

TELEFONICA S A
Form 20-F
April 12, 2006

As filed with the Securities and Exchange Commission on April 12, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

Commission file number: 1-9531

TELEFÓNICA, S.A.

(Exact name of Registrant as specified in its charter)

KINGDOM OF SPAIN

(Jurisdiction of incorporation or organization)

Gran Vía, 28, 28013 Madrid, Spain

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares, nominal value \square1.00 per share*	New York Stock Exchange
American Depositary Shares, each representing three Ordinary Shares	New York Stock Exchange

Not for trading, but only in connection with the listing of American Depositary Shares, pursuant to the
* requirements of the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each class of capital stock of Telefónica, S.A. at December 31, 2005 was:

Ordinary Shares, nominal value \square 1.00 per share: 4,921,130,397

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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Yes x **No o**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes x **No o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of [accelerated filer] and [large accelerated filer] in Rule 12b-2 of the Exchange Act.

Large accelerated filer x **Accelerated filer o** **Non-accelerated filer o**

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o **Item 18 x**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o **No x**

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, 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 Annual Report can be identified, in some instances, by the use of words such as "expect", "aim", "hope", "anticipate", "intend", "believe" 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 Annual Report including, without limitation, certain statements made in "Item 3"Key Information"Risk Factors", "Item 4"Information on the Company" and "Item 5"Operating and Financial Review and Prospects" and include statements regarding our intent, belief or current expectations with respect to, among other things:

- the effect on our results of operations of 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;
- our estimated availability of funds;
- our ability to repay debt with estimated future cash flows;
- our shareholder remuneration policies;
- supervision and regulation of the Spanish telecommunications sector and of the telecommunications sectors 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:

- 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, the European Union and other countries where we operate;
- the actions of existing and potential competitors in each of our markets;
- the outcome of pending litigation; and
- the potential effects of technological changes.

Some of these and other important factors that could cause such differences are discussed in more detail under "Item 3"Key Information"Risk Factors", "Item 4"Information on the Company", "Item 5"Operating and Financial Review and Prospects" and "Item 11"Quantitative and Qualitative Disclosures About Market Risk".

Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date of this Annual Report including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

CERTAIN TERMS AND CONVENTIONS

Our ordinary shares, nominal value one euro each, are currently listed on each of the Madrid, Barcelona, Bilbao and Valencia stock exchanges under the symbol "TEF". They are also listed on various foreign exchanges such as the London, Frankfurt, Paris, Buenos Aires and Tokyo stock exchanges and are quoted through the Automated Quotation System of the Spanish stock exchanges and through the SEAQ International System of the London Stock Exchange. American Depositary Shares ("ADSs"), each representing the right to receive three ordinary shares, are listed on the New York Stock Exchange under the symbol "TEF" and on the Lima Stock Exchange. ADSs are evidenced by American Depositary Receipts ("ADRs") issued under a Deposit Agreement with Citibank, N.A., as Depositary. Brazilian Depositary Shares ("BDSs"), each representing the right to receive one ordinary share, are listed on the São Paulo Stock Exchange. BDSs are evidenced by Brazilian Depositary Receipts ("BDRs") issued under a Deposit Agreement with Banco Bradesco, S.A., as Depositary.

As used herein, "Telefónica", "Telefónica Group" and terms such as "we", "us" and "our" mean Telefónica, S.A. and its consolidated subsidiaries unless the context otherwise requires.

Following are definitions of certain technical terms used in this Annual Report:

"Access" refers to a connection to any of the telecommunications services offered by the Telefónica Group. We present our customer base using this model because the integration of telecommunications services in bundled service packages has changed the way residential and corporate customers contract for our services. Because a single customer may contract for multiple services, we believe it is more accurate to count the number of accesses, or services a customer has contracted for, as opposed to only counting our number of customers. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than a single customer: a fixed telephony access and a broadband access. The following are the main categories of accesses:

- Fixed Telephony accesses: includes PSTN lines (public switched telephone network), ISDN lines (integrated services digital network) and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines to service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, 20 or 10); 2/6 digital access (x30);
- Internet and data accesses: includes broadband accesses (wholesale ADSL and retail ADSL lines), narrowband accesses (internet service through the PSTN) and other accesses (unbundled local loops, circuits and other accesses including WiFi and fiber optic cable);
- Pay TV: includes cable TV and Imagenio IP TV (Internet Protocol TV); and
- Mobile accesses: includes mobile telephony.

PRESENTATION OF CERTAIN FINANCIAL INFORMATION

In this Annual Report, references to "dollars" or "\$" are to United States dollars, references to "euro" or "€" are to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union pursuant to the treaty establishing the European Community, as amended from time to time.

Since January 1, 2005, our consolidated annual and interim financial statements, including our consolidated financial statements as of and for the year ended December 31, 2005, are and will be prepared in accordance

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with the International Financial Reporting Standards adopted by the European Union (IFRS). IFRS, as adopted by the European Union and applied by us in our consolidated financial statements as of and for the year ended

December 31, 2005, do not differ from IFRS, as published by the International Accounting Standards Board (IASB), effective as of December 31, 2005, and therefore, comply in full with IFRS, as published by the IASB. Our consolidated financial information as of and for the year ended December 31, 2004 included in our annual consolidated financial statements was restated in accordance with IFRS. For quantitative information regarding the adjustments required to reconcile our Spanish GAAP financial information to IFRS, see note 2 to our consolidated financial statements as of and for the year ended December 31, 2005 prepared under IFRS.

IFRS differs in certain significant respects from Spanish GAAP. As a result, our financial information presented under IFRS is not directly comparable to our financial information presented under Spanish GAAP, and readers should avoid such a comparison.

PART I**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS****A. DIRECTORS AND SENIOR MANAGEMENT**

Not applicable.

B. ADVISORS

Not applicable.

C. AUDITORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**A. SELECTED FINANCIAL DATA**

The following table presents selected consolidated financial data of Telefónica, S.A. You should read this table in conjunction with [Item 5] Operating and Financial Review and Prospects and the Consolidated Financial Statements included elsewhere in this Annual Report. The consolidated income statement data for the years ended December 31, 2004 and 2005 and the consolidated balance sheet data as of December 31, 2004 and 2005 set forth below are derived from, and are qualified in their entirety by reference to, the Consolidated Financial Statements and notes thereto included in this Annual Report. Our Consolidated Financial Statements have been prepared in accordance with IFRS, which differ in certain respects from U.S. GAAP. Please refer to note 23 to our Consolidated Financial Statements for a discussion of these differences.

The basis of presentation and principles of consolidation are described in detail in notes 2 and 4.z, respectively, to our Consolidated Financial Statements.

	As of or for the year ended December 31,	
	2004	2005
	(euro in millions, except per share and ADS data)	
IFRS		
Consolidated Income Statement Data		
Net sales and rendering of services	30,280.92	37,882.16
Other income	1,133.41	1,418.26
Supplies	(7,637.33)	(10,065.05)
Personnel expenses	(5,095.17)	(5,656.34)
Other expenses	(6,459.80)	(8,302.60)

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Operating income before depreciation and amortization (OIBDA)	12,222.03	15,276.43
Depreciation and amortization	(5,666.03)	(6,717.68)
Operating Income	6,556.00	8,558.75
Share of profit (loss) of associates	(50.49)	(128.21)
Net financial expenses	(1,462.06)	(1,796.37)
Net exchange differences	(177.05)	162.04
	<hr/>	<hr/>
Net financial income (expense)	(1,639.11)	(1,634.33)
Profit before taxes from continuing operations	4,866.40	6,796.21
Corporate income tax	(1,512.78)	(1,969.15)

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	As of or for the year ended December 31,	
	2004	2005
	(euro in millions, except per share and ADS data)	
Profit for the year from continuing operations	3,353.62	4,827.06
Profit from discontinued operations after taxes	131.97	□
Profit for the year	3,485.59	4,827.06
Minority interests	(309.92)	(381.21)
Profit for the year attributable to equity holders of the parent	3,175.67	4,445.85
Weighted average number of shares (thousands)	4,987,751	4,870,852
Earnings per share attributable to equity holders of the parent (euros)(1)(2)	0.637	0.913
Earnings per ADS(1)(2)	1.910	2.738
Weighted average number of ADS (thousands)	1,662,584	1,623,617

Consolidated Balance Sheet Data

Cash and cash equivalents	914.35	2,213.21
Property, plant and equipment	23,193.37	27,992.60
Total assets	60,078.86	73,173.77
Non-current liabilities	27,742.58	35,126.47
Equity (net)	12,342.47	16,158.43
Book value per ordinary share (euros)	2.475	3.317

Consolidated Cash Flow Data

Net cash provided by operating activities	10,131.13	11,139.14
Net cash used in investing activities	(5,808.16)	(9,592.02)
Net cash used in financing activities	(3,936.61)	(434.67)
Cash dividends per ordinary share (euros)	0.400	0.500

As of or for the year ended December 31,

	2001	2002	2003	2004	2005
	(euro in thousands)				
U.S. GAAP(3)					
Consolidated Income Statement Data					
Total revenues	31,577.20	28,912.60	27,708.40	29,854.90	35,993.30
Income (loss) before tax	(6,693.81)	(8,669.63)	3,866.05	3,947.58	6,056.12
Corporate income tax	(481.40)	3,383.16	(1,125.73)	(1,400.81)	(1,911.92)
Net income	(7,175.21)	(5,286.47)	2,740.32	2,546.77	4,144.20
Net income per share(1)	(1.403)	(1.027)	0.531	0.511	0.851
Net income per ADS(1)(2)	(4.210)	(3.082)	1.594	1.532	2.552
Consolidated Balance Sheet Data					
Total assets	90,741.77	66,905.14	61,264.42	62,455.91	76,647.79

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Long-term debt	27,771.20	21,778.00	18,310.00	14,881.90	25,167.58
Shareholders' equity	31,470.47	16,667.84	16,888.02	15,872.85	19,221.96
Book value per ordinary share	6.155	3.239	3.274	3.182	3.946

Consolidated Cash Flow Data

Net cash provided by operating activities	8,995.8	9,019.5	9,558.7	10,042.7	10,891.44
Net cash used in (provided by) investing activities	(9,528.5)	(5,585.4)	(5,462.8)	(8,543.1)	(9,290.75)
Net cash used in (received from) financing activities	(1,347.0)	(2,082.0)	(4,220.0)	(2,264.6)	(803.53)
Cash dividends per ordinary share (euros)(1)	—	—	0.450	0.400	0.500

-
- (1) The per share and per ADS computations for all periods presented have been presented using the weighted average number of shares outstanding for each period, and have been adjusted to reflect the stock dividends which occurred during the periods presented, as if these had occurred at the beginning of the earliest period presented.
 - (2) Each ADS represents the right to receive three ordinary shares. Figures do not include any charges of the Depositary.
 - (3) U.S. GAAP data for the years ended December 31, 2001, 2002, 2003 and 2004 has been restated retroactively to eliminate the monetary adjustment for inflation in hyperinflationary economies. For additional information, please refer to note 23 to our Consolidated Financial Statements included elsewhere in this document.

Exchange Rate Information

As used in this Annual Report, the term "Noon Buying Rate" refers to the rate of exchange for euros, expressed in U.S. dollars per euro, in the City of New York for cable transfers payable in foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes. The Noon Buying Rate certified by the New York Federal Reserve Bank for the euro on April 6, 2006 was \$1.2216 = €1.00.

The following tables describe, for the periods and dates indicated, information concerning the Noon Buying Rate for the euro. Amounts are expressed in U.S. dollars per €1.00.

Year ended December 31,	Noon Buying Rate			
	Period end	Average(1)	High	Low
2001	0.8901	0.8909	0.9535	0.8370
2002	1.0485	0.9495	1.0485	0.8594
2003	1.2597	1.1411	1.2597	1.0361
2004	1.3538	1.2478	1.3625	1.1801
2005	1.1842	1.2400	1.3476	1.1667

Source: Federal Reserve Bank of New York.

(1) The average of the Noon Buying Rates for the euro on the last day of each month during the relevant period.