Telefónica, included in the Annual Report 2003.

- Ten meetings and/or audio conferences with investors and analysts with corporate responsibility criteria.

During 2003, Telefónica reaffirmed its presence on the index FTSE4Good. However, despite Telefónica's improvement in the evaluation for its inclusion on the Dow Jones Sustainability Index, Telefónica was not included in the latter's 2003 revision, due to the reduction from ten to seven of the number of telecommunications companies included in its sector index.

Additionally, the employment funds of the Telefónica Group (managed by Fonditel), with

the knowledge of their relevant Control Commissions, are aimed at making investments of an amount equivalent to 1% of their assets in what are known as ethical, sustainable or responsible funds. The total assets of Fonditel come to 3,800 million euros for employees of Telefónica de España and 120 million euros for Fonditel B, which covers the rest of the companies in the Telefónica Group whose employees have a pension fund.

At December 2003, this objective had been implemented through Funds that invest according to Social Responsibility criteria, regarding sustainability, environment and corporate good governance, for an amount equivalent to half of the commitment. The rest will be made in 2004 in two projects: one in social housing, and another relating to the environment.

Such investments are always made with the objective to obtain sufficient returns and risk control, as in any other investment. The employment plans of the Telefónica Group, managed by Fonditel Pensiones, were given an award for the best Spanish employment schemes and were one of the runners up in the best European employment plans (IPE Prizes), receiving maximum recognition for the third consecutive year. This is a milestone that confirms the excellent results in yield that Fonditel Pensiones is achieving with its management.