

TELEFONICA S A  
Form F-4/A  
April 14, 2005

As filed with the Securities and Exchange Commission on April 14, 2005  
Registration No. 333-123162

**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

Amendment No. 1 to  
**FORM F-4**  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

**TELEFÓNICA, S.A.**

(Exact Name of Registrant as Specified in Its Charter)

**Kingdom of Spain**  
(Jurisdiction of  
incorporation or organization)

**4813**  
(Primary Standard Industrial  
Classification Code Number)

**Not applicable**  
(I.R.S. Employer  
Identification Number)

**Gran Vía, 28**  
**28013 Madrid, Spain**  
**011-34-91-584-0040**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant[s] Principal Executive Offices)

**Maria Dolores Pizarro Figueroa**  
**TLD Puerto Rico**  
**Metro Office Park, Calle 2, Edificio 17,**  
**Suite 600**  
**Guaynabo, Puerto Rico 00968**  
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**Marqués de la Ensenada 2**  
**28004 Madrid, Spain**  
**011-34-91-702-2680**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this  
Registration Statement becomes effective.

**CALCULATION OF REGISTRATION FEE**

Title Of Each Class Of Securities To Be Registered(1)	Amount To Be Registered(2)	Proposed Maximum Offering Price Per	Proposed Maxi Aggregate Off
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		Unit (3)	Price (2)(3)
Ordinary Shares, nominal value $\square$ 1.00 per ordinary share	3,610,786	\$ 19.91	\$ 71,890,74

- (1) American Depositary Receipts evidencing American Depositary Shares issuable upon deposit of the securities registered hereby have been registered under a separate registration statement on Form F-6, Registration No. 333-12182.
- (2) Includes the maximum number of Telefónica ordinary shares expected to be issued or delivered to Terra Networks securityholders resident in the United States pursuant to the merger plan. This number is based on the (a) 16,248,539 ordinary shares and ADSs of Terra Networks held by U.S. residents expected to be exchanged in the merger and (b) an exchange ratio of 9 ordinary shares of Terra Networks for every 2 ordinary shares of Telefónica. The securities to be issued or delivered in connection with the merger outside the United States are not registered under this registration statement.
- (3) The Proposed Maximum Aggregate Offering Price per ordinary share (estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(f) under the Securities Act) is based on a price of  $\square$ 15.35 per Telefónica ordinary share. The Telefónica price per ordinary share is based on the merger ratio of 2 ordinary shares of Telefónica to be received for every 9 ordinary shares of Terra Networks and a market value of ordinary shares of Terra Networks of  $\square$ 3.41 per ordinary share, calculated pursuant to Rule 457(c) by taking the average of the high and low prices of Terra Networks ordinary shares as reported on the Automated Quotation System of the Spanish stock exchanges on April 11, 2005. The Telefónica price per ordinary share was converted into U.S. dollars based on an exchange rate of  $\square$ 1.00=U.S.\$1.2972, the Noon Buying Rate on April 11, 2005.

\* Of which \$7,427 was paid in connection with the initial filing of this registration statement on March 7, 2005 and the remainder is paid herewith.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

The information contained in this preliminary joint information statement/prospectus is not complete. We may change or amend the information without notice. We may not accept your vote or proxy with respect to the matters discussed in this preliminary joint information statement/prospectus until the registration statement of which it forms a part has been declared effective by the Securities and Exchange Commission. We will not solicit or accept votes or proxies in any jurisdiction where it would be illegal to do so prior to registering or qualifying under that jurisdiction's securities laws.

**PRELIMINARY DRAFT DATED APRIL 14, 2005, SUBJECT TO COMPLETION**

TELEFÓNICA LOGO

TERRA NETWORKS LOGO

**MERGER BY ABSORPTION PROPOSED  $\square$  YOUR VOTE IS VERY IMPORTANT**

At meetings held on February 23, 2005, the Boards of Directors of Telefónica, S.A. and Terra Networks, S.A. approved a merger plan which provides for the merger of the two companies and

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prepared their respective balance sheets as of December 31, 2004, which we will refer to as the [merger balance sheets] and which will be submitted to their respective annual general shareholders' meetings for their approval.

In the merger, Terra Networks will be merged into Telefónica with Telefónica being the surviving entity. If the merger is consummated the ordinary shares and ADSs of Terra Networks will cease to be traded on any exchange or quotation system, including the Spanish stock exchanges in the case of Terra Networks ordinary shares and the Nasdaq National Market in the case of Terra Networks ADSs.

If the merger is completed, holders of Terra Networks ordinary shares will receive 2 Telefónica ordinary shares for every 9 ordinary shares of Terra Networks they hold and holders of Terra Networks ADSs will receive 2 Telefónica ADSs for every 27 Terra Networks ADSs they hold. Each Terra Networks ADS represents one Terra Networks ordinary share, and each Telefónica ADS represents three Telefónica ordinary shares.

Telefónica will issue or deliver approximately 29,274,686 ordinary shares of Telefónica (including ordinary shares in the form of ADSs) to Terra Networks shareholders in the merger. The ordinary shares of Telefónica to be issued or delivered to Terra Networks shareholders in the merger will represent approximately 0.6% of the outstanding ordinary shares of Telefónica after the merger.

Telefónica will not issue or deliver fractional ordinary shares on ADSs. Terra Networks shareholders and ADS holders will receive cash in lieu of any fractional ordinary shares or ADSs. Telefónica shareholders and ADS holders will continue to own their existing ordinary shares and ADSs after the merger.

We are asking shareholders and ADS holders of Telefónica to approve Telefónica's merger balance sheets, the merger on the terms and conditions set forth in the merger plan and related matters.

We are asking shareholders and ADS holders of Terra Networks to approve Terra Networks' merger balance sheets, the merger on the terms and conditions set forth in the merger plan and related matters.

An English-language translation of the merger plan, deposited with the Madrid Commercial Registry, is attached as Annex A-1 to this joint information statement/prospectus.

We cannot complete the merger unless shareholders of both companies approve it.

This joint information statement/prospectus has been prepared for shareholders of Telefónica and Terra Networks residing in the United States and for holders of Telefónica and Terra Networks ADSs to provide information about the merger described herein which is to be voted on at the annual general shareholders' meetings of Telefónica's and Terra Networks' shareholders.

Under Spanish law, if a quorum is not obtained on the first date for which the meeting is called, the meeting is adjourned until the date and time specified in the meeting notice for the second call, if any. On the second call of a meeting, the quorum requirements are lower than those for the first call.

The dates, times and places of the annual general shareholders' meeting on the first call or on the second call, if required, are:

For Telefónica shareholders:

First Call: May 24, 2005

Second Call: May 25, 2005

12:00 Noon, Local Time

Madrid, at IFEMA (Feria de Madrid), Campo de las Naciones, Parque Ferial Juan Carlos I,

Pabellón 3

For Terra Networks shareholders:

First Call: May 31, 2005

a.m., Local Time

Barcelona, at Palau Sant Jordi, Barcelona '92 Room, Passeig Olímpic 5-7 de Barcelona

For Telefónica and Terra Networks shareholders, approval of the merger on the terms and conditions set forth in the merger plan, the merger balance sheets and related matters described herein requires a majority of the votes present or represented by proxy at the annual general shareholders' meeting of Telefónica or Terra Networks, as the case may be, if a quorum of at least 50% is obtained or 2/3 of the votes present or represented by proxy at the second call of the annual general shareholders' meeting if the quorum is less than 50% of the subscribed capital of Telefónica or Terra Networks, as the case may be, entitled to vote but at least 25% of the subscribed share capital entitled to vote. At February 23, 2005, Telefónica owned 75.87% of the outstanding Terra Networks ordinary shares. Telefónica intends to vote its Terra Networks ordinary shares in favor of the merger.

The holders of at least 300 ordinary shares of Telefónica and at least 25 ordinary shares of Terra Networks, or holders who join a group of shareholders who hold in the aggregate at least the required number of ordinary shares, will be allowed to attend and vote at the annual general shareholders' meeting if those holders are recorded on the applicable book-entry registry of shareholders on May 19, 2005, and May 26, 2005, five days prior to the date of Telefónica and Terra Networks' annual general shareholders' meetings, respectively. Shareholders holding fewer ordinary shares may vote by proxy. The holders of ADSs representing ordinary shares of Telefónica and Terra Networks will be allowed to vote by proxy in accordance with the procedures set forth in their respective ADS deposit agreements, which are described below, if those holders are recorded on the ADS depositaries' registries on \_\_\_\_\_, 2005.

The principal market on which Telefónica ordinary shares trade is the Spanish stock exchanges, where they trade under the symbol "TEF". Telefónica ADSs, each representing three ordinary shares, are listed on the New York Stock Exchange under the symbol "TEF". The principal market on which Terra Networks ordinary shares trade is the Spanish stock exchanges, where they trade under the symbol "TRR". Terra Networks ADSs, each representing one ordinary share, are traded on the Nasdaq National Market under the symbol "TRRA".

This joint information statement/prospectus provides detailed information about the proposed merger and important information about the Telefónica ordinary shares and ADSs to be offered to Terra Networks shareholders and ADS holders pursuant to the merger. You are encouraged to read everything in this document, including the list of risk factors relating to the merger that begins on page II-1.

[Signature]

César Alierta Izuel  
*Executive Chairman*  
*Telefónica, S.A.*

[Signature]

Joaquín Faura Batlle  
*Executive Chairman*  
*Terra Networks, S.A.*

Joint Information Statement/Prospectus dated \_\_\_\_\_, 2005, and first mailed to shareholders on \_\_\_\_\_, 2005

**Neither the Securities and Exchange Commission nor any state securities regulator has approved the Telefónica ordinary shares and ADSs to be offered under this joint information statement/prospectus or determined if this joint information statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.**

### **Information Incorporated by Reference**

This joint information statement/prospectus incorporates by reference business and financial information about Telefónica and Terra Networks that is not included in or delivered in this joint information statement/prospectus. We also expect to incorporate by reference the annual reports on Form 20-F of each of Telefónica and Terra Networks for the fiscal year ended December 31, 2004. We may also incorporate by reference some of the reports on Form 6-K that we or Terra Networks furnishes to the SEC between the date of this joint information statement/prospectus and the date of the annual general shareholders' meetings. You may obtain documents incorporated by reference in this joint information statement/prospectus without charge by requesting them in writing or by telephone from the appropriate party at the following address:

**Georgeson Shareholder**  
**17 State Street, 10th Floor**  
**New York, NY 10004**  
**Toll Free: (877) 278-4794**  
**Banks & Brokers: (212) 440-9800**

To obtain timely delivery of these documents, you must request them no later than \_\_\_\_\_, 2005. For a list of those documents that are incorporated by reference into this joint information statement/prospectus, see "Part Eight" Additional Information for Shareholders "Where You Can Find More Information."

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**[Note: Page for Telefónica Booklet only]**

**[TELEFÓNICA LOGO]**

## **TELEFÓNICA, S.A.**

### **Annual General Shareholders' Meeting**

The Board of Directors of Telefónica, S.A. has resolved to call the annual general shareholders' meeting of the company, to be held in Madrid, at IFEMA (Feria de Madrid), Campo de las Naciones, Parque Ferial Juan Carlos I, Pabellón 3 on May 24, 2005 at on first call at 12:00 Noon and on May 25, 2005 at 12:00 Noon on second call in the same place, if the necessary legal quorum is not reached on the first call.

The purpose of this call is to submit to the consideration and approval of the annual general shareholders' meeting the items stated in the Agenda below.

#### **AGENDA**

I. Examination and approval, if applicable, of the Annual Accounts and Management Report of Telefónica, S.A. and its consolidated group of companies, as well as the proposal for the application of the results of Telefónica, S.A., and that of the management of the company's Board of Directors, all for the 2004 financial year.

II. Additional shareholder remuneration: A) distribution of dividends with a charge to the additional paid-in capital reserve and B) extraordinary non-cash distribution of additional paid-in capital.

III. Examination and approval, as the case may be, of the merger plan between Telefónica, S.A. and Terra Networks, S.A. and approval, as the Merger Balance Sheet, of Telefónica, S.A.'s Balance Sheet closed as of December 31, 2004. Approval of the merger between Telefónica, S.A. and Terra Networks, S.A. by absorption (*absorción*) of Terra Networks, S.A. by Telefónica, S.A. with the dissolution without liquidation of Terra Networks, S.A. and the en bloc transfer, by universal succession, of all of its assets and liabilities to Telefónica, S.A., stating that the exchange of shares will be fully satisfied by means of the delivery of Telefónica, S.A.'s treasury shares, all in accordance with the merger plan. Application of the special tax regime set forth in Chapter VIII of Title VII of the Restated Text of the Companies Income Tax Law in connection with the merger. Establishment of procedures to facilitate the exchange of shares as a result of the merger. Delegation of powers.

IV. Re-election, ratification, and if applicable, appointment of Directors.

V. Designation of the Accounts Auditor for Telefónica, S.A. and its consolidated group of companies, under the provisions of article 42 of the Spanish Commerce Code (Código de Comercio) and article 204 of the Spanish Corporations Act (Ley de Sociedades Anónimas).

VI. Authorization for the acquisition of treasury stock, directly or through group companies.

VII. Reduction of share capital through the amortization of treasury stock, with the exclusion of the right to opposition by creditors, through the redrafting of the article in the bylaws that refers to the share capital.

VIII. Delegation of powers to formalize, construe, correct and execute the resolutions adopted by the annual general shareholders' meeting.

The foregoing is subject to confirmation by the Board of Directors of Telefónica, S.A. at its meeting scheduled to take place on April 20, 2005.

Madrid, April , 2005

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[Note: Page for Terra Booklet only.]

[TERRA NETWORKS LOGO]

## **TERRA NETWORKS, S.A.**

### **Annual General Shareholders' Meeting**

The Board of Directors of Terra Networks, S.A. has resolved to call the annual general shareholders' meeting of the company, to be held in Barcelona, at Palau Sant Jordi, Barcelona '92 Room, Passeig Olímpic 5-7 de Barcelona on May 31, 2005 at \_\_\_\_\_ on the first, and only, call.

The purpose of this call is to submit to the consideration and approval of the annual general shareholders' meeting the items stated in the Agenda below.

#### **AGENDA**

I. Examination and, if appropriate, approval of the financial statements and management report, both of Terra Networks, S.A. (parent company) and of its consolidated group, as well as the proposed distribution of income

and the conduct of business by its Board of Directors, all in relation to 2004.

II. Reappointment, ratification and, if appropriate, appointment of Directors.

III. Shareholders' remuneration: distribution of dividends with a charge to the additional paid-in capital reserve.

IV. Examination and approval, as the case may be, of the merger plan between Telefónica, S.A. and Terra Networks, S.A. and approval, as the merger balance sheet, of Terra Networks' balance sheet closed as of December 31, 2004. Approval of the merger between Telefónica, S.A. and Terra Networks, S.A. by absorption (*absorción*) of Terra Networks, S.A. by Telefónica, S.A. with the dissolution without liquidation of Terra Networks, S.A. and the en bloc transfer, by universal succession, of all of its assets and liabilities to Telefónica, S.A., stating that the exchange of shares will be fully satisfied by means of the delivery of Telefónica's treasury shares, all in accordance with the merger plan. Application of the special tax regime set forth in Chapter VIII of Title VII of the Restated Text of the Companies Income Tax Law in connection with the merger. Establishment of procedures to facilitate the exchange of shares as a result of the merger. Delegation of powers.

V. Delegation of powers to formalize, interpret, rectify and implement the resolutions adopted by the annual general shareholders' meeting.

The foregoing is subject to confirmation by the Board of Directors of Terra Networks, S.A. at its meeting scheduled to take place on April 20, 2005.

Madrid, April 14, 2005

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**Annexes**

- Annex A-1 Merger Plan
- Annex A-2 Telefónica, S.A. Merger Balance Sheets
- Annex A-3 Terra Networks, S.A. Merger Balance Sheets
- Annex B-1 Opinion of Morgan Stanley & Co. Limited
- Annex B-2 Opinion of Lehman Brothers Europe Limited
- Annex B-3 Opinion of Citigroup Global Markets Limited
- Annex C-1 English-language translation of Report of the Spanish Independent Expert
- Annex C-2 English-language translation of Report of the Board of Directors of Telefónica
- Annex C-3 English-language translation of Report of the Board of Directors of Terra Networks

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The contents of Telefónica's and Terra Networks' World Wide Web sites are not part of this joint information statement/prospectus.

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**Glossary**

The terms below are used as follows throughout this joint information statement/prospectus:

- "Telefónica" means Telefónica, S.A. and its consolidated subsidiaries, unless otherwise indicated or the context otherwise requires. In addition, references to "we", "us" and "our" are to Telefónica, S.A. and its consolidated subsidiaries.
- "Terra Networks" means Terra Networks, S.A. and its consolidated subsidiaries, unless otherwise indicated or the context otherwise requires.
- "Telefónica's Consolidated Financial Statements" means Telefónica's audited consolidated financial statements at December 31, 2003 and 2002 and for the three years ended December 31, 2003, as included in Telefónica's 2003 Form 20-F.
- "Terra Networks' Consolidated Financial Statements" means Terra Networks' audited consolidated financial statements at December 31, 2003 and 2002 and for the three years ended December 31, 2003, as included in Terra Networks' 2003 Form 20-F.
- "Telefónica Merger Balance Sheets" means the Spanish statutory audited balance sheets of Telefónica, S.A. at December 31, 2004, included in Annex A-2.
- "Terra Networks Merger Balance Sheets" means the Spanish statutory audited balance sheets of Terra Networks, S.A. at December 31, 2004, included in Annex A-2.

- "Telefónica's 2003 Form 20-F" means Telefónica's annual report on Form 20-F for the year ended December 31, 2003, as amended, as filed with the Securities and Exchange Commission and incorporated by reference into this joint information statement/prospectus.
- "Terra Networks' 2003 Form 20-F" means Terra Networks' annual report on Form 20-F for the year ended December 31, 2003 as filed with the Securities and Exchange Commission and incorporated by reference into this joint information statement/prospectus.

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### **Cautionary Statement Regarding Forward-Looking Statements**

This document contains statements that constitute forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, and the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this document can be identified in some instances, by the use of words such as "expects", "aims", "hopes", "anticipates", "intends", "believes" and similar language or the negative thereof or by the forward-looking nature of discussions of strategy, plans or intentions. These statements appear in a number of places in this document including, without limitation, certain statements made in "Questions and Answers About the Merger," "Summary," "The Merger" Background of the Merger, "The Merger" Our Reasons for the Merger, "The Merger" Other Expenses, "Opinion of Morgan Stanley & Co. Limited," "Opinion of Lehman Brothers Europe Limited," "Opinion of Citigroup Global Markets Limited," "Opinion of the Spanish Independent Expert," "Information about Telefónica" and "Information about Terra Networks." The sections of documents incorporated by reference which contain forward-looking statements include "Operating and Financial Review and Prospects" and "Quantitative and Qualitative Disclosures About Market Risk" in Telefónica's 2003 Form 20-F and Terra Networks' 2003 Form 20-F. Other forward-looking statements contained herein or therein include statements regarding our intent, belief or current expectations with respect to, among other things:

- the effect on our results of operations of increased competition in the Spanish telecommunications market and our other principal markets;
- trends affecting our financial condition or results of operations;
- acquisitions or investments which we may make in the future;
- our capital expenditures plan;
- supervision and regulation of the Spanish telecommunications sector and in other countries where we have significant operations;
- our strategic partnerships; and
- the potential for growth and competition in current and anticipated areas of our business.

Such forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties, and actual results may differ materially from those anticipated in the forward-looking statements as a result of various factors. The risks and uncertainties involved in our businesses that could affect the matters referred to in such forward-looking statements include but are not limited to:

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- changes in general economic, business, or political conditions in the domestic or international markets in which we operate or have material investments that may affect demand for our services;
- changes in currency exchange rates and interest rates;
- the impact of current, pending or future legislation and regulation in Spain, other countries where we operate and the European Union;
- the actions of existing and potential competitors in each of our markets; and
- the potential effects of technological changes.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this document. We undertake no obligation to release publicly the result of any revisions to these forward-

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looking statements which may be made to reflect events or circumstances after the date of this document, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

You should understand that the following important factors, in addition to those discussed above and elsewhere in this document and in the documents which are incorporated by reference, could affect the future results of Telefónica and Terra Networks, and of Telefónica after the closing of the merger, and could cause those results or other outcomes to differ materially from those expressed in our forward-looking statements:

- our ability to integrate the businesses of Telefónica and Terra Networks successfully after the merger;
- the challenges inherent in diverting management's focus and resources from other strategic opportunities and from operational matters during the integration process;
- the process of, or conditions imposed in connection with, obtaining regulatory approvals for the merger;
- the outcome of negotiations with partners and governments;
- the growth of free internet access in many core markets that may increase competition;
- the need to establish and maintain strategic relationships with content providers, e-commerce merchants and technology providers;
- declining prices for our services; and
- reliance on third-party content providers.

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### Questions and Answers about the Merger

*Q: When and where are the shareholders' meetings?*

A: Telefónica's annual general shareholders' meeting will take place on May 24, 2005 or May 25, 2005, if a quorum is not obtained at the first call, in Madrid, Spain. Terra Networks' annual general shareholders' meeting will take place on May 31, 2005 in Barcelona, Spain. For the address of each meeting, see "Part Four" Information about the Meetings and Voting Matters Relating to the Meetings.

*Q: What do I need to do now if I hold Telefónica or Terra Networks ordinary shares?*

A: All holders of at least 300 Telefónica ordinary shares will be allowed to attend the Telefónica meeting and vote. All holders of at least 25 Terra Networks ordinary shares will be allowed to attend the Terra Networks meeting and vote.

Holders of fewer than 300 Telefónica ordinary shares or fewer than 25 Terra Networks ordinary shares may join other shareholders to form a group owning at least the minimum required ordinary shares and appoint a shareholder representative to vote their ordinary shares. In addition, holders of fewer than 300 Telefónica ordinary shares may also grant a proxy to a holder who already has sufficient ordinary shares to attend the meeting.

In order to attend the meetings, shareholders must request an admission ticket from the Spanish depository for their ordinary shares.

*Q: What do I need to do now if I hold Telefónica or Terra Networks ADSs?*

A: If you hold Telefónica or Terra Networks ADSs representing Telefónica or Terra Networks ordinary shares and wish to vote, you must complete the voting instruction card provided by the relevant depository. Please contact the relevant depository for more information about these procedures.

*Q: How many votes will I get for each ordinary share of Telefónica or Terra Networks?*

A: Holders of Telefónica ordinary shares will be entitled to one vote for every ordinary share they own and that is represented at Telefónica's annual general shareholders' meeting. Holders of Terra Networks ordinary shares will be entitled to one vote for every ordinary share they own and that is represented at Terra Networks' annual general shareholders' meeting.

However, each shareholder of Telefónica, including any affiliates of that shareholder, is limited to a maximum number of votes representing 10% of the paid-in capital of Telefónica entitled to vote.

*Q: How many votes will I get for each Telefónica or Terra Networks ADS?*

A: If you hold Telefónica or Terra Networks ADSs representing Telefónica or Terra Networks ordinary shares and you complete the voting instruction card and return it to the relevant depository by \_\_\_\_\_, 2005, you will be entitled to three votes for each Telefónica ADS held and one vote for each Terra Networks ADS held.

*Q: Can I vote by proxy?*

A: Telefónica shareholders may vote by proxy by executing a written instrument in favor of another person, including a director of Telefónica. Terra Networks shareholders may vote by proxy by executing a written instrument in favor of another person, including a director of Terra Networks. A proxy may be appointed for only

one single meeting, including the first and second calls relating to such meeting.

*Q: Will my depositary vote the ordinary shares represented by my ADSs for me?*

A: If you own Terra Networks ADSs, the Terra Networks depositary will, subject to certain conditions, vote the ordinary shares represented by your ADSs in accordance with the Board of Directors' recommendation unless you provide the Terra Networks depositary with instructions to the contrary.

If you own Telefónica ADSs, the Telefónica depositary will, subject to certain conditions, vote the ordinary shares represented by your ADSs in accordance with the Board of Directors' recommendation unless you provide the Telefónica depositary with instructions to the contrary.

*Q: What will I receive in the merger for my Terra Networks ordinary shares and ADSs?*

A: Terra Networks shareholders will receive 2 ordinary shares of Telefónica for every 9 ordinary shares of Terra Networks, and holders of Terra

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Networks ADSs will receive 2 Telefónica ADSs for every 27 Terra Networks ADSs.

Telefónica will not issue or deliver any fractional ordinary shares or ADSs. Terra Networks shareholders and ADS holders will receive cash in lieu of any ordinary shares or ADSs Terra Networks that do not entitle them to receive one ordinary share or ADS of Telefónica.

*Q: What happens to my future dividends?*

A: The merger plan describes that the holders of ordinary shares of Telefónica and Terra Networks will receive separate dividends prior to the merger as follows: (1) holders of Telefónica ordinary shares and ADSs will receive \$0.23 per Telefónica ordinary share as interim dividends with respect to the fiscal year ended December 31, 2004; (2) holders of Terra Networks ordinary shares and ADSs will receive \$0.60 per Terra Networks ordinary share; and (3) holders of Telefónica ordinary shares and ADSs will receive a dividend of one Telefónica ordinary share for every 25 Telefónica ordinary shares already held. The dividends described under (2) and (3) above are subject to the final approval of the annual general shareholders' meetings of the relevant company. The determination of the exchange ratio took into consideration the dividends that both companies are expected to distribute. Other than the dividends described in (1), (2) and (3) above, which will be paid prior to the merger, the holders of Telefónica ordinary shares and ADSs received in connection with the merger will be entitled to receive dividends on an equal basis with current holders of Telefónica ordinary shares and ADSs with respect to the year beginning January 1, 2005, including a dividend declared by the Board of Directors of Telefónica on November 24, 2004 in the amount of \$0.27 per Telefónica ordinary share payable on November 11, 2005, subject to final approval by the annual general shareholders' meeting of Telefónica. To compare dividends paid by each of Telefónica and Terra Networks, see Part One Summary Comparative per Ordinary Share Data.

*Q: When do you expect the merger to be completed?*

A: We are working towards completing the merger as quickly as possible. We hope to complete the merger within two months of the date of the annual general shareholders' meetings.

*Q: What do I have to do in order to exchange my ordinary shares of Terra Networks for ordinary shares in Telefónica?*

A: Nothing. If the merger is approved, your Terra Networks ordinary shares will be automatically exchanged for ordinary shares of Telefónica.

*Q: What do I have to do in order to exchange my Terra Networks ADSs for ADSs of Telefónica?*

A: Nothing. If the merger is approved, the Terra Networks ordinary shares represented by your ADSs will be automatically exchanged for ordinary shares of Telefónica and ADSs representing Telefónica ordinary shares will be issued or delivered to you.

If you hold your Terra Networks ADSs in the form of ADR certificate(s), you must surrender your ADR certificate(s) for cancellation and obtain a new ADR certificate representing the Telefónica ADSs you are entitled to received in the merger.

*Q: Who do I call if I have questions about the meetings or the merger?*

A: Telefónica shareholders and ADS holders may call Telefónica's Shareholder Assistant Service, at 011-34-900-11-1004.

Terra Networks shareholders and ADS holders may call 011-34-900-50-0525.

*Q: If I own ADSs, how do I contact the depositary?*

A: If you own Telefónica ADSs, you should contact Citibank, N.A. at the address and number provided in the instructions to your voting card.

If you own Terra Networks ADSs, you should contact Citibank, N.A. at the address and number provided in the instructions to your voting card.

## **Part One □ Summary**

*This summary highlights selected information from this joint information statement/prospectus and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the legal terms of the merger, you should read this document and the documents we have referred you to carefully. See □Part Eight□Additional Information for Shareholders□Where You Can Find More Information.□*

### **The Companies**

#### ***Telefónica, S.A.***

The registered offices of Telefónica are at Gran Vía, 28, 28013 Madrid, Spain; the telephone number of Telefónica's registered offices is 011-34-91-584- 0040.

We are a diversified telecommunications group which provides a comprehensive range of services in Spain and Latin America through one of the world's largest and most modern telecommunications networks. We are also the leading provider of fixed line public voice telephone services, wireless communications services, Internet access services and data transmission services in Spain and one of the largest telecommunications operators in Latin America, with operations principally in Brazil, Argentina, Chile, Peru, Mexico, El Salvador, Guatemala and

Puerto Rico.

Our group is organized according to seven principal lines of business: Spanish fixed line business, Latin American fixed line business, mobile business, directories business, Internet portal business, call centers and content and media business.

At December 31, 2004, we had approximately 43.2 million access lines in service and 74.4 million wireless subscribers. In addition, we have 0.4 million pay television subscribers. We had a total of approximately 118.1 million clients at December 31, 2004, more than half of which were in Latin America.

### ***Terra Networks, S.A.***

The registered offices of Terra Networks are at Calle Nicaragua, 54, 08029, Barcelona, Spain; the telephone number of Terra Networks' registered offices is 011-34-93-493-2300. The main offices of Terra Networks are at Via de las Dos Castillas, 33, 28224, Pozuelo de Alarcón, Madrid, Spain; the telephone number of Terra Networks' main offices is 011-34-91-452-3000.

Terra Networks is a leading portal to Spanish- and Portuguese-speaking markets. Terra Networks offers a suite of Internet services in a variety of languages that provides users throughout our markets in Europe, Latin America and North America with:

- access to the Internet (in Spain and certain countries in Latin America);
- portal and network services that incorporate a wide variety of individually-tailored content for each market and featuring enhanced functionality;
- a range of online advertising, marketing and e-commerce opportunities;
- multiple solutions for our customers' Internet needs, such as web design and hosting and communication; and
- consulting services such as web audit, web rationalization and web maintenance.

Through Terra Networks' portals and network of websites and joint venture partnerships, it has one of the largest global footprints of any Internet portal or network, with portals in 27 countries. Terra Networks holds a leading position in the following markets: Spain, Latin America and the U.S. Hispanic market. Terra Networks is also a leading interactive services provider in Spain and Latin America, offering Internet access and local-language interactive content and services to more than 6 million pay customers in Spain, the United States, Brazil, Mexico, Peru, Chile and Central America.

### **Telefónica and Terra Networks' Reasons for the Merger**

Telefónica and Terra Networks believe that by combining Terra Networks' Internet access and

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**Part One - Summary**

portal services with Telefónica's fixed-line telephony network and broadband services, the two companies can create more shareholder value than could be achieved by the companies on their own. This is the fundamental

reason for the merger.

Telefónica and Terra Networks believe that the strategy of independently developing telecommunications and Internet businesses is no longer attractive, particularly in light of the recent growth in penetration of broadband technology in many of the markets in which the two companies operate. As a result of the success of broadband technology, a new market dynamic has developed in which Internet access and connection and telephony services offered in one integrated package is the business model that best serves customers' increasing desire to obtain these services from one telecommunications provider.

For Telefónica and Terra Networks, the integration of Telefónica's telecommunications business, and in particular its fixed-line telephony network infrastructure, with the requisite technical and human capital to operate such network, and broadband capability, with Terra Networks' Internet access and portal services, provides greater growth opportunities for the companies as an integrated unit than as independent operators. As an integrated telephony and Internet services provider, Telefónica will be able to provide a complete package of services in order to compete successfully with other integrated operators, such as cable companies.

In addition, after the merger, Telefónica and Terra Networks believe that:

- The two companies' competitive position will be stronger as a result of an increased capability to compete with the integrated telephony, internet service and content packages offered by competitors;
- The two companies will be better positioned to develop new services that optimize the use of Terra Networks' network or that require significant resources;
- The two companies will improve their ability to leverage each company's client relationships by creating global strategies based on client segment, rather than product line, reducing customer churn through the sale of packaged services and increasing cross-selling; and
- The two companies' costs and expenses will decrease as a result of, among other measures, integrating their networks and platforms, eliminating duplicative marketing and advertising and reducing corporate overhead.

Telefónica and Terra Networks believe the combined company can be run more efficiently and can compete more effectively and use its capital more profitably than either company on its own. Of course, these benefits and the other benefits described above depend on our ability to obtain the necessary approvals for the merger, to integrate the businesses of Telefónica and Terra Networks successfully after the merger and on other uncertainties.

## **Merger Recommendations to Shareholders**

### ***To Telefónica Shareholders:***

The Board of Directors of Telefónica has approved the merger plan, an English-language translation of which is attached as Annex A-1, and the holders of Telefónica ordinary shares and Telefónica ADSs are being invited to approve the merger on the terms and conditions set forth in the merger plan at the Telefónica annual general shareholders' meeting. In accordance with Spanish law, Telefónica's Board of Directors has prepared a report to shareholders which explains certain legal and financial aspects of the merger. See "Part Three" The Merger Report of the Board of Directors of Telefónica for a description of such report. An English-language translation of the report is attached as Annex C-2 to this joint information statement/prospectus.

### ***To Terra Networks Shareholders:***

The Board of Directors of Terra Networks has approved the merger plan, an English-language translation of which is attached as Annex A-1, and the holders of Terra Networks ordinary shares and Terra Networks ADSs are being invited to approve the merger plan at the Terra Networks annual general shareholders' meeting. In accordance with Spanish law, Terra Networks' Board of Directors has prepared a report to shareholders which



explains certain legal and financial aspects of the merger. See "Part Three" The Merger Report of the Board of Directors of Terra Networks for a description of such report. An English-language translation of the report is attached as Annex C-3 to this joint information statement/prospectus.

## **The Merger**

In the merger, Terra Networks will be merged into Telefónica with Telefónica being the surviving entity. If the merger is consummated the ordinary shares and ADSs of Terra Networks will cease to be traded on any exchange or quotation system, including the Spanish stock exchanges in the case of the Terra Networks ordinary shares and the Nasdaq National Market in the case of the Terra Networks ADSs.

The English-language translation of the merger plan is attached as Annex A-1 to this joint

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<b>Part One - Summary</b>
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information statement/prospectus. We encourage you to read the merger plan because it is the document that governs the merger.

### ***What Holders of Terra Networks Ordinary Shares and ADSs Will Receive***

As a result of the merger, Terra Networks shareholders will receive 2 ordinary shares of Telefónica for every 9 ordinary shares of Terra Networks, and holders of Terra Networks ADSs will receive 2 Telefónica ADSs for every 27 Terra Networks ADSs.

Telefónica will not issue or deliver any fractional ordinary shares or ADSs. Terra Networks shareholders and ADS holders will receive cash in lieu of any ordinary shares or ADSs of Terra Networks that do not entitle them to receive one ordinary share or ADS of Telefónica.

### ***Comparative Per Ordinary Share and ADS Market Price Information***

Telefónica and Terra Networks ordinary shares are both listed on the Automated Quotation System of the Spanish stock exchanges. On February 11, 2005, the last full trading day prior to the public announcement of negotiations relating to the proposed merger, Telefónica ordinary shares closed at \$14.46 and Terra Networks ordinary shares closed at \$3.19. On April 12, 2005 Telefónica ordinary shares closed at \$ and Terra Networks ordinary shares closed at \$.

Telefónica ADSs are listed on the New York Stock Exchange. Terra Networks ADSs are traded on the Nasdaq National Market. On February 11, 2005, the last full trading day prior to the public announcement of negotiations relating to the proposed merger, Telefónica ADSs closed at U.S.\$55.91 and Terra Networks ADSs closed at U.S.\$4.07. On April 12, 2005, Telefónica ADSs closed at U.S.\$ and Terra Networks ADSs closed at U.S.\$.

### ***Listing of New Telefónica ADSs***

The new Telefónica ADSs will be listed on the New York Stock Exchange under the ticker symbol "TEF," subject to approval by the NYSE of Telefónica's application to list such ADSs.

### ***Ownership of Telefónica After the Merger***

Telefónica will issue or deliver approximately 29,274,686 ordinary shares of Telefónica (including ordinary shares in the form of ADSs) to Terra Networks shareholders in the merger. The ordinary shares of Telefónica to be issued or delivered to Terra Networks shareholders in the merger will represent approximately 0.6% of the outstanding ordinary shares of Telefónica after the merger.

### ***Shareholder Vote Required to Approve the Merger Proposals***

*For Telefónica shareholders:* Approval of the merger balance sheets, the merger on the terms and conditions set forth in the merger plan and related matters requires the affirmative vote of a majority of the ordinary shares present or represented by proxy at the first or second call of the annual general shareholders' meeting if a quorum of at least 50% of the issued share capital of Telefónica entitled to vote is obtained or 2/3 of the votes present or represented by proxy at the second call of the annual general shareholders' meeting if the quorum is less than 50% but at least 25%.

*For Terra Networks shareholders:* Approval of the merger balance sheets, the merger on the terms and conditions set forth in the merger plan and related matters requires the affirmative vote of a majority of the ordinary shares present or represented by proxy at the first or second call of the annual general shareholders' meeting if a quorum of at least 50% of the issued share capital of Terra Networks entitled to vote is obtained or 2/3 of the votes present or represented by proxy at the second call of the annual general shareholders' meeting if the quorum is less than 50% but at least 25%.

At February 23, 2005, Telefónica owned 75.87% of the outstanding Terra Network ordinary shares. Telefónica intends to vote its Terra Networks ordinary shares in favor of the merger.

### ***Appraisal Rights***

The holders of Telefónica and Terra Networks ordinary shares and ADSs do not have any right to an appraisal of the value of their ordinary shares in connection with the merger. However, an independent expert appointed by the Madrid Commercial Registry (*Registro Mercantil*) has prepared a report concerning the merger and whether

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<b>Part One - Summary</b>
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the share exchange ratio is justified. See "Part Three—The Merger—Report of the Spanish Independent Expert" for a description of such report. An English-language translation of this report is attached as Annex C-1 to this joint information statement/prospectus.

### ***Board of Directors of Telefónica After the Merger***

Following the merger, the Board of Directors of Telefónica will remain unchanged with 19 members.

### ***Accounting Treatment***

The merger by absorption of Terra Networks with and into Telefónica will be accounted for as a transaction of entities under common control in the consolidated financial statements of Telefónica under both Spanish and U.S. GAAP except for the acquisition of the noncontrolling equity interests in Terra Networks, which will be accounted for under the "pooling of interests" method under Spanish GAAP and under the "purchase method" under U.S. GAAP (purchase of the noncontrolling equity interests).

### ***Material Spanish and U.S. Federal Income Tax Consequences of the Merger***

Holders of Terra Networks ordinary shares or ADSs (except those who reside in certain tax haven jurisdictions, as defined by Spanish tax regulations) generally will not recognize any gain or loss for Spanish tax purposes on the exchange of their Terra Networks ordinary shares or ADSs for Telefónica ordinary shares or ADSs in the merger, except for any gain or loss recognized in connection with the receipt of cash in lieu of fractional ordinary shares. In addition, the companies will not recognize gain or loss as a result of the merger.

Based on certain factual representations made by Telefónica and assuming that (a) there will not be any changes in facts or in law between the date of this joint information statement/prospectus and the date on which the merger is completed and (b) the completion of the merger under the current terms of the merger plan and any other related agreements, U.S. counsel is of the opinion that, subject to the passive foreign investment company considerations discussed in Part Three The Merger Material Spanish and U.S. Federal Taxation Consequences Income Tax Consequences of the Merger United States Taxation, although there is no authority that directly addresses a reorganization that has facts similar to that of the merger where an acquired company in which the acquiror has a significant pre-existing ownership interest pays an extraordinary dividend prior to the reorganization and therefore it is not certain, for U.S. federal income tax purposes, the exchange of Terra Networks ordinary shares or ADSs for Telefónica ordinary shares or ADSs pursuant to the merger should qualify under Section 354(a) of the Internal Revenue Code of 1986, as amended, as a tax-free exchange, except for cash received in lieu of a fractional ordinary shares. An opinion of counsel is not binding upon the US Internal Revenue Service or the courts, either or both of which could reach a contrary conclusion. If that were the case, the exchange of Terra Networks ordinary shares or ADSs for Telefónica ordinary shares or ADSs pursuant to the merger would be treated as a taxable exchange for US federal income tax purposes. See Part Three The Merger Material Spanish and U.S. Federal Taxation Consequences.

Your tax consequences will depend upon your personal situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you.

### ***Conditions to the Completion of the Merger***

The completion of the merger depends upon meeting a number of conditions, including the conditions described below. For a more detailed discussion of conditions to the merger, see Part Three The Merger Conditions to the Completion of the Merger:

- approval of the merger on the terms and conditions set forth in the merger plan by the shareholders of Telefónica and Terra Networks at their respective annual general shareholders meetings;
- approval by the shareholders of Telefónica of its merger balance sheets and approval by the shareholders of Terra Networks of its merger balance sheets at their respective annual general shareholders meetings;
- approval by the shareholders of Telefónica and Terra Networks of any other applicable resolutions related to the merger at their respective annual shareholders meetings;
- compliance with all corporate requirements under Spanish law, including registration of the merger deed with the Madrid Commercial Registry;
- Telefónica's registration statement on Form F-4, which includes this joint information

statement/prospectus, being effective and not subject to any stop order by the SEC; and

- approval for the listing on the NYSE of the Telefónica ADSs to be issued in the merger.

We can give no assurance as to when or whether any of these approvals and consents will be obtained, the terms and conditions that may be imposed in connection with any such approvals and consents, or the consequences of failing to obtain and approvals and consents.

### ***Opinions of Financial Advisors***

In deciding to approve the merger plan, each Board of Directors considered the opinion of one or more financial advisors. The Board of Directors of Terra Networks received opinions from (i) Lehman Brothers Europe Limited, that based upon and subject to the matters stated therein, as of February 23, 2005, from a financial point of view, the exchange ratio to be offered in the proposed merger was fair to the shareholders of Terra Networks (other than Telefónica) and (ii) Citigroup Global Markets Limited, that, based upon and subject to the assumptions and qualifications set forth therein, as of February 23, 2005, the exchange ratio was fair, from a financial point of view, to the holders of Terra Networks ordinary shares (other than Telefónica and its affiliates). In connection with rendering their opinions, each of Lehman Brothers Europe Limited and Citigroup Global Markets Limited assumed, among other things, payment of the proposed dividend of \$0.60 per Terra Networks ordinary share to be paid to all Terra Networks shareholders prior to the merger. The Board of Directors of Telefónica received an opinion from Morgan Stanley & Co. Limited as to the fairness from a financial point of view to Telefónica of the merger exchange ratio to be paid by Telefónica and the extraordinary dividend to be distributed by Terra Networks to its shareholders, including Telefónica, pursuant to the merger plan as of February 23, 2005, based upon and subject to the matters stated in its opinion. These opinions are attached as Annex B-2, Annex B-3 and Annex B-1, respectively. We encourage you to read these opinions in their entirety.

### ***Directors' Reports on the Merger plan***

In accordance with the Spanish Corporations Law, the Boards of Directors of each of Telefónica and Terra Networks have prepared Directors' reports on the merger plan. These reports describe certain of the merger plan's legal and economic aspects, including the exchange ratio and the procedure for the valuation of the companies. See "Part Three" The Merger Report of the Board of Directors of Telefónica and "Part Three" The Merger Report of the Board of Directors of Terra Networks for a description of these reports. English-language translations of the Directors' reports are attached as Annexes C-2 and C-3, respectively, to this joint information statement/prospectus.

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**Part One - Summary**

### **Summary Selected Historical Financial Data**

We are providing the following information to aid you in your analysis of the financial aspects of the merger. We derived this information from the audited financial statements of Telefónica and Terra Networks at and for the years ended December 31, 2000 through 2004. The information is only a summary and you should read it together with the annual reports and other information that we have filed with the SEC and incorporated by reference and information that we incorporate by reference in the future. See "Part Eight" Additional Information for Shareholders Where You Can Find More Information.

### **Summary Selected Historical Consolidated Financial Data of Telefónica**

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For important information concerning the preparation and presentation of the financial statements from which these data have been selected, see [Part Eight]Additional Information for Shareholders[Presentation of Financial Information.

At and for the year ended December 31,

	2000	2001	2002	2003	2004
(in millions of euro, except per ordinary share and per ADS data)					
<b>INCOME STATEMENT DATA</b>					
<b>Amounts in accordance with Spanish GAAP:</b>					
Revenues from operations	28,485.5	31,052.6	28,411.3	28,399.8	30,321.9
Other operating revenues (1)	266.7	254.7	297.6	288.9	381.7
Internal expenditures capitalized	899.1	730.4	496.7	530.3	474.3
Increase (decrease) in inventories (net)	112.3	(103.9)	(18.1)	(135.5)	32.9
<b>Total Revenues</b>	<b>29,763.6</b>	<b>31,933.8</b>	<b>29,187.5</b>	<b>29,083.5</b>	<b>31,210.8</b>
Goods purchased	(6,045.2)	(7,111.9)	(6,953.6)	(6,276.6)	(7,558.69)
External services and local taxes	(5,786.1)	(5,534.3)	(4,976.7)	(5,082.7)	(5,601.63)
Personnel expenses	(5,111.7)	(5,390.3)	(4,793.8)	(4,641.3)	(4,411.81)
Provision for depreciation and amortization	(6,960.8)	(7,374.0)	(6,692.4)	(6,274.2)	(5,980.15)
Trade provisions	(761.1)				