

Telefonica



Putting you first

Annual Report 2004

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We wish to be the best and largest integrated

in profits

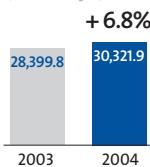
2004 saw the company post record profits...

+30.6% Net profit

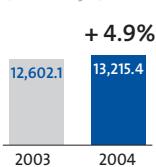
+25.0% Dividend

€ 3,771.9 billion in investment

Revenue
(Millions of €)

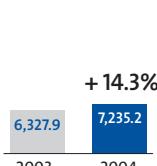


EBITDA
(Millions of €)

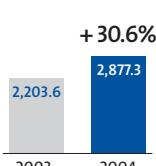


EBIT

(Millions of €)

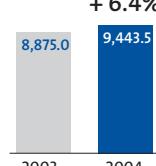


Net Profit
(Millions of €)



OpCF

(Millions of €)

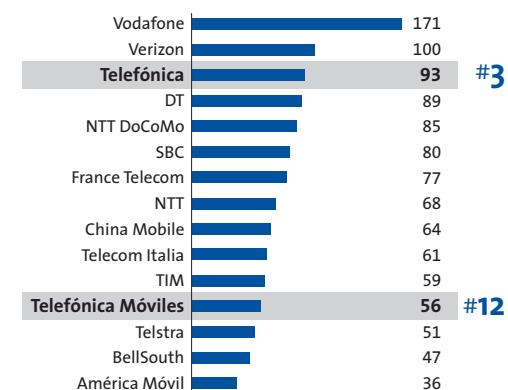


in the markets

...moving up from **7th** to **3rd** in the market capitalisation ranking...

WORLD RANKING BY MARKET CAPITALIZATION

Billions of US dollars (at 25th February 2005)



93,000 m\$ in market capitalization

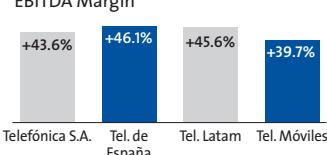
3rd Company in terms of market capitalization in our sector

5th European company in terms of market capitalization

in efficiency

...with the best efficiency ratios in the sector...

EBITDA Margin



in innovation

...with an investment of
2.398 billion €
in R+D+i...

Training and Marketing 4%

Design and Planning 18%

R+D 19%

Equipment 41%

Acquisition of other know-how 18%

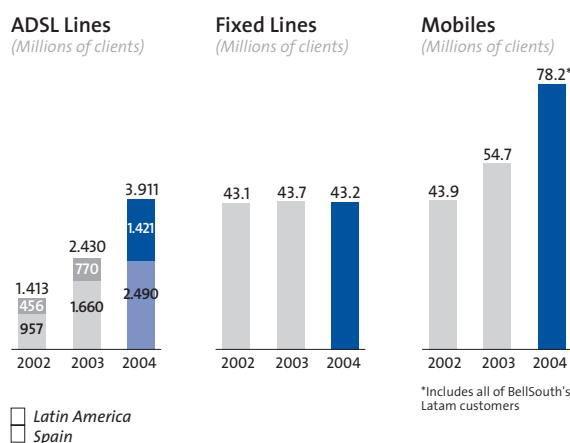


telecommunications group in the world...

in our customer base

...with over **122** million customers worldwide...

Increase of **+26,4%**



in returns for shareholders

...with one of the best investment options...

22.5% total return in 2004

+25% Dividend

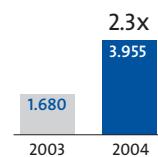


Distribution of treasury stock at a ratio **1x25**



Buyback plan up and running

Shareholder Remuneration (Billions of €)



Highlights 2004

in driving development

...with a generated income by the group of **€ 38.973** billion which represents **1.8%** GNP of the countries...

in employment

...with over **173,000** employees and **9.000,000** training hours.

Letter from the Chairman



Dear Shareholders,

2004 was a milestone year in Telefónica's history in terms of management and economic-financial results, which I would like to summarize in this letter, and at the same time reiterate the optimism I expressed last year regarding our Company's growth and profitability outlook. This year we have managed to simultaneously achieve progress in growth, profitability and leadership, placing us in an unbeatable competitive position for capitalizing on the new growth opportunities offered by the telecommunications sector.

In 2004, the world economy consolidated the recovery that began in 2003, growing at a rate of 5%, the strongest pace of growth in the last three decades, accompanied by a solid increase of 10% in world trade. For the tenth year running, Spain, with a 2.7% increase in GDP, enjoyed the strongest growth of all the large countries in the European Union. The economy of Latin America, a geographical region of special importance for Telefónica's business, grew by 5.5%, the highest rate of growth in 24 years, enabling an increase in per capita income of almost 4%, and reversing the sluggish trend in PCI growth in the previous 5 years. I firmly believe that the region has laid the necessary foundations for developing certain incipient structural improvements that will bring medium-term stability and capitalize on the next economic cycle, the outlook for which is extremely positive, with average growth in the next three years forecast at over 3%.

In this global scenario, the quality of the results obtained by Telefónica in 2004, its shareholder remuneration policy and the renewed expectations of growth have been decisive in the performance of the Company's shares. In fact, last year Telefónica's shares were revalued 19.1%, bettering both its main competitors and the international telecommunications indexes of reference, such as the DJ Stoxx 600, which gained 11.9%, and general stock market indexes such as the S&P 500, DJ Euro Stoxx 50 and Ibex 35, which rose during the same period by 9.0%, 6.9% and 17.4%, respectively. It is therefore clear that Telefónica's strategy has been endorsed by the financial markets, where the Company has become a reference in the sector, an achievement without precedent in Telefónica's history, and also, in terms of stock market value, as the world's

second integrated telecommunications company and the third in the overall sector at the end of the first quarter of 2005, a substantial improvement on its fifteenth place in the ranking at the end of 1999.

I cannot think of a better way to celebrate our Company's 80th birthday. Today, Telefónica's business leadership spans beyond the limits of the sector in which it operates and, as the Chairman of this Company, allow me to share with you the feeling of enormous responsibility and pride in being part of this great business group.

2004 has undoubtedly been a memorable year for Telefónica, due to both the significant growth of the main variables in our income statement and our response to the challenges currently facing the telecommunications sector in relation to growth, innovation and commercial transformation. In this respect, Telefónica's net profit in 2004 reached the historic figure of 2,877.3 million euros, up 30.6% on 2003. This achievement acquires greater relevance if we consider that it was based not only on operative efficiency as in previous years, but also, and more importantly, on the return to growth in sales. Operating revenues increased by 6.8% from the previous year to 30,321.9 million euros. In a similar comparison excluding the exchange rate effect and the variation in the consolidation perimeter, revenues would reflect an inter-annual increase of 8.3%. The performance of this variable, which has made our results stand out from those of the other main European operators, has been based firmly on the expansion of our customer base and on the intensification of commercial initiatives. At the same time, improved operative efficiency in 2004 has enabled us to achieve the best efficiency ratios in the entire sector, with an EBITDA (gross earnings before interest, tax, depreciation and amortization) ratio to revenues of 43.6%.

These results respond exactly to Telefónica's strategic objective of generating profitable and sustainable growth, and are the result of our efforts to, firstly, improve our commercial capacities in order to expand our business and, secondly, gear our investments to growth opportunities. In fact, in 2004 more than 55% of the 3,772 billion euros corresponding to our

investments was channeled into growth projects such as the broadband business, the mobile telephony business in Latin America or UMTS technology in Spain.

The true excellence of these financial results is revealed by Telefónica's capacity to use them to generate free cash flows and boost returns on invested capital. Free cash flows increased in 2004 by 6.4% to 9,443.5 million euros, equivalent to a revenue-to-cash conversion rate of 31%. Similarly, the return on invested capital was over 12%, up by more than 4.5 percentual points on 2002. This means that we have achieved the double-figure percentage targeted for 2005 one year ahead of schedule.

The strong pace of cash generation in 2004 has enabled us to allocate 3.995 billion euros to shareholder remuneration through dividends and share buy-backs, 2.3 times the amount set aside for this purpose in 2003. This distribution of dividends, coupled with the revaluation of our shares during the year, has given Telefónica shareholders a total return of 22.5%, making the Company the best option in terms of the combination of growth and return for shareholders in the European telecommunications sector.

Today, Telefónica is much stronger than it was in the past and the excellent prospects for 2005 give us a great deal of confidence to continue developing our shareholder remuneration policy, which, from a long-term standpoint, is one of the most attractive and explicit in the sector. As a result, Telefónica's Board of Directors has proposed increasing the dividend payable in 2005 by 25%, to 0.50 euros per share and it intends to maintain this minimum dividend in the following year. It has also proposed distributing treasury stock, representing 4% of capital stock, in the proportion of one share for every twenty-five shares, in line with the treasury stock buy-back program announced in October 2003 for the 2003-2006 period.

One of the main achievements of the Company's management in 2004 was the simultaneous acquisition of BellSouth's ten mobile operators in Latin America. This operation has enabled us to incorporate more than 14.7 million new customers and further strengthen our future growth profile and scale. In this

way, Telefónica has consolidated its leadership in Latin America and has become an obligatory reference in the global mobile telephony market, since it is now the world's second mobile telephony multinational with more than 74 million customers at the end of 2004.

Telefónica's long experience has shown that leadership and growth go hand in hand in this sector. Our leading position has enabled us to strive towards our growth target with notable success, since we increased our customer base by 26.4% in 2004. This growth was mainly fuelled by the strong organic growth of Telefónica Móviles, as well as by the incorporation of the BellSouth operators. If we include BellSouth's customers in Chile and Argentina, following the acquisition of the company's operators in January 2005, the total number of customers managed by Telefónica reached 121.9 million, distributed evenly both geographically, in markets with strong growth potential, and from a business standpoint. As a result, 68% of our customers are outside of Spain and 64% correspond to the mobile telephony business.

As in previous years, I would like to draw your attention to our intense activity in Broadband business which has enabled our ADLS accesses to grow substantially this year, with the combined total for Spain and Latin America reaching 3.9 million lines, 61% more than at year-end 2003. This represents a business opportunity with clear potential for development. Its limits are hard to predict but it will transform many dimensions of Telefónica's current corporate profile: customers, products and services, operative processes, dedicated assets and, of course, financial results.

To summarize, growth, profitability and leadership have marked a key year for the Company, putting us in an optimum position to capitalize fully on the new situation in the Information and Communications Technologies (ICT) sector.

The European Union has identified the ICT sector as the main motor driving economic growth, productivity and social development, enabling it to lead the Information Society forward and achieve the new goals established in the Lisbon

Agenda. Telefónica's record in R&D and innovation is perfectly in tune with these objectives. The Company increased its investment in R&D and innovation in 2004 by 26% to 2,398 billion euros. In Spain alone, Telefónica's investment in innovation in 2004 accounted for 24% of total innovation-related investment in the ICT sector, making it the business group with the largest investment in innovation.

Telefónica has all the necessary assets to continue developing this solid growth. We have the technologies and the customers. We are leaders in our markets. We hold key positions in the new structure of the value chain in the sector. We have optimized our investments and operations. Our sound balance sheets and financial strength give us greater strategic flexibility. We have mobilized our resources and capacities around our customers. And most importantly, we have been working on our transformation for some time, anticipating the rest of the sector, because it is essential we achieve the target to which we are committed: "Being the best and biggest integrated telecommunications group in the world".

Being "the best" must respond to our leadership in the industry in terms of customer orientation, innovation, operative excellence, commitment and professionalism. Being "the biggest" means that our profitable growth and shareholder remuneration policy will make us the world's best valued operator offering integrated solutions to each customer segment.

We will continue to work hard on all these mutually supportive management priorities. In this new project, our financial stability and geographical and business deployment are no more important than our professionals, who are the best in the sector.

I would like to end by reiterating Telefónica's commitment to its customers, employees and companies, and to you, our shareholders, because you are the ones who enable us to fulfil our vision. We continue to strive to make our commitments a reality and thus justify, in the short and long term, the trust and confidence you have placed in us. We will do this by applying the best practices of Corporate Governance in everything we do, as Telefónica has always done, acting through the Board of

Directors and Control Committees, precisely as described in our Annual Report on Corporate Governance.

On behalf of the Board of Directors of Telefónica, I would like to thank you for your trust and confidence and encourage you to accompany us in this project of future growth and profitability that we are building.



César Alierta

*Chairman of the Board and
Chief Executive Officer of Telefonica, S.A.*

Management Bodies

BOARD OF DIRECTORS	Executive Committee	Audit and Control	Nominating	Human Resources Corporate Reputation	Regulation	Quality	International Affairs	Executive	Proprietary	Independent
<i>Directors</i>										
Mr. César Alierta Izuel	■							■		
Mr. Isidro Fainé Casas	■								■	
Mr. José Antonio Fernández Rivero		■							■	
Mr. Fernando de Almansa Moreno-Barreda						■		■		
Mr. Jesús María Cadenato Matía	■								■	
Mr. Maximino Carpio García	■	■	■							
Mr. Carlos Colomer Casellas	■					■				
Mr. Alfonso Ferrari Herrero			■	■			■			
Mr. José Fonollosa García								■		
Mr. Gonzalo Hinojosa Fernández de Angulo		■				■				
Mr. Miguel Horta e Costa										
Mr. Pablo Isla Álvarez de Tejera			■	■						
Mr. Luis Lada Díaz						■	■		■	
Mr. Antonio Massanell Lavilla		■		■		■			■	
Mr. Enrique Used Aznar				■	■					
Mr. Mario E. Vázquez								■		
Mr. Antonio Viana-Baptista	■							■		
Mr. Gregorio Villalabeitia Galarraga	■		■		■		■		■	
<i>Director-Secretary to the Board</i>										
Mr. Antonio Alonso Ureba		■				■			■	
<i>Vice Secretary to the Board</i>										
Mr. Ramiro Sánchez de Lerín García-Ovies			■			■				

■ Chairman of the Committee

■ Member of the Committee

■ Type of Directorship

Audit and Control Committee

Supports the Board in its monitoring functions, and in particular supervises the drawing up of financial information, relations with and the work of the External Accounts Auditor and the internal control systems of the Company.

Nominating, Compensation and Corporate Governance Committee

Ensures the integrity of the selection processes of Directors and high-ranking officers, advises the Board on the determination and supervision of the remuneration of Directors and high-ranking officers. Likewise, it performs duties in the sphere of corporate governance.

Human Resources and Corporate Reputation Committee

Analyses, informs and proposes the adoption of appropriate resolutions with respect to human resources policy and encourages the development of the Corporate Reputation Project and the implementation of the core values relating to this area.

Regulation Committee

Analyses the main regulatory issues that affect the Group at each moment in time and acts as a channel of communication and information between the management team and the Board of Directors in regulatory matters.

Service Quality and Customer Service Committee

This Committee is responsible for the study and follow-up of the quality standards of the main services rendered by the companies of the Group, as well as the standards of commercial services provided to their customers.

International Affairs Committee

Analyses the international affairs pertinent to the Group, giving special attention to institutional relations in the countries where the Group companies operate, the competitive positioning of the Company, the issues relating to corporate strategy and image, as well as the action plans of the different Company Foundations in all these countries.

**CHAIRMAN**

Mr. César Alierta Izuel

*Executive Chairman***CORPORATE MANAGEMENT TEAM**

Mr. Luis Abril Pérez	<i>General Director of Corporate Communication</i>
Mr. Antonio Alonso Ureba	<i>General Secretary and Secretary to the Board of Directors</i>
Mr. Alfonso Alonso Durán	<i>General Director of Planning and Management Control</i>
Mr. Francisco de Bergia González	<i>Director General of Sponsorships and External Relations</i>
Mr. Santiago Fernández Valbuena	<i>General Director of Finance and Shared Resources</i>
Mr. Guillermo Fernández Vidal	<i>General Director of Commercial Development and Subsidiaries</i>
Mr. Alberto Horcajo Aguirre	<i>General Director of Resources</i>
Mr. Luis Lada Díaz	<i>General Director of Development, Planning and Regulation</i>
Mr. Óscar Maraver Sánchez-Valdepeñas	<i>General Director of Human Resources</i>
Mr. Javier Nadal Ariño	<i>General Director of Institutional Relations and Foundation</i>
Mr. Calixto Ríos Pérez	<i>General Director of Auditing and Directive Resources</i>
Mr. Ángel Vilá Boix	<i>General Director of Corporate Development</i>

ACTIVITY LINES (AREAS OF BUSINESS)

Mr. Joaquím Agut Bonsfills	<i>Executive Chairman, Endemol</i>
Mr. José María Álvarez-Pallete López	<i>Executive Chairman, Telefónica Latinoamérica</i>
Mr. Javier Aguilera Arauzo	<i>Executive Chairman, TPI</i>
Mr. Luis Blasco Bosqued	<i>Executive Chairman, Telefónica de Contenidos</i>
Mr. Kim Faura Batlle	<i>Executive Chairman, Terra Networks</i>
Mr. Pedro Villar Iraumé	<i>Executive Chairman, ATENTO</i>
Mr. Julio Linares López	<i>Executive Chairman, Telefónica de España</i>
Mr. Antonio Viana-Baptista	<i>Executive Chairman, Telefónica Móviles</i>

01

Corporate Information: Telefónica Group 2004

01/01	About Telefónica	01/02	A business strategy built on five cornerstones	01/03	Commitments
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Telefónica

Telefónica has set itself a new challenge: to become the best and the biggest integrated telecommunications group in the world



01/01

About Telefónica

Telefónica group

ABOUT TELEFÓNICA

The history of Telefónica – the Company celebrated its 80th birthday in 2004 - has always been characterized by anticipation, commitment and leadership. Thus, since its creation, the company has been managed as a private sector company (it has been listed on the Stock Exchange since 1925), geared towards operative efficiency, innovation and maximizing opportunities.

This focus has lead the Company into the continual geographical expansion of its business that has now reached operations in 18 countries and extended its presence to over 40 more, distributed throughout three continents.

Telefónica is a multi-domestic operator; in each country it defines its offer according to the particularities of the market, adapting to the needs of each society and capable of being both global and local, large yet accessible. Moreover, it is the only incumbent operator in all the countries relevant to its business.

WORLD RANKING BY MARKET CAPITALIZATION

Billions of US Dollars. (at 25 February 2005)

Vodafone	171
Verizon	100
Telefónica	93
DT	89
NTT DoCoMo	85
SBC	80
France Telecom	77
NTT	68
China Mobile	64
Telecom Italia	61
TIM	59
Telefónica Móviles	56
Telstra	51
BellSouth	47
América Móvil	36

With this in view, Telefónica set itself the challenge to become the best and biggest integrated telecommunications Group in the world. The best Group in terms of: Customers, Innovation, Operational Excellence and Human Resources. And the biggest: in Returns and Growth for its shareholders, and Market Value amongst the integrated operators today.

This goal is supported by a transformation program which, with the motto "Forging ahead to gain leadership", is built on five cornerstones: customer orientation, innovation, operations excellence, commitment, leadership in people and a corporate communication and identity.

1st

Latin American
Company

5th

company in the
EuroStoxx 50
ranking

14th

non-American
company in
ranking by value

A LEADING GROUP

Telefónica is a world leader in the telecommunication sector, with presence in Europe, Africa and Latin America, and is the operator of reference in the Spanish and Portuguese-speaking markets.

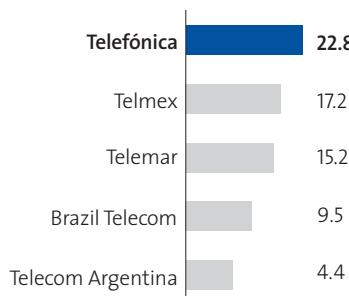
The year 2004 has been a "record" year for Telefónica, not only in terms of operational results but also due to the positioning, size and magnitudes achieved by the Group and by its new scale and profile of leadership and future growth, achieved following the purchase of Bell South mobile operators in Latin America.

Today, Telefónica (*) is the world's third operator in terms of market capitalization (the 34th company in the world), the fifth company in the EuroStoxx50 ranking (and the second non-oil company) and the fourteenth non-American firm in value; it has more than 1.5 million direct shareholders, is listed on the foremost national and international stock markets and the impact of its economic activity accounts for between 1.0 % and 2.3% of GDP in the main countries in

* data at 25 February 2005

FIXED LINES IN LATIN AMERICA

Dec. 2004 (millions)



Source: Company reports

ADSL PENETRATION

Dec. 2004 (Accesses / 100 households)



Source: Pyramid, January 2005

which it operates (Argentina, Chile, Peru, Brazil, and Spain).

IN SPAIN, THE GROUP HAS OVER 19 MILLION FIXED AND 19 MILLION MOBILE TELEPHONY CUSTOMERS.

It has been a stable presence in Latin America for 15 years, with accumulated investments in infrastructures and acquisitions of over 70 billion euros in the period from 1990 to 2004. In 2004, it strengthened its leadership in that market by purchasing the mobile operations of BellSouth in 10 countries, thus gaining nearly 15 million new customers. At the end of 2004, the number of customers managed by the Group totaled 122 million, distributed among its business lines of fixed telephony, data and Internet (more than 43 million), and mobile telephony (more than 78 million).

Telefónica is also the technological leader in its sector. In 2004, it channeled almost 2.4 billion euros into technological innovation activities in R&D&I, distributed evenly between Spain and Latin America. Of this amount, more than 460 million were set aside solely for R&D activities. Over 1,700 people engage in innovation activities in the Group. Its portfolio consists of 3,032 entries, of which 1,787 are patents and 1,245 intellectual property rights, mainly software developments. Today, the Group's activities represent 7% of total private R+D investment in Spain.

Telefónica is also an economic-business leader. It has solid and sound balance sheets, and is one of the best-positioned European operators in the world credit ranking.

During 2004, the Telefónica Group displayed a solid combination of growth, efficiency and profitability, obtaining a record increase in net profits of 30.6% (over the previous year), which, excluding the ERE ("Expediente de Regulación de Empleo" - short time working and lay-offs) effect of Telefónica de España, would have been

above 50%. Our operations were supported mainly by the expansion of our customer base (up 26.4% from 2003) and the intensification of our commercial undertakings, all boosted by significant operational efficiency that has been transformed into profitability (+43.6% of the EBITDA margin and +6.4% in the free cash flow).

A CUSTOMER-ORIENTED GROUP

Telefónica has embarked on a fully customer-oriented strategy. In 2004, its goal was to take strides in this commercial direction, moving from a product-focused business to becoming an integrated Group aiming to satisfy its customers' overall communication needs. As a result of this customer-orientated strategy, Telefónica has set itself the goal of expanding its current client base to reach 190 million customers by 2008.

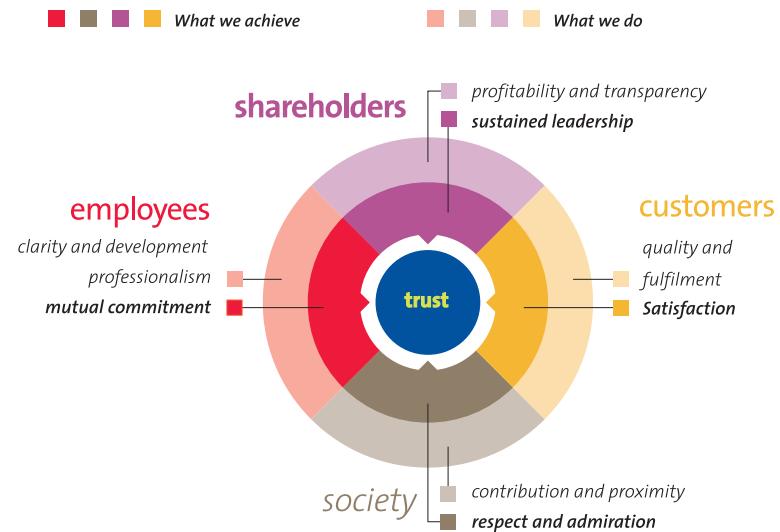
In fixed telephony and broadband activities developed in Spain and Latin America by Telefónica de España and Telefónica Latinoamérica, respectively, the Group has 43.2 million lines in service and 5.02 million broadband and Internet accesses (including accesses in Germany).

In the mobile or cell phone business in Spain, Latin America and the Mediterranean basin, Telefónica Móviles manages the service offered by the Group to more than 78 million customers (including BellSouth customers), offering voice and data service on broadband infrastructures.

A COMMITTED GROUP

Telefónica upholds a series of commitments (good governance, responsibility, solidarity, contributing to social development...) that it brings into its relationships with different interest groups. Customers, employees, shareholders, and society in general. In this respect, the Company endeavors to be their

THE VALUES OF THE TELEFÓNICA GROUP



trusted operator through: Profitability and Transparency for its shareholders; Quality and Fulfillment for customers; Clarity in its labor relations and the professional development of its employees; and finally, Commitment and closeness to society.

The Company is a major driver of economic development in the countries where it operates. In 2004, it redistributed more than 38.973 billion euros among its interest groups, notably 3.851 billion allocated to employees, 2.949 to shareholders, 14.914 to suppliers (18.402 if we include Capex) and 6.302 to public authorities. More than 15,000 providers worldwide collaborate with Telefónica, 92% of which are local providers in each country.

The Group's commitment to more than 1.5 million direct shareholders has fuelled the continual improvement of its shareholder remuneration policy, making it the best investment option, far ahead of its competitors. Thus, in 2004, the total return on that investment was 22.5% making it the leader and point of reference in terms of shareholder remuneration.

The consolidated Telefónica Group currently employs over 173,000 workers, of which 37% are based in Europe and 62% in Latin America. The Group has set itself the challenge of becoming the best option in terms of future employment for all its professionals.

Its commitment to society is channeled mainly through the Telefónica Foundation, which is present today in Spain, Argentina, Chile, Mexico, Peru, Brazil and Morocco. In 2004, over 25,000 organizations and more than 26 million people in Spain, Morocco and Latin America benefited from the 238 projects developed by the Foundation, from a total investment of over 24 million euros.

Telefónica has also undertaken a commitment to corporate governance and transparency. As a

result, both Telefónica SA and all its subsidiaries publish annual Corporate Governance reports, highlighting their general corporate governance principles. In acknowledgement of this commitment, in 2004 Telefónica was awarded the First prize for the Spanish Company with the Best Financial Information on Internet.

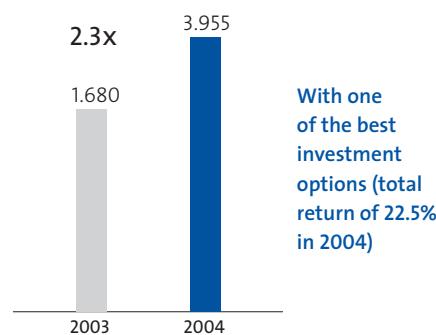
The Group is also committed to Corporate Responsibility, which involves fulfilling its role as a significant driver of economic, technological and social development in the countries where it operates. This commitment takes shape by listening to its interest groups and carrying out its work in a responsible manner. Thus, in addition to its Global Report on Corporate Responsibility and the specific reports of each line of business, Telefónica publishes reports on its activities in Brazil, Argentina, Chile, Peru and Spain. As a result of its efforts in this area, in 2004 Telefónica was rewarded by its listing on the DJSI World Index and the DJSI Stoxx.

2005 SHAREHOLDER REMUNERATION POLICY

+25% Dividend
+
Distribution of treasury stock
1x25
+
Buyback plan up and running

TOTAL ANNUAL RETURNS FOR SHAREHOLDERS

(Billions of euros)





01/02

With a business strategy
built on five cornerstones

Our customers

Telefónica has set itself the challenge of becoming the biggest and the best integrated telecommunications operator in the world. This goal is supported by a transformation program which, with the motto "Forging ahead to gain leadership", is built on five cornerstones: customer orientation, innovation, operations excellence, commitment, leadership in people and a corporate communication and identity.

CUSTOMER-ORIENTED GROUP

The focus on the customer has been perhaps the most important factor in the commercial transformation process carried out in 2004 throughout the entire organisation. Customer satisfaction is now considered as a key component in business growth.

Telefónica has decided to switch from a product-oriented company model and become an integrated Group that meets the global communication needs of its customers. It anticipates these needs by offering a varied portfolio targeted at each segment and comprising more innovative products and services, processes and technologies, and

drawing on new distribution channels tailored to these requirements.

With this in mind Telefónica has set itself the target of increasing its current customer base to reach 190 million customers by 2008.

The organisation took its first steps towards these new commercial goals during the course of the year. Firstly, and as a consequence of this reorientation towards the customer, the Company recruited 1,700 new employees for its commercial departments, which now account for 33% of the total workforce of over 173,000. Excluding Atento, of the remaining 67% of company personnel, 51% work in production and 16% in support services.

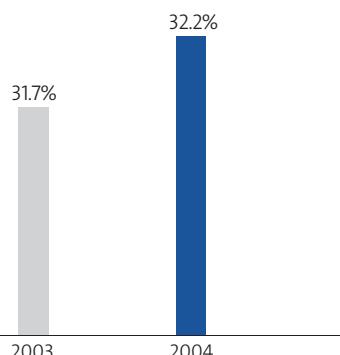
Telefónica has also continued to take great strides in this area by making a variety of different telecommunications services and products available in all markets. It has essentially focused its efforts, therefore, on business opportunities offering both the highest growth potential (broadband and mobile telephony) and the best value for customers, allocating 55% of total investment for the year to these types of projects.

More than 850 million euros went into its broadband business in Spain and Latin America. At the same time, Telefónica invested nearly 639 million euros in mobile telephony in Spain, 26% of which was allocated to third-generation or UMTS products and services. In Latin America, Telefónica channelled over 1 billion euros towards deployment of its mobile telephony network.

All these factors have contributed to growth in its customer base, which at the end of the year had swelled to 121.9 million customers.

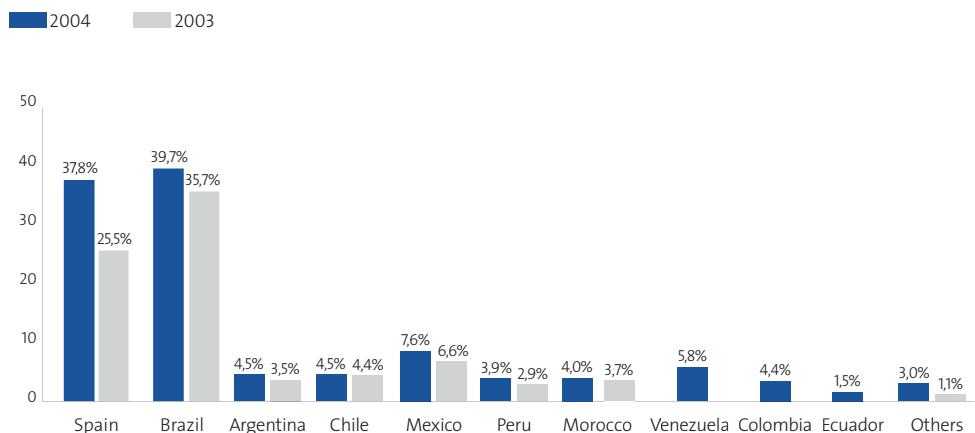
A commitment to broadband

Intense commercial activity in the broadband market was reflected by an increase in the



Source: Company figures

DISTRIBUTION OF MANAGED MOBILE TELEPHONY CUSTOMERS



customer base. Telefónica now operates 43.2 million fixed lines, 5.02 million of which offer broadband data and Internet access (including ADSL accesses in Germany). These lines serve 68 million people, 34 million homes, 14 million SMEs, businesses and professionals (SBPs) and 4 thousand large corporations. At the end of 2004, the number of ADSL connections had risen by 61% on 2003.

In Spain, this growth (2.5 million connections – an increase of over 50%) means that Telefónica now accounts for 73.8% of the total domestic broadband market; with of the 58% of the Internet access lines using that use the Group's broadband services, nearly 75% do so through the Group's retail or wholesale services. In this respect, the Company leads the sector with the highest growth of all the European operators.

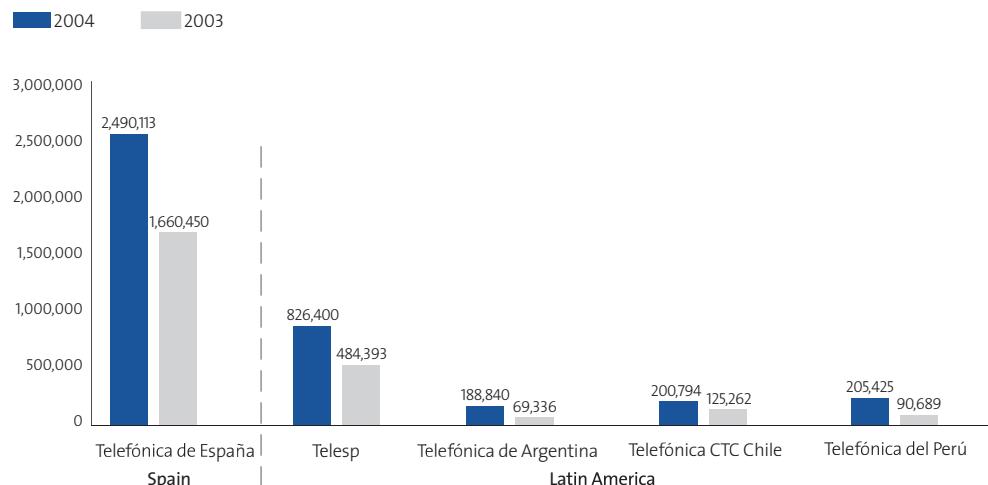
2004 saw Telefónica launch its "Imagenio" service in Spain (Madrid, Barcelona and Alicante) – a key element in its commitment to broadband. By December it had attracted 6,024 new customers, over 85% of which also signed

up for Internet access and more than 63% contracted additional subscriber services.

Part of this customer satisfaction strategy involved Telefónica doubling the speed of its ADSL connections in Spain and certain Latin American countries at no extra charge to its customers. At year end the number of ADSL lines contracted in Spain had risen to 2,490,000, 48.1%, of which signed up for at least one additional added-value service. These services include "Soluciones ADSL", which grew in the last quarter of the year by 16.3%, and "Seguridad ADSL" which now boasts 347,198 customers.

By the end of 2004, the number of ADSL/Speedy lines installed in all Latin American markets had risen to over 1.4 million, up by an average of 88% on 2003. The Argentinean market made a significant contribution, recording an increase of 172% and Peru registered a 126% rise. Brazil, with 0.8 million connections, recorded 70% growth. Chile was not far behind with 60% growth following the September launch of 2V (twice-as-fast broadband service) and packaged

ADSL CONNECTIONS





minute plans, both of which helped boost broadband penetration.

MOBILE TELEPHONY

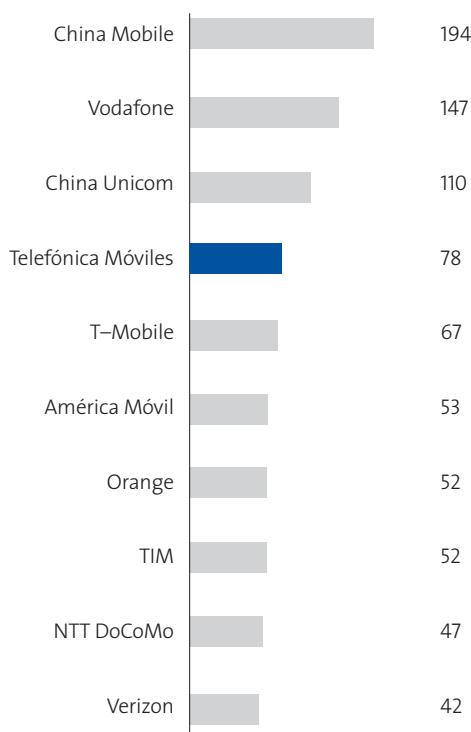
2004 also saw the Group's operators in the mobile business engage in intense commercial activity against a backdrop of strong and increasingly aggressive competition in all operating markets. This strategy, allied with the acquisition of BellSouth's Latin American operators in particular, has helped take Telefónica to a new level of growth, with the BellSouth operation alone adding nearly 15 million new customers to our client base.

By the end of 2004, the Group had attracted a total of 74.4 million mobile phone customers in all its markets (up 43.6% on 2003 and an increase of 22.4% excluding BellSouth's operators in Latin America) with our Latin American operators accounting for 52.7 million of these customers. Telefónica Móviles España (TME) also saw its client base grow to nearly 19 million. Telefónica Móviles now boasts over 78.2 million customers, 56.5 million of them in Latin America.

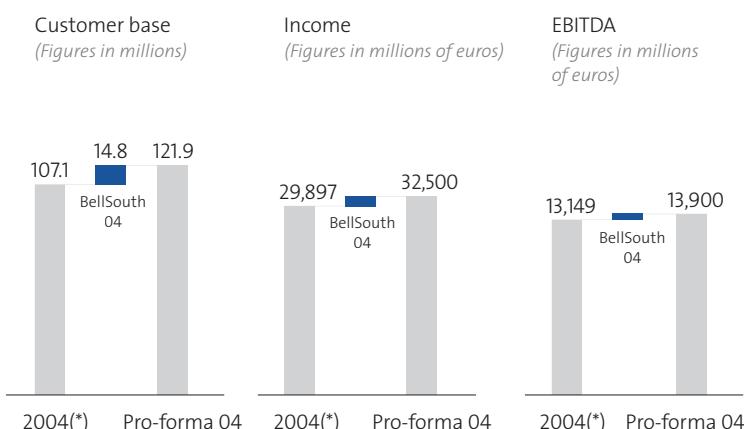
This growth in the mobile business has positioned Telefónica at the head of the global mobile telecommunications sector, making Telefónica Móviles the largest contributor to the Group's overall growth.

The Brazilian mobile telephony market made a valuable contribution to last year's growth as well. VIVO's strategy for high-value customers, raising entry barriers in the prepaid segment, promoting contract packages and encouraging customers to switch from prepay to contract, paid dividends. In the fourth quarter it attracted 1.9 million new customers following on from a third quarter increase of 1.1 million. VIVO maintained its position as Brazil's leading operator and closed the year with 26.5 million customers (an annual growth of 28.5% and 7.7%

RANKING BY CUSTOMERS MANAGED (Figures in millions)

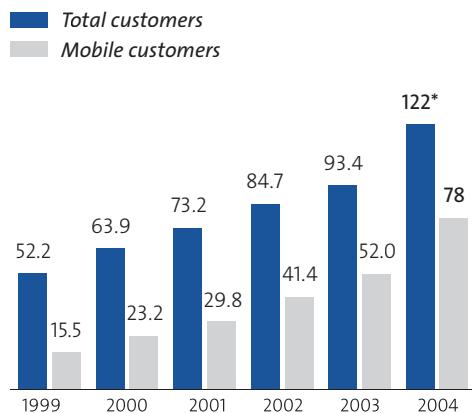


BELLSOUTH LATAM: A NEW LEVEL OF GROWTH FOR TELEFONICA



EVOLUTION OF THE CUSTOMER BASE

(Millions)



*Includes all Bellsouth (LatAm) customers

up on September 2004). Its countrywide market share of 40% was well above even the most optimistic analyst forecasts.

In Mexico, the total number of contract customers in December 2004 was up by 25% on the previous year. For its part, Telefónica Móviles Perú led the way in market growth for the year with a net cumulative increase of 618,000 customers, more than double the 2003 figure due largely to rapid growth in the contract segment.

Other businesses

Commercial strategy was also key to the directories business in 2004, where the customer occupies a dual role of user and advertiser. In response to this, the Group's products and services are designed to maximise the visibility and size of advertisers on the one hand, and the availability and convenience of information for users on the other. In striking a fine balance between advertisers and users, TPI continued to expand, reaching optimum efficiency and profitability levels.

In 2004 it launched its integrated customer management project in Spain, an initiative that seeks to enhance knowledge of our customers and enable their specific advertising needs to be identified more accurately and offer bespoke sales consultancy services.

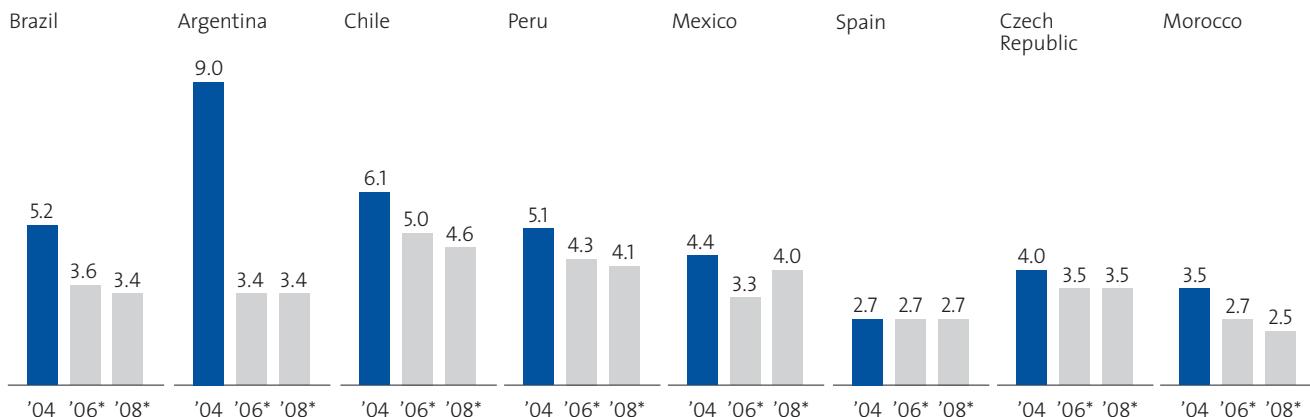
During the last year, TPI has continued to diversify its sources of revenue by identifying new opportunities and launching new products. These include the new direct marketing services available in Spain, the launches of the business guide "NAN de la Hostelería" and the second edition of the "NAN de la Construcción" – specialising in the hotel and construction industries respectively – in addition to the pocket guide to São Paulo (Brazil). TPI Edita, a subsidiary that distributes free magazines for industry professionals, expanded its range of publications with the launch of two new titles

aimed at the general public: Romantique & Chic, focusing on luxury products, and Wapa, health and beauty magazine. Following the success of the Pocket Guide in Spain, TPI Brasil also published its São Paulo version in 2004.

At the end of the year, the TPI Group boasted 399,250 customers of its Páginas Amarillas (Yellow Pages) services, with its operations in Chile, Peru and Brazil accounting for 26% of the total. Its Páginas Amarillas y Blancas (Yellow and White Pages) services attracted over 43 million users in Spain, Chile, Peru and Brazil during the year. Its publishing business also flourished, recording steady growth in advertising revenue and in its Internet business, which rose 18% across the Group. The Spanish network of Páginas Amarillas websites received over 55 million hits in 2004, up 42% on 2003 and a new record for the Company. Its Internet services now account for 7.5% of advertising revenue in Spain, with TPI having established itself as the company generating the most advertising revenue and the market leader in Internet-based advertising. Its 11888 directory enquiry service in Spain took 36 million calls, 61% up on the previous year.

The commercial strategy pursued by Terra throughout the year saw the number of its paying subscribers increase significantly to 6.4 million, 24.8% up on 2003. The number of people subscribing to its prepaid Internet access services rose to 1.8 million, 8.6% more than in 2003. It also recorded an increase of 66% in broadband customers, mainly ADSL – the total year-end figure standing at 1.1 million. In Spain, the Company saw the number of its ADSL subscribers jump by 14%. In Brazil, the Company's prepaid Internet access services boast over 1.25 million customers, 724,728 of which are broadband users, allowing it to consolidate its leadership of the Brazilian prepaid Internet access market as well as the broadband market with a share of 50%.

GROWTH FORECASTS BY COUNTRIES



(*Estimated)

As a result of its commercial policy, the Atento Group attracted a large number of new customers outside the Telefónica Group in 2004. Their proportion of total revenue also continued to rise to a year-end 44.1%, up on the 37% of 2003.

An increasingly segmented offer

As part of this transformation process, Telefónica has also set itself the target of broadening its knowledge and understanding of its customers by 2008, and developing segmentations increasingly tailored to the needs of each customer group by drawing on systems, commercial intelligence, new tools, specially adapted marketing models, and different levels of customer service, etc. (

During the course of the year, the Group implemented a commercial strategy focused more towards the needs of customers and offering greater value. This strategy encompassed mobile products and services (GPS and UMTS for example), music on demand, films, security, education, communication services for low-income households, and corporate communication solutions for the insurance sector, etc. This has been achieved thanks to levers such as new product packages, cooperation with third parties, cross-selling sales, targeting, etc.

As part of this approach a series of initiatives were also launched such as the programmes, "meta: cliente" (Goal: Customer) in Spain, "Compromiso Cliente" (Customer Commitment) in Latin America, and Atento's "Cliente contento" (Happy Customer), all of them geared towards gaining a better understanding of our customers.

The range of products and services in Spain was renewed thanks to another raft of initiatives. The Company extended its array of channels to 36 with the addition of EuroSport, Canal Real Madrid, Bloomberg TV, Euronews, CNN

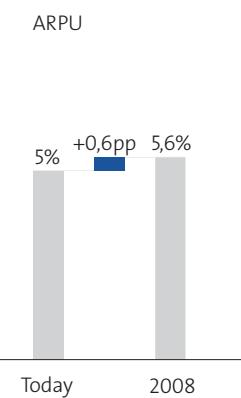
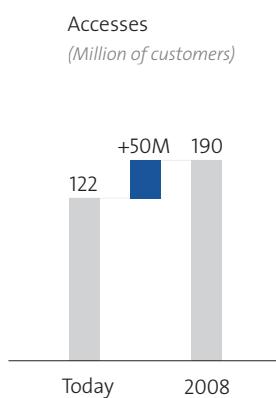
International and Cartoon Networks, among others. In terms of coverage, Imagenio's service can now be picked up in various Autonomous Communities and was extended in regions where it was already available. As for services, Imagenio introduced a new package with no Internet connection required, and a series of promotions, etc. were also launched.

In terms of other broadband services, having doubled the speed of its ADSL service, Telefónica continued to promote broadband technology by launching several new offers. These included its "Navidad ADSL" Christmas promotion featuring a special offer on PCs; the launch of its "Servicio ADSL Flexible Negocios" aimed at businesses; and the new "Solución ADSL E-gestión Negocio" service, again aimed at the business sector and comprising new Internet-based commercial management applications.

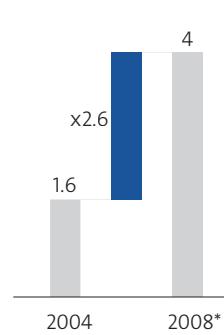
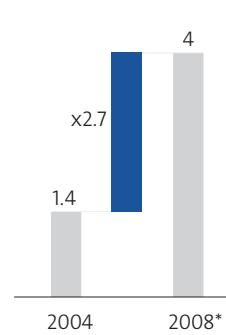
Telefónica cut the price of its "Combinado País" service by 13.7% for residential customers in Spain. It also launched a new video-telephone service for conventional lines, and made improvements to the automatic answerphone service by adding two new options (message-free call information and immediate call-back). The packaging of products and services for specific segments means that Telefónica can now offer an ADSL catalogue to its customers in Spain comprising over 180 different products and services and over 1,200,000 operational value-added services.

It also unveiled a series of services and solutions targeted at the SME, Businesses and Professionals segment including: free registration for additional lines; the new "Línea Profesional" with an integrated service specific to this segment; and a new commercial flat rate, "Tarifa Plana Comercial", allowing unlimited national calls during working hours. Telefónica's aim here is to offer subscription packages (purchasing, rental, financing, outsourcing, pay-as-you-go solutions, etc.) designed to meet each customer's specific needs.

FORECASTS FOR 2008



BROADBAND FORECASTS

ADSL Lines in Spain
(Millions of customers)ADSL Lines in Latin America
(Millions of customers)** Estimated*

**2008: Over
1.000.000***

Imagenio customers

Over
8.000.000*

ADSL customers

Over
125* million Mobile
customers

(*estimated)

As regards large corporations, Telefónica provides services for over 65,000 PCs, 7,500 switchboards, 9,000 LAN nodes and 530,000 email boxes in Spain alone. In Latin America, it handles 20,000 PCs, 94 outsourcing projects, and more than 8,000 servers housed at our Data Center. Its commercial activity in this segment has led to a rise in revenue from large corporations of over 23% in 2004.

In recent months in particular Telefónica's operators in Latin America have also segmented the residential market, introducing new offers such as "La familia madura" (*mature family*) and "desplazados" (*on the move*). Telefónica also introduced a new tool for large enterprises: its "Plan de Cuenta" or account plan.

Customer segmentation in the mobile phone market led to the creation of new services such as the Under-26 rate for young people; cheaper international calls for immigrants and the self-employed – for whom a reliable, guaranteed service is crucial; special offers for the blind with adapted handsets; the GPRS software solution "Escritorio Movistar" and the email service "Correo Profesional BlackBerry"; the launch of the TSM 520 handset featuring Windows Mobile Smartphone 2003; and the "Plan Autónomos" with special call rates for the self-employed, amongst others.

Turning to customer loyalty schemes, thanks to its points programme Telefónica Móviles currently has the lowest churn rates in Europe.

As part of the Group strategy to link its services more closely to the world of entertainment and sport, in 2004 Telefónica arranged tie-ups with leading brands such as Real Madrid, Disney, and FC Barcelona, etc. By the beginning of November its Disney service had attracted over 114,000 customers.

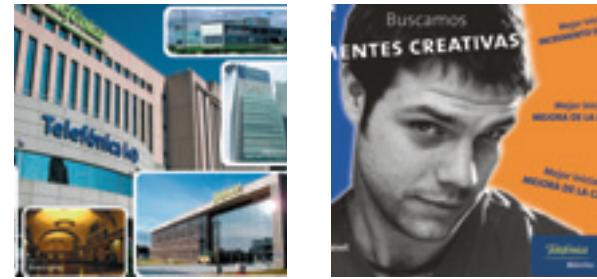
2008: A NEW HORIZON

Telefónica's goal for 2008 is to expand its current customer base to reach a total of 190 million. Thus, by making effective use of the 8 million contacts it has with its customers everyday, it hopes to identify and anticipate their needs better, improving its services and products as well as distribution and sales channels.

The Group will also continue with its strategy to continue broadening services and the markets it operates in towards new business opportunities. Significantly, in 2005 Telefónica agreed the acquisition of 51% of Cesky Telecom, the operating company of the Czech Republic. This new addition to the Group will bring in 140 million customers from 18 countries.

At Telefónica, our objective is to increase average revenue per user and customer loyalty by making them firm believers in our products. Customer orientation is the key to securing this goal. With this in mind the Group's new Customer Relations Principles were approved in 2005, establishing a framework that sets out uniform standards for dealing and interacting with customers.

These principles include innovation, customer orientation, integration and quality; principles that form part of the cultural mainstays defining the Company as an integrated, customer-oriented telecommunications operator. The Telefónica Group thus sets out to reach the necessary service levels in relation to innovation, quality and a personalised service, both by the commitment of its employees and providing transparent information. Only in this way can it reach its ultimate objective: to guarantee the satisfaction of its customers.



Innovation

A NEW INNOVATION MODEL

For Telefónica, Innovation lies at the heart of what is transforming the Group and inspiring it to reach its goal of becoming not only the best, but also the biggest integrated telecommunications group in the world. It is precisely because Telefónica sees Innovation as a medium and long-term strategic value that its investment and commitment to technological innovation, and to R+D in particular, will continue to remain firm.

In 2004, Telefónica set up a new Innovation Model that is more in line with the Group's strategy and focuses not only on technological innovation, but also on innovations in sales, operational procedures, and work methods, always with the customer in mind. The implementation of this Model is led by the Corporative Innovation Committee, comprised of the top executives of the main innovation organisations within the Group. Its objective is clear: to coordinate Telefónica's Innovation Programme and to manage the Group's Portfolio of Technological Options.

GOALS OF TELEFÓNICA'S NEW INNOVATION MODEL

- Align the Technological Innovation with the Group's strategy, finding more solutions to differentiate it from the rest.
- Strengthen collaboration with the Public Administration and Universities, to encourage innovation.
- Promote collaboration with other agents in the value chain and strengthen business alliances in the innovation process.
- Improve the Group's competitiveness via Technological Innovation focused on knowing the customers' needs and providing solutions that are more and more segmented.
- Promote a culture of innovation at all levels of the organisation.

This Model also promotes collaboration with other agents that will become "technological allies" (customers, Public Administration, suppliers, other companies, etc.), as well as the participation of the professionals within the Group at all levels of the organisation, with a view to creating a new innovation culture.

In this respect, Telefónica de España's idealab! Contest received a total of 1,049 ideas (19% more than the previous year) during the whole of 2004 through its "Innovator Club", while Telefónica Móviles de España's "Patent-Factory of Ideas" Contest ("Patenta-Fábrica de Ideas" in Spanish), which was organised in 2004, gathered 310 new proposals.

INNOVATION IN 2004

In 2004, Telefónica earmarked nearly 2.4 billion euros for Technological Innovation, following OECD criteria, of which half corresponded to Spain.

It is important to mention Telefónica's increasing dedication to innovation in Latin America in 2004, which rose from 599 million to 1.234 billion euros, representing more than 50% of the Group's innovation budget. This helped to significantly increase the innovation investment in the aforementioned area.

By countries, Brazil heads the list with 29% of the total Group investment, followed by Argentina with 6%, Mexico with 5%, Chile with 4% and Peru with 3%.

By item, the acquisition of equipment, and research and development activities were outstanding, representing 41% and 19% respectively of the investment.

Telefónica Móviles is the Group company that proportionally invests the most in innovation as a result of the deployment of its new generation networks. Its activities encompass

NUMBER OF NEW PRODUCTS FROM TdE AND TME

	2001	2002	2003	2004
Internet and Broadband	23	42	85	109
Voice market	77	85	77	109
Mobile services	27	43	55	32

53% of the Telefónica Group's innovation budget, followed by Telefónica de España and Telefónica Latinoamérica with 25% and 15% respectively.

Telefónica is the Spanish firm that devotes the greatest investment to research and development. Thus, last year over 305 million euros were allocated for R+D in Spain, and 461 million euros in the rest of the world. This latter figure represents 1.52% of the Group's revenue.

The R+D activity carried out in 2004 by Telefónica (more than 460 million euros), involved 5,901 people from all over the world, 3,996 of them in Spain, of which 1,762 were from the Group's staff, and the rest from businesses and entities that collaborate in development projects.

Technological, Sales, and Process Innovation

In 2004, the technological innovation projects carried out by the Telefónica Group took the following as their points of reference: profitable innovation, efficient processes, the creation of new sources of income, customer satisfaction, consolidation of new markets, and technological leadership.

These projects were specially integrated in Telefónica's strategy of focusing on creating value through communication and broadband services, both in Spain and in Latin America, data and multi-media mobile services that use emerging UMTS and new mobile handset technology, as well as more developed and upgraded sales, network and services management.

Specifically, and with respect to broadband services, it is important to highlight the increased speed of the ADSL Service in Spain at no additional cost to customers, the launch of new added value ADSL services, including Imagenio, the interactive TV for households, new "variable" ADSL services in Argentina and

Brazil, paid according to the conditions of their use that break down the entry barriers for new broadband customers; and the ADSL Flexible Business Service, which provides network commercial process management applications.

The development of added value services in the business sector has increased this area's relevance within the range of services offered by Telefónica Empresas.

Also launched in 2004 were services such as video telephone on conventional lines, improvements in Network Answering Systems, the "Telemergencia" service (for security) in Chile, new products targeting lower income customers (economical and super-economical lines) in Latin America, particularly in Brazil, etc.

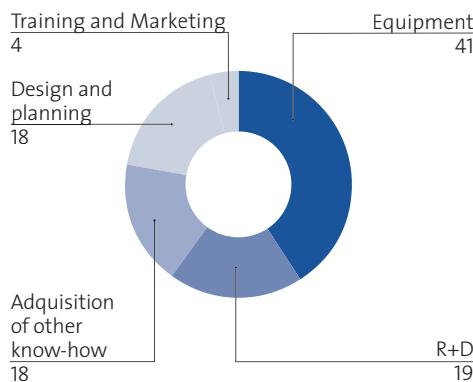
In mobile telephony, innovations include new multimedia services for GPRS and UMTS technologies, handsets and cards promoting the TSM brand, boosting GSM coverage in many Latin American countries, multimedia messaging using emerging UMTS technology, GPRS navigation services and multimedia messages, marketing services such as Movistar Desktop, Blackberry Professional Mail, and the use of i-mode technology.

Furthermore, Telefónica Publicidad e Información (TPI) continued to launch new informational and advertising content addressed at boosting the use of its products and creating better business opportunities for its advertisers. Amongst the innovations introduced in 2004 were the publication of the NAN Professional Guide to Hotels and Restaurants and free magazines Romantique & Chic and Wapa, the creation of Calleacalle.com, a specialised guide to retail establishments, and the new B2B Publiguías Blue Pages published in Chile.

However Telefónica's work in innovation was not focused solely on the launch of new services technology, but also on sales and process

INNOVATION

(Figures in percentages)



innovations and new, original ways of doing things. In this respect, Telefónica has developed systems that make it possible to manage businesses more efficiently, using the new sales and operation management systems with innovative solutions that have brought intelligence, profitability, and efficiency to Supply, Customer Services, and Infrastructure Management processes. Amongst these are the FAST and ATIS systems, which have contributed to improving the efficiency of Telefónica's billing system as well as that of the Caja Unica, the centralised treasury management process through Telfisa, and the new publishing production model.

In terms of network and services management, some innovative solutions to highlight are the Network and Service Management Integrated System (known as SIGRES) developed for Group fixed-line operators in Latin America, and GEISER (Integral Management of Network Services) centred on Telefónica de España's transmission network management, which is now in its final testing phase.

TELEFÓNICA I+D

The majority of the R+D activity is undertaken by Telefónica Investigación y Desarrollo, owned 100% by Telefónica, which works mainly with Telefónica's business lines and participates in other research projects, both at national and international levels. Its mission is to contribute to the Group's competitiveness through technological innovation, while keeping in mind that the results of R+D should be a competitive value for the operators that is transferable to the customer.

In 2004, Telefónica I+D worked on 1,660 projects, which involved 1,250 of its own staff (94% of them university graduates), approximately 42 collaborating companies, and 23 universities that encompassed a total of 1,300 people. In addition, 259 publications were released, including articles,

INNOVATION BY GEOGRAPHICAL LOCATION

(millions of euros)

Geographical area	2003	2004
Spain	1,303	1,164
Other markets	599	1,234
Total	1,902	2,398

books, conferences, etc., and 240 new products were developed and patented during the last fiscal year. Telefónica's work in this area represents 7% of total private R+D in Spain.

In 2004, Telefónica I+D set up a new company in Mexico, which shares the mission of supporting technological innovation in the Group companies operating in Latin America with Telefónica Pesquisa e Desenvolvimento, headquartered in São Paulo. Additionally, Telefónica has begun a process to set up a new R+D centre in Granada (Spain) that will complement the activities it already underway at its centres in Barcelona, Huesca, Madrid, and Valladolid.

Telefónica I+D is Spain's leading company in terms of participation in European R+D projects that are promoted and partially funded by the European Union (EU). Specifically, in 2004, it participated in 56 European projects, involving 225 people between 2004 and 2006, under a 16 million euro subsidy from the EU for the said period.

This substantial effort to promote innovation has made it possible to launch numerous new products on the market and to increase its Portfolio of industrial and intellectual property, and to bridge the technological gap. More specifically, today Telefónica's Portfolio is comprised of 3,032 registered products, of which 1,787 are patents, and 1,245 are copyrights, largely software applications.

JOBs CREATED BY TELEFÓNICA'S R+D ACTIVITY

	Direct Jobs	Indirect Jobs	Total
Telefónica I+D	1271	1309	2483
Other Group Companies	491	2830	1890
Total	1762	4139	5901

	Direct Jobs	Indirect Jobs	Total
Spain	1644	2352	3996
Latin America	118	1787	1905
Total	1762	4139	5901

7% of the private investment in R+D in Spain

24% of investment in innovation in the Spanish ITC sector

Excellence

MOVING TOWARD “EXCELLENT TELEFÓNICA”

Operational excellence is, for Telefónica, one of the main cornerstones on which its current transformation process is founded. In this context, in 2004 the Group set itself the target of transforming the Company by 2008 into “Excellent Telefónica”, an excellent company with the best quality and customer satisfaction levels in the sector, more efficient and flexible, and with the most motivated and dynamic professionals.

Excellent Telefónica is based on the synergies of the Group, efficiently managing resources from a global standpoint, sharing and extending best practises, taking advantage of economies of scale, offering the customer a single help desk, with a motivated, committed human team.

In order to achieve these objectives, in 2004 Telefónica started to work on three themes: firstly, services and customer services - developing products and services designed to achieve customer satisfaction, optimizing service parameters, attending customers more quickly and efficiently, and resolving their problems quickly and without invoicing errors; secondly, the management of economic and human resources, continually increasing productivity and efficiently selecting investments; and finally, as providers of operations such as technology, systems, processes and organization.

This combination of effectiveness, quality and motivation will allow us to move from efficiency toward a new phase of excellence in Telefónica, focused fully on the customer.

Progress in 2004

Throughout the year, enormous progress has been made in efficiency and quality. In terms of efficiency, we have increased our EBITDA per employee to 140,000 euros (up by more than 5% on 2003), despite the increase in competitive pressure in all our markets, and placing us at the head of the sector.

In recent years, we have also been increasing our productivity (in fixed lines per employee and mobile customers per employee) by an average annual rate of more than 10%, reducing investment per ADSL contract at an average annual rate of 33%, and cutting the network cost per minute on mobile voice telephony networks by an average annual rate of 25%. In this respect, 2004 was no exception.

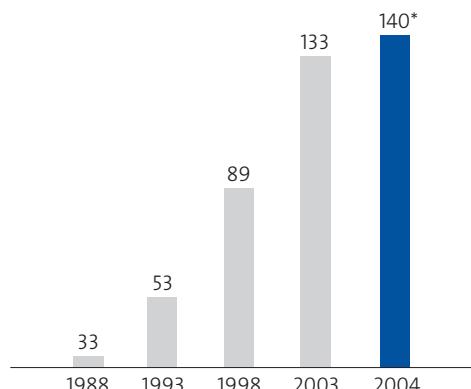
We have also significantly upgraded the quality of our service, developing operative improvement programs that have resulted in cost reductions. For example, we have practically eliminated waiting lists in our markets, which have been reduced from 6 years in Peru or 4 years in Argentina in 1994 to current levels of less than one month. We have also efficiently taken communications to the remotest parts of Latin America.

Another example of progress in process-related efficiency in 2004 was the Group purchasing processes, which totaled over 12.0 billion euros. Purchasing operations by subsidiaries in 19 countries are performed on a coordinated basis, under the same management model. Through the Adquira España platform, the Telefónica Group made electronic purchases valued at 4 billion euros in more than 12,000 processes in 2004, four-fold the volume managed electronically in 2003. The company also expects to reach 7.5 billion euros in electronic negotiations in 2005, which would account for 55 % of the Group's purchases. This e-business platform is currently working with over 5,500 providers in six countries: Spain, Brazil, Argentina, Mexico, Peru and Chile, although during 2005 the intention is to extend this electronic market to countries such as Venezuela and Colombia.

In addition to the negotiation process, which is performed by exchanging bids or counterbids or by auction or tender, Adquira enables the performance of electronic transactions such as e-orders, the issuing by providers of electronic delivery notes, reception of merchandise/service

EBITDA

(Thousand euros/employee)



(*) Without taking into account Atento or BellSouth LatAm
(which was included in the accounts for December 2004)

and e-invoices, and it plans to incorporate e-contracting in 2005, including digital signatures of commitments under contracts and the extension of this electronic cycle to the largest possible number of operations.

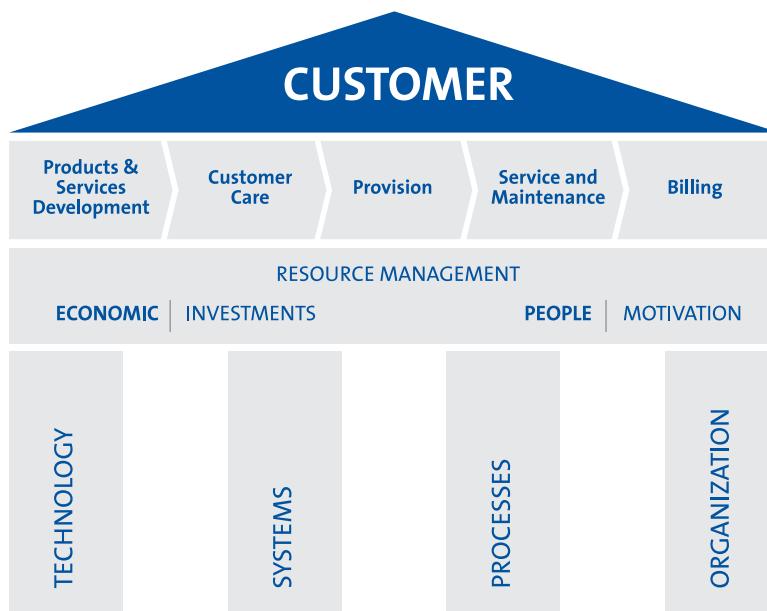
Also within the scope of processes and organization, t-gestiona has taken significant steps forward in 2004. It currently has 700 professionals in Spain and more than 3,000 worldwide, bringing together the best capacities in order to offer a broad and unified range of services which were previously dispersed within the Group.

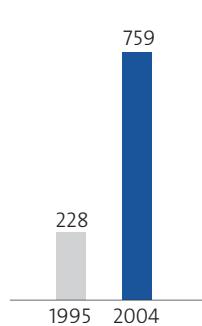
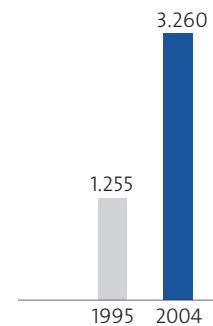
In this context, the Company is making headway in the process of corporate reorganization in order to strengthen its business capacity and service vocation, aimed primarily at companies in the Telefónica Group. Specifically, the process of integrating services in t-gestiona España began during the first six months of 2004 and the main achievements have been the absorption of Zeleris, the transfer of professionals from Inmobiliaria Telefónica to TPTI and, lastly, the merger by absorption of the

latter by t-gestiona España. Moreover, the Company recently acquired the Shared Services Centers of Argentina, Brazil and Mexico and it soon expects to incorporate the Peru center.

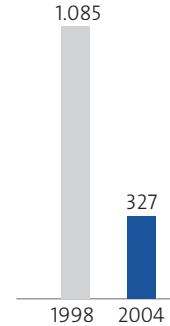
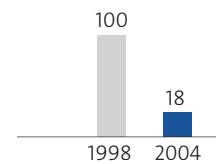
In 2005, t-gestiona España will embark upon a new stage in its business development with the integration of the companies under Telefónica's Resources division. t-gestiona manages a 65,000-strong payroll and already invoices more than 120 million euros to Group companies.

Of particular importance to t-gestiona is its participation in the "Distrito C" Project, which was launched in 2004 and encompasses the construction of Telefónica's new head office in Madrid (Spain). t-gestiona is responsible for supervising the project and designing the model for the services available to the nearly 14,000 employees who will be transferred to this complex. It is also involved in the design and execution of the technological, services and information systems infrastructure projects that will have to be provided to all the employees.



EVOLUTION OF EFFICIENCYTelefónica Fija
Customers/employeeMobile telephony
Customers/employee**EVOLUTION OF EFFICIENCY**

High investment

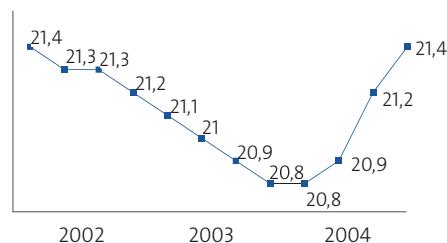
Network cost/minute
(base 100=1998)**Goal: Customer Satisfaction**

In this process of development from efficiency to excellence, Telefónica has started to work with specific variables that measure our progress towards that "Excellent Telefónica".

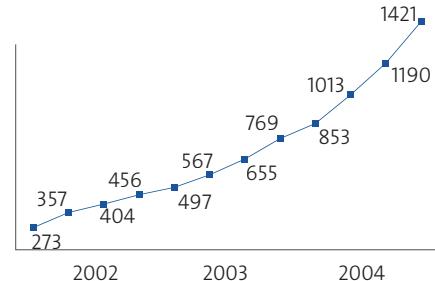
These variables will be customer-oriented, akin to the goals of Excellent Telefónica, following-up on final customer satisfaction and the various elements that contribute to it, such as the percentage of calls responded to, or availability of service. Additionally, Telefónica has set itself a series of economic parameters, both in expenditures and investments, to achieve significant improvements in three fundamental and complementary factors: Efficiency, Quality and Motivation.

In short, Telefónica has set itself the target for 2008 of becoming a company with customers who are more satisfied with our level of quality through our offer of the most suitable solutions both in time and form, through their excellent attention they receive; a more efficient and flexible company, reducing the burden of assets, optimizing investments with simple operational models based on economies of scale; with more motivated personnel, who develop their professional skills and capacities, with involvement and enthusiasm for a common project.

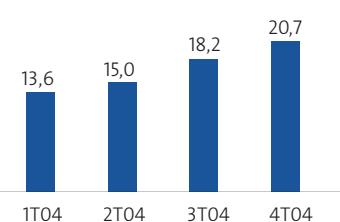
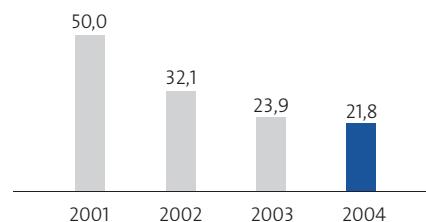
Our goal is and will continue to be the satisfaction of our customers.

FIXED TELEPHONY BUSINESS IN LATIN AMERICABasic TISA Accesses
Quarterly evolution
(Thousands)

Greater efficiency / flexibility

Number of TISA ADSL lines
Quarterly evolution
(Thousands)

Evolution of % of pre-paid accesses / TISA total





Team Spirit

Telefónica's strategy, built around the five key themes proposed at the Directors' Summit in November 2004, identified Employee

Leadership and Commitment as one of the five cornerstones supporting the transformation of the Group's activities, closely linked to the management of the Company's team of professionals all over the world.

In order to speed up the transformation process put forward at the Summit and reach the objective of being the biggest and the best integrated telecommunications group in the world, Telefónica has set itself the goal of becoming the best future option for its entire team of professionals and a role model in the industry.

With this in mind, throughout 2004 the Company sought to consolidate the Group-based and individual Leadership and Commitment of the more than 173,000 professionals it now employs; a Leadership and Commitment-oriented policy aligned with major sales initiatives implemented during the course of the year that have also had an impact on the organisation.

Telefónica now boasts a workforce of over 173,000 employees broken down as follows (excluding Atento - Telefónica's customer service affiliate): 33% in sales, 51% in production and the remaining 16% in support services. As a result of the increasing commitment of the entire organisation to customer orientation over the last few years, in 2004 Telefónica's sales force increased by 1,700 people as compared to 2003.

To bring about Employee Leadership, Telefónica has strengthened its value proposition to its professionals, seeking in the process to become a company that its employees can feel proud of, a company "of and for" its employees, where relationships are founded on trust, where the hard work of each individual is justly rewarded, and where everyone has the opportunity to develop professionally and as people.

CROSS-DIVISIONAL AND BUSINESS-UNIT INITIATIVES

To bolster this process a number of initiatives were introduced throughout 2004 based on four main principles: Clarity, Remuneration Policy, Professional Development and Exemplarity. Following the Directors' Summit, these initiatives were given a specific high-profile role as part of a transformation plan devised by Telefónica's senior management to be monitored by its Management Committee.

As a result of the post-summit work conducted by the teams, more than 20 specific initiatives were subsequently identified: seven of them are cross-divisional within the Group as a whole and 14 apply to the business lines (Telefónica de España, Telefónica Latinoamérica, Telefónica Móviles and the other units), some of which were implemented in 2004, with others introduced in early 2005.

Through these initiatives, Telefónica has set out to make internal communication clearer, enhance skills development and management through cross-functional rotation schemes and skills renewal programmes, and adopt more sophisticated employee evaluation and salary policies.

As regards Professional Development, workplace environment surveys have now been applied to all Group companies throughout the world. In 2004, the Group's HR Departments designed a set of seven corporate workplace environment indicators, the results of which are collated from 29 core questions featured in the workplace environment surveys introduced in the Group's main companies between November 2004 and February 2005.

The objective of this company-wide initiative is threefold: to ensure the uniform measurement of strategic workplace environment indicators as a springboard for the transformation of Telefónica; to promote, following the



Listado vacantes							
Área de negocio	Área funcional	Posición	Nº de vacantes	Plazo	Estado	Procedencia	Última actualización
TELEFÓNICA	Área de Negocios	Gerente de Negocio	1	1 mes	Abierta	Exterior	2004-01-15
TELEFÓNICA	Área de Negocios	Gerente de Negocio	1	1 mes	Abierta	Exterior	2004-01-15
TELEFÓNICA	Área de Negocios	Gerente de Negocio	1	1 mes	Abierta	Exterior	2004-01-15
TELEFÓNICA	Área de Negocios	Gerente de Negocio	1	1 mes	Abierta	Exterior	2004-01-15

measurement process, initiatives designed to raise Telefónica Group employee satisfaction levels; and lastly, to monitor the impact these action plans have on the improvement of the workplace environment and employee motivation.

The Workplace Environment Monitoring Group, comprising the workplace environment managers from Telefónica's main companies, was set up in 2004 to help reach these goals. Its mission is to analyse and share initiatives being introduced in the Telefónica Group and in other companies to improve the workplace environment and, specifically, to create a space for debate and innovation that helps us foster employee satisfaction within the Group as a whole.

Another of the initiatives linked to Professional Development and to Clarity is the publication of vacant positions throughout the Group. At the beginning of 2005, a new section was added to the Group's internal online communication channels featuring lists of vacant positions within the companies, thereby giving all Group employees the opportunity to apply for posts contributing to their career development. These lists are regularly and automatically updated with new vacancies as they arise and have been designed to extend career development opportunities throughout the Group's companies and to foster the transmission of skills within the Group.

The Group's training departments also made their contribution to career development in 2004 by organising employee development courses comprising over 9 million training hours, with 84% of all personnel receiving training.

Teletraining, an area in which the Telefónica Group leads the way, has also been applied widely throughout the Group using innovative techniques.

As regards implementation, figures for 2004 reveal that e-learning programmes were consolidated in all Group companies with training time per employee increasing by one hour over 2003 (10hrs 26mins) and the number of course attendees completing training plans doubling compared to the previous year.

In 2004, investments were made in developing new cross-divisional contents relating to business competencies, and work has begun on designing business simulators (training solutions based on the "Learn by Doing" model that confront course attendees with situations they have to resolve).

In terms of innovation, there are two standout solutions: the development of Mobile Learning, which allows employees to take courses (either wholly or in part) using mobile devices; and the launch of Telefónica's Corporate Training Portal, available in Spanish and Portuguese in all countries where the Group operates.

The challenge for the future

Telefónica's additional objectives in the management of teams for 2005 involve operating in two main areas: advancing the leadership skills of its professionals and setting up a framework for maximising professional opportunities/skills. Both initiatives are designed to foster the professional growth of all personnel in the Telefónica Group. Projects such as Innovative Management of Managerial Performance and Promoting Transformation-Oriented Leadership are targeted at the first of these two areas. Development of the second involves projects such as the Managerial Rotation Programme – a development framework whereby each manager will be required to participate in at least one training programme per year depending on their needs analysis and the Group's strategic priorities – and analysis of the need for a Corporate University, among others.



In short, all the initiatives set out in the Leadership and Commitment area seek to foster the necessary cultural change to complete the transformation process that Telefónica has already embarked on – a process that is dependent upon the wholehearted commitment of all the Group's professionals and its teams. Leadership and Commitment are, therefore, key levers for ensuring the full involvement and motivation of teams and the satisfaction of our customers, in addition to the fulfilment of business objectives and the pledges made to shareholders and the societies where Telefónica is present.

HOURS OF TRAINING BY BUSINESS LINES

	2004
Telefónica de España Group	1,566,794
Telefónica Latam Group	812,665
Móviles Group	684,094
Atento Group	5,567,453
Directorios Group	111,105
Contenidos Group	not available
Other Companies	168,072
Telefónica Group Total	8,910,183

WORKFORCE BY BUSINESS LINES

Dec 04

Telefonica de España Group	36,425
Telefonica Moviles Group	19,797
Terra Group	1,584
Contenidos Group	5,860
Telefonica Latam Group	25,905
Directorios Group	2,876
Other Companies	6,278
Atento Group	74,829
Telefonica Group	173,554

WORKFORCE BY COUNTRIES

2004

Spain	59,978
Rest of Europe	4,325
Europe Total	64,303
Brazil	51,741
Argentina	15,177
Chile	10,060
Peru	10,733
Mexico	6,493
Rest of Lat Am	13,972
Total Lat Am	108,176
Other Countries	1,075
Group Total	173,554

Identity and Communication

BRAND STRATEGY PRINCIPLES

1 **Telefónica is the Group's master brand**

2 **The Telefónica brand provides an identity and culture common to all business units**

3 **From an institutional viewpoint, Telefónica is the sole interlocutor**

4 **Telefónica interacts with its customers through its brands**

5 **The brands do not compete with the Telefónica master brand; they complement it**

Since it was founded some 80 years ago, Telefónica's character as a private company has been forged as a result of its quotation on the stock exchange in 1927, a company oriented towards customer service, operating efficiency, innovation and the maximising of business opportunities.

In 2004 Telefónica reinforced its Group strategy of making the customer a pivotal element of the organisation, anticipating new trends towards convergence in the telecommunications market. In response to these new expectations and needs it has invested in an integrated vision of the Group's brands with a view to making Telefónica the biggest and best integrated telecommunications group in the world.

CORPORATE IDENTITY: A KEY FACTOR IN RELATIONSHIPS WITH OUR STAKEHOLDERS.

In Telefónica's eyes, Corporate Identity is a key component in projecting its vision, positioning and values to all the stakeholders with whom it interacts: customers, employees, shareholders, suppliers, the industry regulator and society as a whole.

With this in mind, the Group has implemented a new brand strategy and architecture model known as its "family system". The model sets out to define roles, criteria, hierarchies and relationships between the group's brands based on a series of identity-oriented principles (values, positioning, messages, tone, etc.) and a graphic coherence system (colours, codes, formats, styles and typography). This new brand strategy and architecture system means we can now manage the Group's dual institutional and commercial profile more effectively.

As part of this model, the role played by the Telefónica master brand, with its institutional profile and the values it encapsulates, involves supporting and guaranteeing the range of

products connected to the brands and giving them "stature". For their part, the brands complement the master brand by providing proximity and freshness. They also differentiate the range of products and raise their profile, bringing them closer to the customer and making them more credible, while revitalising and renewing the main brand. The system thus generates value-based feedback on all the brands.

The "Family System" is managed by a raft of identity-oriented principles and a system of graphic coherence between the Telefónica master brand and the commercial brands which, using the blue stripe as a background, acts as a mechanism connecting the brands and defining the colours, codes, formats, styles and typography used in the communication process to convey a balanced and coherent vision of the Group.

The identity-oriented principles are essential elements in the Telefónica Group's brand strategy and architecture model and are common to all areas.

Telefónica has an overriding objective: to understand and meet the needs of the people it interacts with. Only by doing this can it convert its technological innovations into accessible communication solutions that upgrade and make the lives of its customers easier and contribute to the continued progress of society.

And only by doing this can Telefónica build lasting relationships based on trust, making the groups it collaborates with into its partners.

OUR SPONSORSHIP AGREEMENTS

We have also built up links with our customers and the societies where Telefónica is present through institutional and commercial sponsorship agreements. These sponsorship deals allow the Group to convey the key



corporate values at the heart of its relationships with stakeholders: closeness, commitment, trust, clarity, drive, etc.

In 2004, a total of 244 sponsorship agreements were signed with a host of sporting, social, cultural and other organisations. The most significant include sponsorship of the Universal Forum of Cultures - Barcelona 2004 and the Xacobeo (Holy Year of St. James) 2004, two major cultural events of international importance attracting large numbers of visitors. Telefónica has showed its support of the Spanish language by sponsoring the Third International Language Conference, held in Rosario (Argentina) and attended by King Juan Carlos I of Spain, the President of Argentina, in addition to other leaders of Latin American countries and a numerous leading authorities on the Spanish language. The Group sponsored the events held to commemorate the 25th Anniversary of Democratic Town and City Councils organised by the Spanish Federation of Municipalities and Provinces (FEMP), including exhibitions, conferences and other similar events. It also works in close conjunction with Spanish universities through the Telefónica lectureships.

OUR BRANDS ATTRIBUTES



█ Transversal values by audience

█ Attributes that express the Brand's personality

6 The brands refresh the Telefónica brand

7 The connections between the brands are simple and clear

8 The products are not brands

9 Telefónica and its brands coexist as part of a system

10 This system of coexistence ensures coherence in the values and messages between the brands and Telefónica

Telefónica BRINGS YOU...

A total of 323 commercial deals were signed during the year including sponsorship of the Renault F1 racing team and its star driver, Fernando Alonso, and MoviStar's sponsorship of riders Dani Pedrosa and Sete Gibernau in the 250cc and MotoGP World Championships respectively, not to mention the MoviStar concerts including the singer Alejandro Sanz's tour.

COMMUNICATION: THE KEY TO CONSOLIDATING OUR LEADING POSITION

Communication is also a core element for Telefónica that is central to the Group's transformation process

Following the Directors' Summit in November and with its sights set on 2008, Telefónica also approved the introduction of a Global Corporate Communication Management Plan aligned



with the Strategic Plan, the purpose of which is to structure the various initiatives set in motion to achieve its goal of becoming the best and the biggest integrated telecommunications group in the world.

Work on the Plan began this year and is focused on two basic areas. Firstly, it sets out to create a single communication dynamic for all Group employees all over the world and, secondly, it aims to focus communication towards the customer, towards the professionals that receive it and not so much on the organisation that generates it.

This will mean reappraising the Group's existing internal communication channels, and possibly creating new ones, reinforcing the key role of Internal Communication in the internal cohesion of the Group as a whole.

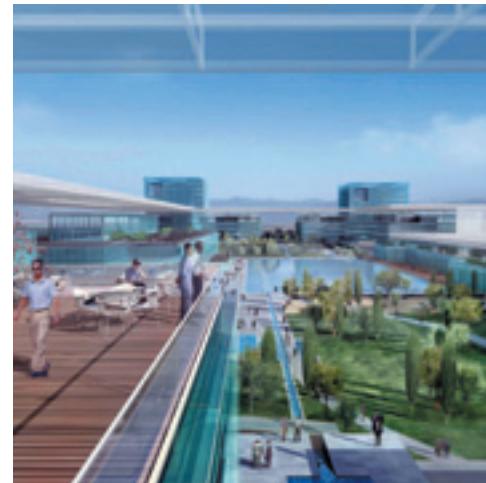
2004 also saw a proposal for a new integrated Intranet model for the entire Group designed to make use of the widely contrasting contents offered by all its companies and integrate them on the same level of visibility to create the internal perception of a single company. This project, approved in 2005, will pool all internal communication resources, leading to the

creation of a unified internal culture and enabling the more than 173,000 professionals that make up the Group to perceive it as a single entity.

Lastly, Telefónica's new head office in Madrid, the Distrito C, is the most innovative and high profile project currently being engaged in by the Company. 2004 saw work begin on what is set to become the focal point of the Group's communication policy, although it was not until this year that development of specific initiatives got under way, aimed at the first employees in the Group set to move to the new offices last quarter of the year. In this respect, the Distrito C will be the most visible sign of Telefónica's new business culture and its new working methods.

The relationship with the media is also a vital part in the current process of transformation that Telefónica Group is undergoing as it represents an open channel for communication with its main audiences: customers, shareholders, employees and society in general. For Telefónica, communication is an absolutely essential factor.

Over the last year, the Group has enjoyed a relationship with the media based on trust and





defined by accuracy of information and transparency. It has also been working on a communication strategy based on proximity and the dissemination of comprehensive, relevant and accurate information. The strategy involves providing a personalised service to handle requests for information from the media in each particular area, region and market. To ensure information can be accessed transparently and without delay, the Company's "virtual press room" (www.telefonica.es/saladeprensa) is updated on a permanent basis. Here, all the press articles from the year are published along with photographs, profiles, the employment histories of Company Directors, graphics, results and a host of other contents.

In short, by engaging in a strategy based on close communication, innovation and a commitment to all the societies where it is present, Telefónica is able, day after day, to provide a flexible, accurate and transparent response to the enormous demand for information that it generates. In doing so, it anticipates the needs of the media and forges links based on trust with its partners.

Finally, the Alquimia Project has enabled Telefónica to design and implement a new model for its presence on the Internet. Based on the concept of "a single image on the Internet", the Alquimia model offers a highly flexible tool to modulate Internet relationships, making this single image compatible with the operational independence of each company, the individual character of different brands (both present and future ones), and respect for data protection policies and regulatory restrictions.

The success of this new model has been proven thanks to more than 70 million contacts handled in 2004, and is helping to consolidate Telefónica's operations and its perception as an integrated operator working towards a joint



overall objective with a shared sense of commitment.

This model is now up and running in 14 countries, with this number set to grow to 19 during the course of 2005 following the buyout of BellSouth's operators: Germany, Argentina, Brazil, Colombia, Chile, Ecuador, El Salvador, Spain, the US, Guatemala, Morocco, Mexico, Nicaragua, Panama, Peru, Puerto Rico, the UK, Uruguay and Venezuela.



01/03

Commitments

Solidarity

TELEFÓNICA, A COMMITTED COMPANY

Telefónica's goal is to become a tried and trusted operator for all its stakeholders: customers, employees, shareholders and society in general. In this respect, its leadership is founded on a set of core values that define the Company's personality, reflect its aspirations and establish the nature of its relationships with its interest groups.

This Closeness and Commitment that are the hallmarks of the organisation are also intimately linked to key reference values in the relationships we enjoy with these groups: Profitability and Transparency for shareholders; Quality and Fulfilment for customers; Clarity in our relationship with and professional development of employees and, lastly, Commitment and Closeness to society. In combining all these values, Telefónica gradually seeks to forge a bond based on trust by making sound commitments and fulfilling them. It sees trust as a key factor in engaging in this process as closely as possible.

Telefónica is a leader in terms of its commitment to society in general. It has reached this position because it is, quite simply, a driving force for the development of the societies where it operates, a natural ally of the countries it is present in, and a key player in promoting the Information Society in these markets. As a multi-domestic company, Telefónica is fully committed to these countries and makes a vital contribution to their social development, establishing itself, in the process, as the leading private investor in many of these regions.

Social commitment and solidarity

Telefónica is a caring business group. It channels its commitment to society through the Telefónica Foundation, the main objective of which is to use the new information and communication technologies (ICTs) to foster social cooperation and promotion. As a result, in 2004 over 25,000 organizations and 26 million

people benefited from the over 24 million euros invested in 239 projects that the Foundation implemented in Spain (16.5 million) and Latin America and Morocco (7.8 million).

Education, Cooperation and Social Promotion, Telemedicine, Telecare and the Disabled, Culture, Art and the Information Society are just some of the areas where the Telefónica Foundation is active.

Cooperation and social promotion

Throughout the year, this objective was reaffirmed, thanks to initiatives such as a program to supply non-profit organisations with telecommunications equipment, which was supported by a call for public aid and the signing of various partnership agreements. The program has helped more than 360 Spanish organisations to significantly upgrade their telecommunications equipment and infrastructures.

We have also been very active in the field of social cooperation and promotion. Initiatives in this area include: the Risolidaria programme – a platform comprising over 700 groups that aims to facilitate the work of civil organisations; corporate voluntary schemes, with nearly 3,000 employees from various Group companies participating; support for voluntary workers with campaigns such as "Ningún Cooperante Sin Comunicación" which, in 2004 allowed more than 10,400 Spanish missionaries and aid workers around the globe to keep in touch with their families; and a host of initiatives designed to guarantee telecommunications services in countries experiencing emergency situations such as the disaster caused by last December's tsunami in Southeast Asia.

The Telefónica Foundation has given its support once more to a variety of civil organisations by providing the necessary technical resources for initiatives aimed at raising awareness and promoting the participation of society. In Morocco, the Foundation is supporting the work of the Day Centre in the city of Tetuan, which provides



essential services, healthcare and drug addiction treatment, in addition to welfare and legal services for homeless children. It has also worked closely with the CODESPA Foundation in setting up a classroom at its care centre and equipping it with computers, teaching material and visual aids.

In Mexico, the Foundation continues to promote the revival of indigenous languages and culture, provides non-profit organisations with technological tools to help manage the work they perform, and help them use these new ICTs in an attempt to bridge the knowledge gap and reach society's most vulnerable groups.

For its part, in 2004 the Telefónica Foundation Peru unveiled its extensive Domestic Violence Prevention Programme, the aim of which is to use new technologies to prevent the abuse of children, young people and women at risk. The programme is the Foundation's contribution to combating a social problem that has arisen in the country in recent years.

In Argentina, the Foundation has launched a series of initiatives including an integrated programme for the development of civil society, which gives non-profit organisations the tools they need to raise their human resources standards, such as technical support and consultancy services. To improve the situation of the least prosperous sections of society, the Foundation also lends its support to various production projects designed to instil a sense of achievement and generate economic independence.

Telemedicine, telecare and the disabled

The disabled and the elderly are also key priorities for the Foundation. Its activity in this field involves vital R&D work mainly focused on increasing access to information, communication, training and employment; enabling the provision of better healthcare and welfare services for the elderly, infirm, disabled and the vulnerable; and on helping improve education on health and the prevention of illnesses and disabilities.

In 2004, the Telefónica Foundation worked hand in hand with several prestigious civil organisations to implement and support a number of projects for the disabled, including the following: Merc@dis, an employment portal aimed specifically at disabled people; a unit demonstrating specially adapted equipment for the disabled at CEAPAT (National Centre for Personal Autonomy and Technical Aids); and the SICLA Project, which provides very advanced technology enabling alternative communication. In telecare, its initiatives include a localisation and help system for women at risk of domestic violence; and the "Telesalud ADSL" programme, designed to enable audiovisual contact between the elderly and medical professionals.

The Telefónica Foundation has also joined forces with various civil/health organisations in the field of telemedicine in the creation and technological maintenance of Internet portals on a range of medical specialties such as oncology and cardiology, and illnesses including spina bifida, Alzheimer's or Down syndrome. 2004 was the Latin American Year of the Disabled, an initiative that has helped the Foundations based in Latin America to increase the public profile of the projects it is engaged in.

Some of the principal actions undertaken in this area include skills programmes for the disabled on the use of new ICTs with a view to enabling their integration into the labour market, and the research and development of new, specially adapted technology such as the SICLA Communicator, which offers new opportunities for social integration, and allows professionals and teachers alike to handle this technology.

Education

In education, the Telefónica Foundation's main objective is to promote the development of education and equal opportunities by applying new ICTs to teaching and learning. In 2004, it was able to consolidate its high school and secondary education Internet portal (EducaRed) and its university training portal (CampusRed),



both of which have become reference points for school children, university students and educational staff throughout Spain and Latin America. Furthermore, these portals continue to absorb the most useful and groundbreaking tools available in educational technology. The Telefónica Foundation has also implemented other programmes, such as "Oficios en Red", "FuTuRo" and "Aulas Unidas", all of them aimed at fostering quality and equal opportunities in education, both in the formal environment and in groups deserving of special attention: homeless and sick children.

In Brazil and Mexico, the Foundations have continued to support the implementation of the Computer and Citizenship Schools programme, which seeks to encourage the social inclusion of children and young people from marginalised communities, in addition to a host of projects focusing on literacy and speeding up of learning.

Chile is one of the countries with the highest Internet access rates in Latin America thanks to the programme "Internet Educativa", which has helped thousands of schools all over the country to connect to the Net since 1998. However, given that Internet access does not in itself guarantee improved educational standards, in 2004 the Foundation continued to deliver original and fun-filled teaching resources to teachers and students through its "EducaRed" website.

Technology, Art and Culture

Turning now to culture, the Telefónica Foundation continues to work on the virtual recreation of major monuments and buildings of cultural, artistic and historical interest in Spain and Latin America through its "Ars Virtual" programme. It is also actively involved in consolidating and raising the profile of the Spanish language on the Net through a series of initiatives promoting the language and Spanish-speaking culture.

The Cultural Extension Programme has carried out valuable work in Chile, running a number of

programmes in 2004, such as "Arte en Verano / Arte en Invierno", "Museos de Media Noche" or "Descubriendo Mi Ciudad", all of them proving extremely popular.

In Argentina, 2003 saw Telefónica set up its Foundation Programme, which organises a range of artistic activities focusing on literature, dance, theatre and music, and has successfully maintained the spirit of experimentation that inspired its creation. It also supports and promotes other areas of the Programme by organising courses, conferences, seminars and round tables for members of the public and specialists alike across a broad range of issues.

In 2004, Mexico began making a series of videos on the more than 60 ethnic groups that live in the country as a means of promoting its historical and cultural heritage through the educational use of new technologies. These videos are designed to be used in schools as teaching and research resources for teachers and students.

The Information Society

It has also organised and supported many forums, conferences and congresses debating current issues, such as the status of the telecommunications sector; the opportunities opened up by the Information Society in education and professional development; the role of the new technologies in the fight against social exclusion; and the voluntary schemes and social initiatives engaged in by companies, to name but a few.

Internet users in Peru can now access the website of the State Archives, a space providing detailed information on the foundation and organisation of this state institution and the functions it performs, as well as access to valuable historical documents. It has also organised its first animated film competition on the Internet, the aim of which is to promote the use of information society tools in the country. The competition gives entrants the chance to use their imagination, creativity and skills to create animations.

Corporate responsibility

A RESPONSIBLE GROUP

Telefónica is fully committed to Corporate Responsibility. As well as implying efficient business management, this takes shape as a commitment to the labour market, respect for the environment, equal opportunities, greater social integration and cohesion, as well as opportunities for its suppliers, partners, etc. And finally, a commitment to the creation of wealth and the technological and social development of the regions in which Telefónica operates.

Throughout its history, Telefónica has shown itself to be a responsible company on numerous occasions. Examples of this commitment are evident in: the establishment of the Telefónica Association to aid the disabled, ATAM, in the 1970's, the publication of the first Social Balance Sheets in the 1980's and the adoption of commitments to the environment in the 1990's. In October 2001, the Telefónica Group began to approach corporate responsibility (CR) as a method of managing business processes to ensure that they create long-term sustainable value for all those dealing with the Company.

Corporate Responsibility is headed up at the Corporate Centre, through collaboration of all the departments involved in the management of relations with the different interest groups, in coordination with the main business units. The

primary aim is to coalesce initiatives and synergies and increase the Group's contribution to social value, seeking a balance between the economic growth of its business and fulfilment of the expectations of all its interest groups.

To achieve this, Telefónica uses certain transversal management bases that encompass the various Corporate Responsibility projects promoted by the management areas and Group business lines.

- Regarding the first of these, **proactive risk management**, the Company has monitored and measured the main risks associated with its corporate responsibility and reputation since 2001. During 2004, Telefónica completed its internal diagnostics with an external analysis of the importance of corporate responsibility in each of its main operating markets (Spain, Argentina, Brazil, Chile, Mexico and Peru).
- In the area of **flexibility and adaptability**, the aim is for greater cohesion and a stronger internal Group culture, respecting the social, political and economic environment of each country in which the Group operates and the particularities of each business unit.
- In its regard relations with **interest groups**, Telefónica maintains a policy of active listening to the needs of the main interest

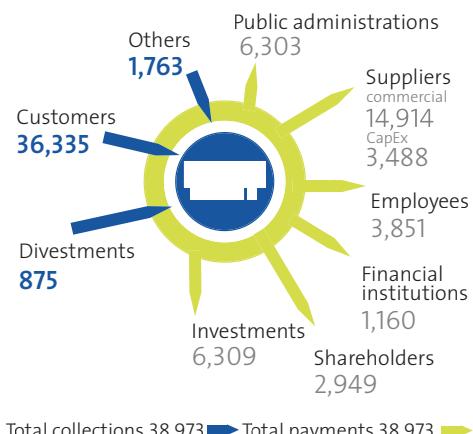


FTSE4Good

Telefónica was included in the European and world indexes of the *Dow Jones Sustainability Index (DJSI)*, which includes companies that lead in their industries with sustainability criteria. The presence of Telefónica on the DJSI indexes is recognition of Telefónica's conviction that corporate responsibility is a basic area in the business strategy of a telecoms operator. Likewise, Telefónica was again included on the FTSE4Good.



INCOME REDISTRIBUTION IN 2004
(Figures in millions of €)



CORPORATE RESPONSIBILITY REPORTS PUBLISHED IN THE TELEFÓNICA GROUP

■ Environmental report ■ Sustainability report ■ Corporate responsibility report

	2004	2003	2002	2001	2000	1999	1998	1997	1996
Telefónica, S.A.					■	■	■	■	■
Telefónica de España		■	■	■	■	■	■	■	■
Telefónica Móviles						■	■	■	■
Telefónica Móviles de España		■	■	■	■	■	■	■	■
Telefónica I+D	■	■	■	■	■	■	■	■	■
Terra						■	■	■	■
T.P.I						■	■	■	■
Atento							■		
Brazil							■		
Argentina							■		
Chile							■		
Peru							■		

Note: 2004 reports may be in process when this document goes to press

groups through the companies comprising the Group, as well as participating in public and private initiatives that deal with corporate responsibility and reputation.

This Principle of Inter-relation has been consolidated over the last few years, leading to specific collaboration and commitments between the company and the representatives of the interest groups in general.

- The principle of creation of value is clearly evidenced by the numerous initiatives promoted throughout the 2004 year, presented in the Corporate Responsibility Report, such as Telefónica's listing on Indices such as the FTSE4Good and Dow Jones Sustainability Index.
- In terms of transparency in information, Telefónica publishes an Annual Global Report

on Corporate Responsibility together with its Annual Activities Report, in addition to specific reports on its business lines and activities in Brazil, Argentina, Chile, Peru and Spain. Furthermore, Telefónica has also included a section in its website devoted to corporate responsibility, since December 2002, following the same information structure as the Annual Report. During 2004, this page registered nearly 60,000 hits.

Below, we highlight some advances regarding Telefónica's core areas of participation made in 2004.

International initiatives

United Nations (UN)
Telefónica collaborates with several United Nations agencies and initiatives. Throughout 2004, various collaboration projects have arisen



from the shared global and multidisciplinary vision of corporate responsibility. Specifically, the Global Compact has been formally incorporated as ASEPAM (Spanish Global Compact Association); Telefónica is a member of the ASEPM Executive Committee, which published the Blue Book on Global Compact in Spain.

Telefónica has also collaborated in the publication of the "Communication on Progress" Guide and has participated in three other projects: the "Commitment to Stakeholders Manual", the "Responsible Lobbying Manual", promoted by the Global Compact Office and the "Report on the Responsibilities of Transnational Corporations and related business enterprises with regard to human rights".

Global Reporting Initiative (GRI)
Telefónica has been an Organizational Stakeholder member since December 2004. The Company has also participated in working groups on setting boundaries for the information included in Annual Reports (Boundaries Working Group), financial aspects (Financial Working Group), and the evolution of the recommendations towards a new version of the Directives (G3).

International Chamber of Commerce (ICC)
Telefónica also participates in the International Chamber of Commerce (ICC) through the activities of the Social Responsibility Group and in the Anticorruption Group.

Global e-Sustainability Initiative (GeSI),
Telefónica has continued to collaborate with other companies in the telecommunications sector through the GeSI. In 2004, work was undertaken in matters relating to the supply chain, telecommunications services in society and the environment and climate change.

European Telecommunication Network Operators (ETNO)

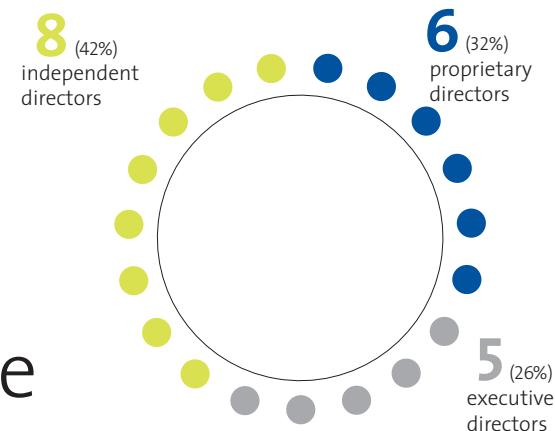
Telefónica has also signed the ETNO Sustainability Declaration and participated in the First European Conference on Telecommunications and Sustainability, held in Budapest.

Spanish Initiatives

In 2004, the Spanish Confederation of Business Organizations (CEO) and Telefónica collaborated in participating and following the activities of AENOR (Spanish Association for Standardization and Certification) and the International Standardization Organization (ISO) as well as with the International Employers Organization (IEO) in aspects relating to the same field.

With regard to the Corporate Reputation Forum (FRC), to which Telefónica belongs, this initiative reached an international scale in 2004 after signing an Alliance with the Reputation Institute. Pursuant to this partnership, the future will witness the organization of joint meetings, seminars and conferences, and the FRC will act as the RI representative, channelling its presence Spain.

COMPOSITION OF THE TELEFÓNICA BOARD OF DIRECTORS



Corporate governance

SHAREHOLDING STRUCTURE

Telefónica's fully subscribed and paid-up share capital is comprised of 4,955,891,361 shares of one euro nominal value each, of a single class and series, represented by book entries.

In accordance with the information existing at the Company, there is currently no individual nor legal entity who exercises, or may exercise control directly or indirectly, individually or jointly, over Telefónica. There are, however, certain shareholders with significant stakeholdings: Caja de Ahorros y Pensiones de Barcelona "La Caixa" and Banco Bilbao Vizcaya Argentaria "BBVA"

CORPORATE GOVERNANCE IN THE TELEFÓNICA GROUP

Principles of Corporate Governance

The basic corporate governance regulations of Telefónica are set out in the Company By-laws, in the Regulations of the General Shareholders' Meeting and in the Regulations of the Board of Directors. The Regulations of the General Shareholders' Meeting establishes the principles of organization operation of this corporate body. Likewise, the Regulations of the Board of Directors, as the founding rules of corporate governance for the Company, determine the principles guiding the actions of the Board of Directors, regulate its organization and operation and establish the rules of conduct for its members.

The Board of Directors

The Regulations of the Board of Directors establish this as a basically supervisory body controlling the Company's activity, while entrusting the day-to-day management of the business to the executive bodies and the management team. Moreover, and in keeping with the provisions of these Regulations, those

powers that are legally or statutorily reserved for the Board of Directors may not be delegated, nor may any others necessary for the responsible performance of its basic supervisory and control duties.

In accordance with the foregoing, and within the scope of its duties of supervision and control, the Board of Directors determines the strategies and directives for the Company management, establishes the basis for corporate organization to ensure the maximum efficiency of the same, implements and oversees the suitable information procedures to report Company information to shareholders and the markets in general, makes decisions regarding business and financial transactions of particular importance to the Company and approves the bases of its own organization and operation to ensure the optimal fulfilment of these duties.

The Board of Directors of Telefónica is currently comprised of nineteen Directors, 5 of whom are Executive, 6 are Proprietary and 8 are Independent.

Board of Directors Delegate Committees

Subject to the legislation in effect, the Board of Directors has expressly delegated all of its powers and attributes, save those that may not be legally or statutorily delegated, to an Executive Committee with general decision-making powers.

The relationship between the Board of Directors and its Executive Committee are based on the principle of transparency, such that the Board is always fully aware of the decisions adopted by the Committee. Thus, the Board of Directors is informed at each of its sessions of all the resolutions adopted by the Executive Committee, distributing a summary of the minutes of the Committee sessions for this purpose to all the Board members, with subsequent ratification of the aforementioned resolutions.

SHAREHOLDERS WITH SIGNIFICANT STAKES

Name or corporate name of shareholder	Number of shares held directly	Number of shares held indirectly (*)	% Total/share capital
Caja de Ahorros y Pensiones de Barcelona "LA CAIXA"	92,380,486	174,095,786	5.377
Banco Bilbao Vizcaya Argentaria S.A.	89,027,259	194,997,590	5.731

The Executive Committee is currently comprised of 8 Directors: 3 Executive Directors, 3 Proprietary Directors and 2 Independents.

The Board of Directors Consultative or Control Committees

The Regulations of the Board of Directors of Telefónica empower this body to constitute one or more consultative or control Committees entrusted with the continual study and monitoring of an area of particular relevance for the Company's good governance, or for the monographic analysis of certain significant aspects or issues where such study is appropriate. The aforementioned Committees are not corporate bodies, but rather are structured as instruments to serve the Board of Directors, which receives the conclusions reached in the matters and issues the Committees are instructed to study.

The Board of Directors of Telefónica has created the consultative or control Committees recommended by the Olivencia Code: an Audit and Control Committee (established in 1997), and a Nominating, Compensation and Corporate Governance Committee, with the competencies attributed in the above mentioned Code. Also in keeping with this Code, these Committees are comprised solely of external Directors. Furthermore, the Board has deemed it appropriate to establish four additional consultative committees: the Human Resources and Corporate Reputation Committee, the Regulation Committee, the Service Quality and Customer Service Committee and the International Affairs Committee.e).

DIRECTORS

Appointment

Proposals for appointment of Directors must always respect the provisions of the Regulations of the Board of Directors and are preceded by

the relevant favourable report from the Nominating, Compensation and Corporate Governance Committee.

Rights and Obligations

Pursuant to the recommendations set out in the Olivencia Code and in the Aldama Report, and in compliance with the Transparency Act, the Regulations of the Board of Directors specifically devotes its title V, comprised of nine articles, to the detailed description of the rights and obligations of Directors. This title sets out the duties arising from the obligations of diligence, fidelity and loyalty of Directors and, in particular, envisages situations of conflict of interest, the duty of confidentiality, the exploitation of business opportunities and the use of corporate assets.

Furthermore, the Regulations of the Board of Directors also includes the right of Directors to obtain the information and counsel necessary to perform their duties, as well as the establishment of the suitable channels for the exercise of such rights. In this respect, the Company has adopted the measures required to ensure that Directors are furnished in a timely manner with sufficient information specially drawn up to this effect, addressed at preparing for the sessions of the Board and its Committees.

Remuneration Policy

In terms of the remuneration policy for Directors, such policy is proposed, evaluated and reviewed by the Nominating, Compensation and Corporate Governance Committee, always in keeping with criteria of moderation. The Company furnishes individualized information each year regarding the remuneration paid for offices and posts on the Board of Directors in the Company Annual Report. In addition, in line with the Aldama Report, external Directors do not participate in remuneration systems linked to the market price of the Company shares.



The General Shareholders' Meeting

The principles of organization and operation of the General Shareholders' Meeting are established in a set of Regulations, approved by the Meeting itself at its session on April 30, 2004. The primary objective of the Regulations of the General Shareholders' Meeting of Telefónica is to offer shareholders a framework that guarantees and facilitates the exercise of their rights in relation to the sovereign governing Company body, with special emphasis on the shareholders' right to information and their participation in deliberations and voting, endeavouring to ensure maximum diffusion of the call and the proposed resolutions submitted to the General Shareholders' Meeting.

Above and beyond the requirements established in the current legislation, amongst the specific measures included in the Regulations of the General Shareholders' Meeting established with a view to facilitating shareholders' attendance and participation in the Meeting, are the following:

- From the date of publication of the call, posting on the Company website of all the information the Company deems appropriate for the aforementioned purpose,

in addition to the documentation envisaged by law.

Through the website, shareholders may access the aforementioned documentation and information directly, or may request that such information be sent to them free of charge using the mechanisms set up on the website itself when a Meeting is called.

- Submission of suggestions from shareholders. The shareholders may, at any time and with prior accreditation of their identity as such, make suggestions related to the organization, operation and competency of the General Shareholders' Meeting through the Shareholder Assistance Office.

Likewise, through this office shareholders may request any type of information, documentation or clarifications they may require in relation to the General Shareholders' Meeting, either through the Company website or by telephone, using the toll-free line set up for this purpose.

BOARD OF DIRECTORS COMMITTEES IN TELEFÓNICA

Board of Directors Committees	Non-executive Directors	Executive Directors	No. of sessions 2004
Executive Committee	5	3	21
Audit and Control	4	-	11
Nominating, Compensation and Corporate Governance	4	-	10
Human Resources and Corporate Reputation	4	-	6
Regulation	3	1	10
Service Quality and Customer Service	3	1	4
International Affairs	4	1	6



02

Information for shareholders

Telefónica

In 2004, Telefónica provided a solid combination of growth, efficiency and profitability, yielding a total annual return for shareholders of 22.5%



SHAREHOLDER REMUNERATION IN 2004

The Telefónica Group provided a solid combination of growth, efficiency and profitability during 2004, leading to significant growth in the main items of the profit and loss account. All of this has led to progress in the shareholder remuneration policy, which is one of the most attractive and with greatest long-term commitment in the sector. It is important to remember that Telefónica took a decisive step in the 2003 financial year to strengthen the shareholder remuneration policy, establishing an explicit, long-term agreement consisting of one minimum payment of 0.40 euros per share for each year from 2003 to 2006 and a share buy-back program for a minimum of 4 billion euros during the same period (*). Hence, in compliance with this shareholder remuneration program in 2004, Telefónica paid a 0.4 euro dividend per share, while accelerating the share buy-back program started the previous year. As of February 15th 2005, 67% of this program had already been completed, treasury stock representing 4.966% of the share capital.

The Telefónica Group continued its policy of increasing shareholder remuneration during the 2004 financial year. Along these lines, the measures taken and approved by the last Ordinary General Shareholders' Meeting on April 30th 2004 were:

- The payment of a cash dividend charged against the profits of 2003 for the set sum of 0.20 euros per share. This dividend was paid on May 14th 2004.
- The payment of a cash dividend charged against Paid-in Capital Reserve for the set sum of 0.20 euros per share. This dividend was paid on November 12th 2004.

**On April 26th, Telefónica communicates its decision to execute a renewed and extended 6 billion euros share buyback program until 2007. This 6 billion euros includes the pending execution of the 2003-2006 Program.*

The Company has also agreed to submit to the General Shareholders' Meeting to be held in 2005 a proposal for a resolution to distribute share capital already in treasury stock in the proportion of one share for every twenty-five (1x25), hence shareholder remuneration is to continue to increase during 2005.

Lastly, and also in keeping with the aforementioned shareholder remuneration program, and thanks to the positive performance of cash flow generation, Telefónica agreed to pay a dividend of 0.5 euros per share, representing an increase of 25%. For this purpose, the Board of Directors has resolved to pay an interim cash dividend from 2004 profits in a set sum of 0.23 euros per share, and also intends to propose to the next General Shareholders' Meeting the payment of a cash dividend of 0.27 euros per share from the Paid-in Capital Reserve.

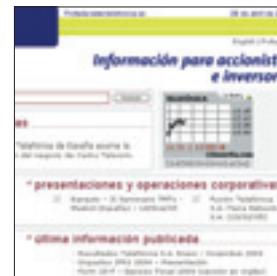
The Board of Directors intends to maintain the minimum dividend of 0.5 euros per share for 2006 (payable from 2005 earnings).

TELEFÓNICA ON THE STOCK EXCHANGE

For the second year running, international equity markets have ended the year with positive results, in most cases above or close to 10% reaching the highest levels since July 2001. This good performance was basically fuelled by solid economic growth, with the US and China providing the greatest contribution, and the two-digit growth in corporate earnings results.

Stock exchange performance can be divided into three stages for 2004:

1. The first two months recorded a growth tendency promoted by good macroeconomic and earnings forecasts, in line with the trend of 2003.
2. March gave way to a bear market, with investors collecting profits following the



terrorist attacks in Madrid, the strong rise in oil prices and the start of rising interest rates in the US, which led indexes to record annual minimums by mid-August.

3. From that moment on, despite the high market prices of oil and the depreciation of the dollar, markets bounced back to record strong growth thanks to third-quarter corporate earnings results, Bush's victory in the presidential elections and the liquidity accumulated among investors.

Oil prices were one of the factors to influence the markets the most during 2004, having recorded maximum historic levels of over 51 dollars per barrel of Brent, with regards to Europe, and 55 dollars per barrel of West Texas Intermediate, with regards to the US. This increase in crude oil prices is basically attributable to the increase in demand, geopolitical tension in Iraq and the Middle East and the crisis of the Russian oil company Yukos, together with the activity of speculative funds.

The performance of the dollar must also be mentioned, which ended the year at a historic low against the European single currency (1.3554 dollars per euro). Depreciation of the dollar in 2004 amounted to 8.5% in relation to the euro, due to the current account deficit, the public deficit and the exchange rate interventionist policy of Asian countries, among other factors.

This year special mention must be made of the strong revaluations obtained by emerging markets, notably Latin America (Merval in Argentina +28.3%, Bovespa in Brazil +17.8%, IGPA in Chile +22.2% and IGRA in Lima +52.4%), thanks to the better performance of macroeconomic indicators, the reactivation of foreign investment, greater demand for raw materials and an environment of low interest rates.

In Europe, the Ibex-35 recorded the best relative performance in 2004, recording a 17.4%

revaluation in comparison with the 7% increases of the comparable FTSE-100, CAC-40, Dax and Eurostoxx-50 indexes, thanks to greater economic growth than the European average and the stabilizing of Latin America due to the exposure of the main Spanish companies in the region.

In line with market performance, the European telecommunications sector ended the year with a revaluation of 11.9%. The operator companies recorded positive progress supported by financial discipline (reduction in the level of debt and the stabilizing of balance sheets), the materialization of shareholder remuneration policies (dividends and buy-backs), the stabilizing of the economic-financial results as of the second half of the year, the combination of growth and returns and by the lower flow of paper than expected. Among the companies comparable to Telefónica, Telecom Italia recorded the best relative performance in 2004 with a positive result of 28.1%, followed by Deutsche Telekom (+14.8%), KPN (+14.2%), Portugal Telecom (+14.0%), BT (+7.8%) and France Telecom (+7.5%).

Telefónica shares were revalued by 19.1% in 2004 to end the year at a market price of €13.86/share. This progress can basically be attributed to the following: a good combination of growth and return, solid progress of operations, attractive shareholder remuneration policy, the good performance of Latin America, the solid financial position, strong foundations and the favorable opinion of the main investment banks.

Telefónica's average daily trading volume was 41.4 million shares, up on the 36.8 million shares traded in 2003. The company's market capitalization by the end of the year amounted to 68,689 million euros (93,097 million dollars).

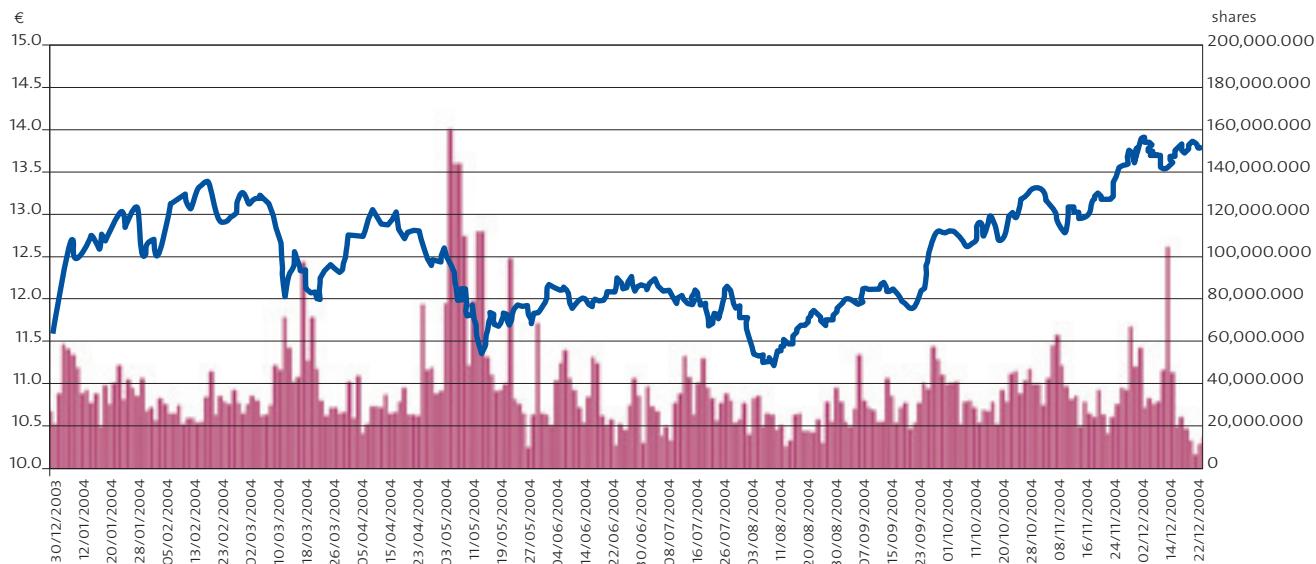
STOCK EXCHANGES WHERE TELEFÓNICA SHARES ARE TRADED

Telefónica shares trade on the following stock exchanges:

- Spanish computerized trading system
(within the selective Ibex 35 index)
- and Four Spanish stock exchanges
(Madrid, Barcelona, Bilbao and Valencia)
- London Stock Exchange
- Paris Euronext
- Frankfurt Stock Exchange
- Tokyo Stock Exchange
- New York Stock Exchange
- Buenos Aires Stock Exchange
- Lima Stock Exchange
- São Paulo Stock Exchange

Included in the Stock Exchange Automated Quotation System (SEAC International)

PRICE/VOLUME



PORTFOLIO OF 100 SHARES AT JANUARY 1ST 2004

	per share	100 shares
Acquisition	11.64	1,164.00
Cash dividend May 14th	0.20	20.00
Cash dividend November 12th	0.20	20.00
Share value at January 1st 2005	13.80	1,386.00
Total return on portfolio		1,426.00
% profitability		22.51%

STOCK PERFORMANCE IN 2004



RETURNS FOR SHAREHOLDERS

The significant increase in dividends during 2004 which made Telefónica one of the most attractive shares on the telecommunications market in this sense, coupled with stock exchange progress throughout the year, have led to total return of 22.51% for shareholders who invested in Telefónica on January 1st 2004. Hence, investing in 100 shares at the start of the year would have resulted in a payment of 1,164 euros, which would have risen to 1,386 euros by December 31st 2004, due to the increase in market prices, as well as the extra 40 euros in dividends. Table 1 shows the return of these one hundred shares.

COMPANY SHARE CAPITAL

The latest share capital modification arose as a result of the reduction in treasury stock with the amortization of shareholder equity (- 101,140.640 euros), placing corporate share

capital at 4,955,891,361 euros by the end of 2003, which was maintained throughout 2004.

NUMBER OF SHAREHOLDERS

According to the information obtained from "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores" (Securities, Recording, Clearing and Settlement Systems Management Company) (Iberclear) dated 1st April, 2005, the number of shareholders in Telefónica, according to separate records in favor of individuals and corporations, amounted to 1,517,090 shareholders.

SIGNIFICANT SHAREHOLDINGS

Telefónica shares are recorded by the book entry system and therefore the Company does not keep a shareholders' registry, which makes it difficult to know the exact ownership structure. However, the following shareholders hold title to significant shareholdings (pursuant to Ministerial Order 3722/2003, of 26 December):

Total	Direct shareholding			Indirect shareholding		
	Percentage	Shares	Percentage	Shares	Percentage	Shares
BBVA	5.731%	284,024,849	1.79%	89,027,259	3.93%	194,997,590
"La Caixa"	5.377%	266,476,222	1.86%	92,380,486	3.51 %	174,095,736

SHARES HELD BY MEMBERS OF THE BOARD OF DIRECTORS

According to data in the possession of the Company, The total number of Telefónica S.A. shares held individually, either directly or indirectly, by the current company Directors stands at 898,378 shares (0.018 % of the company's share capital).

Name	Direct Shareholding	Indirect Shareholding	Number of shares held
Mr. César Alierta Izuel	632,012	—	632,012
Mr. Isidro Fainé Casas (1)	7,164	—	7,164
Mr. José Antonio Fernández Rivero (2)	115	—	115
Mr. Fernando de Almansa Moreno-Barreda	2,112	—	2,112
Mr. Jesús María Cadenato Matía (2)	9,906	—	9,906
Mr. Maximino Carpio García	5,836	—	5,836
Mr. Carlos Colomer Casellas	543	—	543
Mr. Alfonso Ferrari Herrero	1,811	99,500(4)	101,311
Mr. José Fonollosa García (2)	—	—	—
Mr. Gonzalo Hinojosa Fernández de Angulo	37,958	—	37,958
Mr. Miguel Horta e Costa	354	—	354
Mr. Pablo Isla Alvarez de Tejera	386	—	386
Mr. Luis Lada Díaz	30,000	—	30,000
Mr. Antonio Massanell Lavilla (1)	2,106	642 (3)	2,748
Mr. Enrique Used Aznar	19,450	17,988 (4)	37,438
Mr. Mario E. Vázquez	10	—	10
Mr. Antonio Viana-Baptista	21,994	—	21,994
Mr. Gregorio Villalabeitia Galarraga (2)	53	—	53
Mr. Antonio Alonso Ureba	8,438	—	8,438
TOTAL	780,248	118,130	898,378

(1) Appointed on proposal from La Caixa.

(2) Appointed on proposal from BBVA.

(3) Shareholding held through first-degree kinship.

(4) Shareholding held through one 60% controlled company and one fully controlled company.



03

Results January–December 2004

03/01 Telefónica
Group

03/02

Results
by Business
Lines

03/03

Addenda

Telefónica

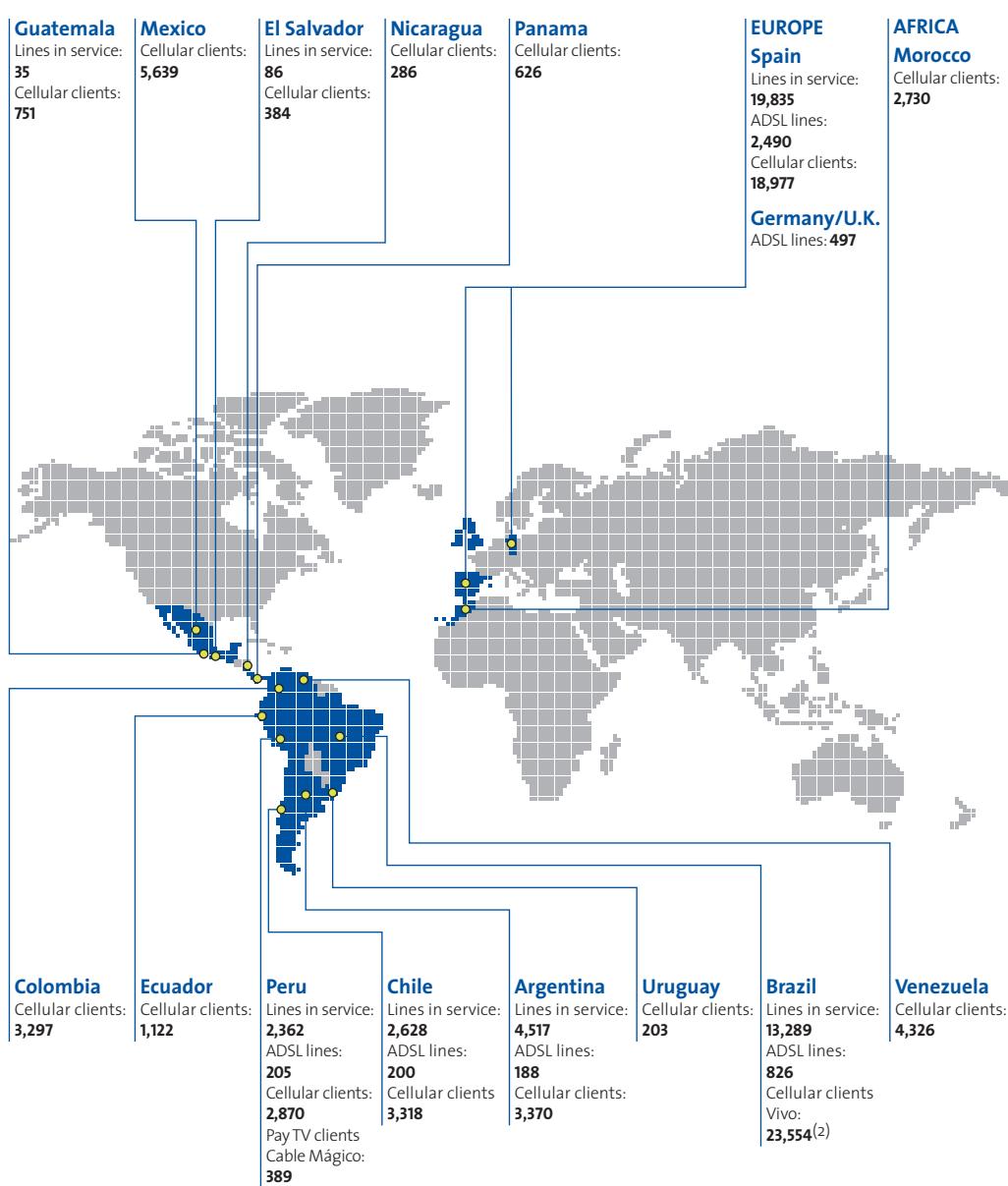


03/01

Telefónica Group

Telefónica Group

MARKET SIZE



1. Lines in Service include ADSL lines

2. Joint Venture 50% held together with Portugal Telecom

Telefónica Group

RESULTS

TELEFÓNICA GROUP

MARKET SIZE

Unaudited figures (Thousands)

	Managed			Weighted (*)		
	Dec 2004	Dec 2003	% Chg	Dec 2004	Dec 2003	% Chg
Lines in service (1)	43,249.5	41,128.4	5,2	39,998.5	37,947.5	5.4
In Spain	19,835.3	19,100.4	3,8	19,835.3	19,100.4	3,8
In other countries	23,414.3	22,028.0	6,3	20,163.3	18,847.1	7,0
Cellular customers (2)	74,442.5	51,848.6	43,6	49,592.0	31,376.2	58,1
In Spain	18,977.0	19,660.6	(3,5)	17,546.2	18,174.3	(3,5)
In other countries	55,465.4	32,188.0	72,3	32,045.9	13,201.9	142,7
Total (3)	118,100.3	93,351.3	26,5	89,990.3	69,686.5	29,1

(*) Weighted by the equity interest of Telefónica in each of the companies.

(1) Lines in service: includes all lines in service for Telefónica de España, Telefónica CTC Chile, Telefónica de Argentina, Telefónica del Perú, Telesp, Telefónica Móviles El Salvador, Telefónica Móviles Guatemala and Telefónica Deutschland.

(2) Cellular customers: includes all cellular customers of Telefónica Servicios Móviles España, MediTelecom, Telefónica Móvil Chile, TCP Argentina, Telefónica Móviles Perú, Brasilcel (the Joint Venture with Portugal Telecom in Brazil), Telefónica Móviles Guatemala, Telefónica Móviles El Salvador, Telefónica Móviles México and those acquired from BellSouth Latin-America operators (Venezuela, Guatemala, Nicaragua, Panama, Ecuador, Colombia, Peru and Uruguay), except Chile and Argentina

(3) Includes Pay TV customers of Cable Mágico in Peru, Multiservicio in El Salvador and Imagenio in Spain.

TELEFÓNICA GROUP

ACCESSES

Unaudited figures (thousands)

	January - December		
	2004	2003	% Chg
Fixed telephony accesses (1)	37,793.3	37,428.0	1.0
Internet and data accesses	10,075.8	8,027.8	25.5
Narrowband	5,055.0	4,983.4	
Broadband	5,020.8	3,044.4	
ADSL (2)	4,682.2	2,797.5	
Fully unbundled loops	78.4	16.3	
Other accesses (3)	260.2	230.6	
Pay TV	410.7	377.2	8.9
Cellular accesses (4)	74,442.5	52,023.2	43.1
Total Accesses	122,722.4	97,856.3	25.4

(1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access x30; 2/6 Access. Company's accesses for internal use included.

(2) T Deutschland's connections resold on a retail basis included.

(3) Cable modem, WiFi clients, satellite and fiber included.

(4) Accesses corresponding to acquired operators from BellSouth included with the exception of Chile and Argentina..

FINANCIAL HIGHLIGHTS

The most relevant factors of the Telefónica Group results during 2004 are the following:

- **Significant growth in the main items on the profit and loss account, meeting the financial commitments set for 2004:**
 - Strong operating performance, increasing revenues and EBITDA by 6.8% and 4.9% respectively (+8.3% and +6.0% excluding the negative impact of the exchange rates and the variations in the consolidation perimeter).
 - The Operating Profit presents double digit growth both in current euros (+14.3%) and excluding exchange rates effect and changes in the consolidation perimeter (+15.5%).
- **The client oriented management resulted in a strong organic growth in all business lines:**
 - Intense commercial efforts have been reflected in the significant client base growth. At year end, the Group's managed customers totaled 118.1 million (up 26.5% year-on-year). Including the customers from BellSouth operators in Chile and Argentina, whose acquisition was completed in early January 2005, managed clients totaled 121.9 million.
- **A resilient capacity to transform the top line growth into profitability and cash flow:**
 - The Operating Free Cash Flow generated (EBITDA-CapEx) increased by 6.4% year-on-year to reach 9,443.5 million euros, driven by the Telefónica de España Group (+17.2%).
 - The consolidated EBITDA margin stood at 43.6%.
- **Substantial growth in consolidated net income (+30.6% year-on-year), to an all time high of 2,877.3 million euros:**
 - 31.3% increase in earnings per share over the period (0.581 euros in 2004 vs. 0.442 euros in 2003).
- **The investments grew by 1.2% year-on-year to 3,771.9 million euros, with close to 55% of the total allocated to growth businesses.**
- **Strengthen in the shareholder remuneration policy:**
 - A 25% increase in the dividend corresponding to the fiscal year 2004 to 0.5 euros per share.
 - The share buy-back program maintained its fast pace. As of February 15th 2005, Telefónica's treasury stock represents 4.966% of its current share capital.
 - Commitment to distribute 4% of the treasury stock to shareholders (1x25).
- **Completion of the BellSouth's Latin American operators acquisitions, gaining scale and enhancing the Group growth profile in the future.**

CONSOLIDATED RESULTS

The results obtained by Telefónica Group and the management report included in this report are based on the actions carried out by the various business units in the Group and which constitute the units over which management of these businesses is conducted. This implies a presentation of results based on the actual management of the various businesses in which Telefónica Group is present, instead of adhering to the legal structure observed by the participating companies.

In this sense, income statements are presented by business, which basically implies that each line of activity participate in the companies that the Group holds in the corresponding business, regardless of whether said holding has already been transferred or not, even though it might be the final intent of Telefónica, S.A. to do so in the future.

It should be emphasized that this presentation by businesses in no case alters the total results obtained by Telefónica Group. These results are incorporated from the date of effective acquisition of the holding.

Starting first quarter 2004, Telefónica Empresas results will be included in Telefónica de España Group and Telefónica Latinoamérica Group results. In that sense, Telefónica Data España and Telefónica Soluciones results will be incorporated within Telefónica de España Group, whereas Telefónica Data in Latin America and TIWS will be incorporated in Telefónica Latinoamérica Group results. Finally, Telefónica Deutschland Group results will be incorporated to Other Companies in Telefónica S.A. accounts.

In the fourth quarter of 2004, results of November and December of the new operators acquired from BellSouth in Latin America (Venezuela, Guatemala, Nicaragua, Panama, Ecuador, Colombia, Peru and Uruguay) were accounted, except those of Chile and Argentina, whose acquisition was completed in January 2005.

The Telefónica Group achieved a solid combination of growth, efficiency and profitability during 2004. The main items on the profit and loss account grew significantly (operating revenues up 6.8%; EBITDA up 4.9%; operating profit up 14.3% and net income up 30.6%), due to the positive evolution of operations, mainly supported by the increase in the client base and the intense commercial efforts. At the same time, operational efficiency has been transformed into profitability (EBITDA margin 43.6%) and into an operating free cash flow generation (EBITDA-CapEx) of 9,443.5 million euros (+6.4%) thanks to investment rationale (+1.2%), that only increased in high growth businesses (broadband and mobile telephony).

All of this has driven a continuous improvement in the shareholder remuneration policy, being one of the most attractive and long-term committed in the European telecommunications sector. So, a 0.4 euros per share dividend corresponding to fiscal year 2003 has been paid and the share buy-back program has maintained its fast pace. At February 15th 2005, treasury stock amounted to 4.966% of the capital share. The Company also proposed the distribution of Telefónica S.A. own shares, that represents 4% of the capital share, for the next AGM at a proportion of one treasury stock share for every twenty five. Moreover, a payment of 0.5 euros per share dividend corresponding to fiscal year 2004 was also proposed for the next AGM, which is

25% higher than on the previous year. The Board of Director's intention is to maintain this same minimum dividend for fiscal year 2005.

Likewise, during 2004 has been announced and completed the acquisition of BellSouth's Latin America mobile operators. This operation has led to incorporate more than 14.7 million cellular clients in 2004, and to strengthen the scale and Telefónica Group's future growth profile.

The Group's **managed client base** (fixed and mobile telephony and pay television) stood at 118.1 million at December 31st, 2004, registering a 26.4% increase over the same period of 2003. Including the clients from the Latin American BellSouth mobile operators in Chile and Argentina, whose acquisition was completed in January 2005, the number of clients managed would amount to 121.9 million.

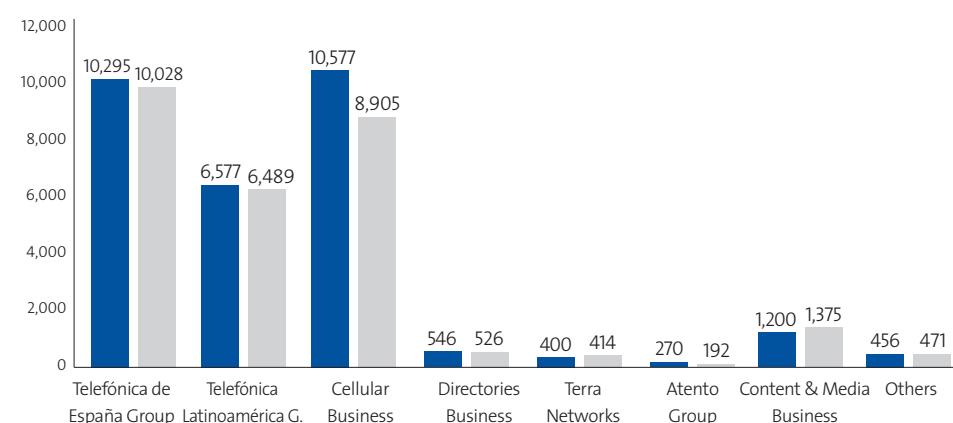
This growth was mainly due to the strong growth of Telefónica Móviles through its intense commercial activity and the integration of the BellSouth operators. Thus, it reached a total of 74.4 million clients managed (+43.6% vs. 2003), obtaining a net gain in the last quarter of 6 million (4.8 million excluding BellSouth's Latin American operators). Including clients from BellSouth operators in Chile and Argentina, whose acquisition was completed in January 2005, the total number of cellular clients would total 78.2 million, 56.5 million corresponding to Latin America.

EXTERNAL SALES BY BUSINESS LINES

(Data in million euros)

 2004

 2003



ADSL connections also grew significantly over the year, with a total of 3.9 million connections by the end of December 2004, both in Spain and Latin America (+61.0% vs. 2003), with a net gain of 1.5 million lines in the last twelve months. In Spain, there were 2.5 million connections (+50.0% year-on-year), giving the Group an estimated market share of 73.8% in the total broadband market. Telefónica Group retail ADSL clients in Spain totaled 1.9 million, representing a total estimated market share of 55.5%. In Latin America, the number of ADSL connections exceeded 1.4 million (+84.7% year-on-year), with a significant contribution of Brazil (58.1% of the total) with 0.8 million connections, compared with the 0.5 million at December 2003.

Telefónica Group's **operating revenues** totaled 30,321.9 million euros in 2004, posting a 6.8% increase over 2003, boosted by higher revenues from almost all business lines, with the exception of the Content and Media business and Terra Networks, which reduced their revenues due to the changes in the consolidation perimeter. The growth rate of revenues was influenced on one hand by the negative effect of exchange rates, which deducted 2.4 percentage points to growth (-2.3 percentage points at September) and on the other hand by the changes in the consolidation perimeter, which contributed with 0.9 percentage points to growth (-1.0 percentage points in January-September 2004), due to the incorporation of BellSouth's eight Latin American operators. Thus, the variation of revenues adjusted for these two factors would stand at 8.3%, meeting the 2004 target (+7/+10%).

The cellular business continued to be the main contributor in the Group's growth, registering operating revenues of 12,054.1 million euros, 15.6% more than in 2003. By components, revenues from services and sale of handsets were 15.4% and 32.6% higher than those recorded the previous year, respectively. By operator, the solid performance of Telefónica Móviles España (+9.3% year on year), Telefónica Móviles México (+49.2% year-on-year in local currency) and VIVO (+16.2% year on year in local currency) must be highlighted.

The Telefónica Latinoamérica Group registered in 2004 operating revenues of 6,883.4 million euros, showing a 2.1% increase, although in constant euros this growth rose to 7.5%. This variation was mainly explained by Telesp and TASA, whose revenues increased in local currency by 14.6% and 10.6%, respectively, more than offsetting the fall in revenues in local currency at Telefónica del Perú (-1.1%) and Telefónica CTC Chile (-6.2%).

In the fourth quarter of 2004 Telefónica de España Group accelerated its operating revenues growth rate, recording an increase of 2.7% in comparison with the 1.7% in the first quarter, the 2.7% in the second quarter and the 2.6% in the third quarter. In 2004, operating revenues totaled an absolute value of 10,955.8 million euros, 2.4% more than in 2003 due to the significant increase in Internet and broadband revenues (+34.2%), which exceeded the fall in revenues from traditional services (-2.5%).

By countries, Spain accounted for 60.3% of the Group's consolidated revenues, down by 1.3 percentage points year-on-year, while 34.8% came from Latin America (33.3% a year ago). Brazil increased its contribution to total revenues over the year by 0.3 percentage points to 17.3%.

The Group's total **accumulated expenses** at the end of 2004 totaled 17,962.5 million euros, an 8.1% increase year-on-year and 3.8 percentage points more than in September. These higher expenses are mainly due to the incorporation of BellSouth's operators to the cellular business

consolidation perimeter. Hence, excluding changes in the consolidation perimeter and in constant euros, operating expenses would increase by 9.8%, 1.1 percentage points more than in the first nine months of the year.

By different expense items, subcontracts grew by 11.5% year-on-year as a result of the commercial effort made by the Group and supply expenses jumped by 17.4% due to increased handset purchases. Personnel expenses, however, decreased by 4.9% compared with the previous year, mainly due to the savings obtained through the 2003-2007 Redundancy Program at Telefónica de España.

The Telefónica Group's bad debt control policy continued to execute successfully, placing the bad debt provision as a percentage of revenues (excluding pre-paid revenues) at year-end 2004 at 1.2%, showing a 0.4 percentage point improvement over December 2003 and a 0.1 percentage points increase over the nine months of 2004. Telefónica Latinoamérica was the business line that reduced the most its bad debt ratio as a percentage of revenues over the past twelve months (-0.8 percentage points) to 2.3%, mostly due to Telesp, which recorded a 0.8 percentage point improvement (3.1% as a percentage of revenues) thanks to the launch of more adapted products to different client profiles, and TASA, whose ratio stood at below 1%. Telefónica CTC Chile was the only operator to register a worse bad debt ratio (4.1% in December 2004 vs. 3.8% a year ago), due to the accounting of certain extraordinary provisions in the last quarter of the year. The bad debt ratio as a percentage of revenues for the cellular business dropped to 0.8% (1.3% in 2003) and that of the Telefónica de España Group by 0.4 percentage points to 0.5% over revenues.

Consolidated EBITDA for the year reached 13,215.4 million euros, 4.9% higher than the previous year. The negative evolution of exchange rates deducted 1.7 percentage points to the growth (1.5 percentage points at September), while the changes in the consolidation perimeter contributed to the growth with 0.6 percentage points, compared with the 0.0 percentage points in January-September, due to the incorporation of BellSouth's Latin American operators. Thus, assuming constant exchange rates and excluding changes in the consolidation perimeter, EBITDA showed a year-on-year increase of 6.0%, in line with the target established for 2004 (+5/+7%). Although it has slowed down vs. the first nine months of 2004 (+7.1%) due to the intense commercial efforts made during the campaigns in the fourth quarter. In terms of profitability, the 2004 EBITDA margin reached 43.6%, showing a 0.8 percentage point drop over the previous year as a result of the EBITDA margin decrease in the cellular business, which could not be offset by the better margins in the rest of the businesses.

For the third consecutive quarter, the Telefónica de España Group is the Group's biggest contributor to consolidated EBITDA growth, after recording a 6.1% year-on-year growth up to 5,054.5 million euros (38.2% of total EBITDA). In the fourth quarter of the year, the EBITDA growth rate slowed down compared to the previous quarter (+4.8% vs. +7.5%), mainly due to the smaller reduction in personnel expenses (-6.1% vs. -11.4%), as the first layoffs from the 2003-2007 Redundancy Program were accounted for during this period. The EBITDA margin was 46.1%, 1.6 percentage points more than twelve months ago.

The cellular business EBITDA, which contributed with 36.0% in the Group's consolidated EBITDA in absolute terms, amounted to 4,755.0 million euros in 2004, 3.8% more than in 2003. Increased

commercial and advertising costs related to strong commercial activity in operating areas had an impact on the margin as a percentage of revenues, which decreased to 39.4% at December 2004, compared with 43.9% twelve months ago. During the fourth quarter, the margin dropped to 32.6% (39.1% in October-December 2003).

EBITDA at the Telefónica Latinoamérica Group, with a consolidated EBITDA contribution of 23.8%, stood at 3,141.0 million euros at the end of 2004, registering a 1.3% growth compared to the previous year, or 6.8% in constant euros (7.2% in January-September 2004). The slow-down in operating expenses over the year (+7.4% as of December vs. +7.9% as of September), led to a 45.6% EBITDA margin by the end of 2004, almost the same level as in 2003 (46.0%) and 0.2 percentage points up on the first nine months of the year.

By geographic areas, Spain generated 70.7% of total EBITDA, 1.1 percentage points more than at December 31st 2003, due to lower EBITDA contributions from Latin America (29.1% compared with 30.6% a year ago). This fall in contributions from Latin America was mostly due to lower contributions over the past year from Brazil (-0.6 percentage points to 17.2%), Chile (-0.6 percentage points to 4.3%), Argentina (-0.5 percentage points to 3.8%) and Peru (-0.2 percentage points to 4.0%) and the higher losses recorded in Mexico.

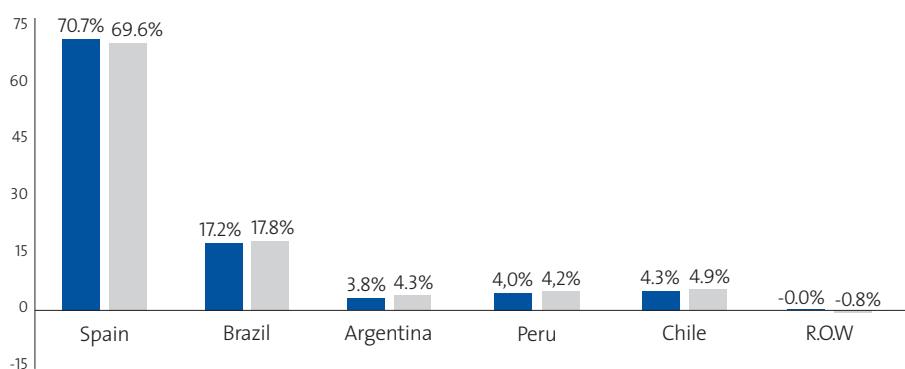
The **operating profit** during January-December 2004 amounted to 7,235.2 million euros, posting a year-on-year growth of 14.3%, 3.8 percentage points less than in September. This slowdown was due to lower EBITDA growth and the lower decrease in amortization compared with September (-4.7% vs. -6.7%). In a homogeneous comparison, i.e. excluding the negative impact of exchange rates and variations in the consolidation perimeter, the year-on-year reduction in amortization

EBITDA BY COUNTRIES

(Data in million euros)

2004

2003



would stand at 3.7% (-4.1% in the first nine months of the year) and the increase in the operating profit would be 15.5% (+18.6% in September), within the guidance for 2004 (+15/+18%).

The **negative results of associated companies** recorded a year-on-year reduction of 156.5 million euros to -56.1 million euros. This 73.6% improvement is mainly due to: i) the deconsolidation of Via Digital (entry of Sogecable in July 2003), ii) the sale of Audiovisual Sport, iii) the lower losses related to Medi Telecom, IPSE-2000 and the Lycos Group following the sale of Lycos Inc last October and iv) the increased participation in Portugal Telecom.

Total **net financial costs** at the end of December 2004 reached 1,183.8 million euros, including a 10.6 million euros negative result coming from the Argentine peso's depreciation. Excluding this effect, net financial costs stood at 1,173.2 million euros, experimenting a 19.8% decrease over the comparable net financial costs of 2003 (1,462.6 million euros). In these results, neither the 134.4 million euros profit generated by the appreciation of the Argentine peso nor the 267.5 million euros profit coming from the cancellation of US dollars denominated debt in 2003 were included. This fall in the net financial costs was due to the decrease in the average net debt as well as the reduction of its average cost as a result of the drop in interest rates in the euro and in the Brazilian real.

The **free cash flow generated** by Telefónica Group during 2004 was 6,507.0 million euros, of which 1,924.2 million euros were devoted to dividend payments by Telefónica S.A., 5,534.5 million euros to financial investments (net of real estate divestitures) and 697.2 million euros to cancellation of commitments acquired by the Group, derived basically from the headcount reduction plan. Thus, the free cash flow after dividend payments, which mainly explains the net debt increase, was -1,648.9 million euros.

Net debt of Telefónica Group at the end of December 2004 stood at 20,982.2 million euros. The increase of 1,746.9 million euros with respect to the consolidated debt at the end of 2003 (19,235.3 million euros) came mainly from the aforementioned generation of free cash flow after financial investments and dividend payments (-1,648.9 million euros). Likewise, there was a 321.4 million euros increase in net debt due to changes in the consolidation perimeter and other effects on the financial statements, although a big part of this increase has been compensated by a reduction of 223.4 million euros in net debt, coming from the currencies movement effects on the non-euro denominated debt.

Cumulative goodwill amortization at the end of December 2004 totaled 432.6 million euros, experimenting a 2.2% decrease over the previous year. This performance is partly explained by the reduction in the cellular business goodwill amortization (allocation of part of Telefónica Móviles México goodwill in the fourth quarter of 2003 as higher value of the operator's license) and that of Terra as a result of the sale of Lycos Inc. However, the incorporation in the fourth quarter of 2004 of two months' goodwill amortization coming from BellSouth's Latin American operators acquisition and since July 2003 that of Sogecable led to an increase in goodwill.

Extraordinary results as of December 2004 totaled -1,165.7 million euros, compared with -1,249.7 million euros during the previous year. The main extraordinary expenses accrued over the year were as follows: i) the accounting of a 674.7 million euros provision related to the acceptance in

2004 of 2,417 employees coming from the 2003-2007 Redundancy Program, ii) anticipated cancellation of Telefónica's UK goodwill for 101.5 million euros, iii) restructuring of the Terra Group (-62.1 million euros), iv) personal reorganizations in other subsidiaries within the Group for 211.4 million euros, v) the impact of the -31.4 million euros of the Arbitration Award concluded in relation to the claim presented by the Radio Blanca Group to Uniprex, which is currently being appealed by the Antena 3TV Group under the Provincial Court and vi) -30.6 million euros as a result of the agreement reached with Bidland Systems Inc concerning certain complaints.

The **tax provision** for the year stood at 1,138.7 million euros, and will mean a reduced cash outflow for the Group supposing that it will be compensated by negative tax bases registered in previous years.

Results attributed to minority interests deducted 381.0 million euros from the Group's net income at year end, compared with the -245.5 million euros of the previous year. This year-on-year increase of 55.2% is explained by the contribution of minority interests in the net income of Terra Networks compared with the losses of the previous year and the higher stake in this company compared to 2003.

As a result of this, the **consolidated net income** for the year amounted to 2,877.3 million euros, posting a year-on-year growth of 30.6%. In quarterly terms, the net income of the fourth quarter is four times that obtained in the same period of the previous year. Excluding the net effect of the 2003-2007 Redundancy Program for 2004, net income would reach 3,289.2 million euros, with a year-on-year increase of 6.3%.

The Telefónica Group's **CapEx** during 2004 amounted to 3,771.9 million euros, registering a 1.2% increase over the previous year. Assuming constant exchange rates and excluding variations in the consolidation perimeter, this percentage would drop to 0.6%. By business line, the cellular business (+24.6%) and Telefónica Latinoamérica (+15.2%) recorded higher investments, due on one hand, to the rollout of the UMTS network in Spain and GSM networks in Argentina and Mexico, to the increase in network capacity in Brazil and to the incorporation of BellSouth operators and, on the other hand, to the broadband efforts being made in all countries. The remaining business lines have continued with the downward trend of the previous year, as can be seen in the Telefónica de España Group (-18.4%). The CapEx ratio as a percentage of revenues stood at 12.4% at year end, compared with the 13.1% recorded in December 2003.

The average **workforce** of the Telefónica Group in 2004 was 156,819 employees, experimenting an average net increase of 7,354 employees compared to the previous year, mainly due to an increase in Atento Group workforce to deal with increased activity. Excluding the Atento Group, there was a 6.8% year-on-year decline in the workforce, mainly due to the layoffs carried out at Telefónica de España (2003-2007 Redundancy Program) and at Telesp in 2003 and 2004.

Telefónica Group

FINANCIAL DATA

TELEFÓNICA GROUP
SELECTED FINANCIAL DATA
Unaudited figures (Euros in millions)

	January - December		
	2004	2003	% Chg
Operating revenues	30,321.9	28,399.8	6.8
EBITDA	13,215.4	12,602.1	4.9
Operating profit	7,235.2	6,327.9	14.3
Income before taxes	4,397.0	3,362.5	30.8
Net income	2,877.3	2,203.6	30.6
Net income per share	0.581	0.442	31.3
Avg. Nº of shares (millions) (1)	4,955.9	4,984.6	(0.6)

(1) Weighted average number of shares in the period adjusted by free capital increases funded by reserves, that mean a change in the number of shares that did not produce any variation of equity structure, as if they were done at the beginning of the first period presented. That relates the two capital increases funded by a charge on freely disposable reserves, recorded with the Mercantile Register on February 18, 2003 and on April 24, 2003. Moreover, the number of shares in 2003 is affected by the capital reduction by amortization of treasury stock shares, from April 11, 2003, when the AGM was held, and that was recorded with the Mercantile Register on June 10, 2003. Accordingly, there was an average number of shares outstanding at the end of the period of 4,955,891,361.

TELEFÓNICA GROUP
RESULTS BY COMPANIES
Unaudited figures (Euros in millions)

	REVENUES			EBITDA			OPERATING PROFIT		
	Dec 2004	Dec 2003	% Chg	Dec 2004	Dec 2003	% Chg	Dec 2004	Dec 2003	% Chg
Telefónica de España Group	10,955.8	10,695.4	2.4	5,054.5	4,762.4	6.1	2,680.5	2,123.6	26.2
Telefónica Latinoamérica Group	6,883.4	6,744.9	2.1	3,141.0	3,101.3	1.3	1,443.2	1,295.6	11.4
Cellular Business	12,054.1	10,428.3	15.6	4,755.0	4,581.9	3.8	3,081.6	3,065.9	0.5
Directories Business	628.1	589.3	6.6	215.2	184.0	16.9	190.1	153.3	24.0
Terra Networks Group	539.2	545.1	(1.1)	20.9	(39.5)	C.S.	(58.6)	(118.2)	(50.4)
Atento Group	611.7	493.0	24.1	90.8	66.5	36.6	54.4	14.3	n.s
Content & Media Business	1,219.1	1,378.5	(11.6)	182.6	210.3	(13.2)	152.1	160.4	(5.1)
Other companies	803.7	788.8	1.9	(169.1)	(185.7)	(8.9)	(296.8)	(330.1)	(10.1)
Eliminations	(3,373.3)	(3,263.4)	3.4	(75.5)	(79.3)	(4.8)	(11.2)	(36.8)	(69.5)
Group Total	30,321.9	28,399.8	6.8	13,215.4	12,602.1	4.9	7,235.2	6,327.9	14.3

TELEFÓNICA GROUP
CAPEX BY BUSINESS LINES
Unaudited figures (Euros in millions)

	January - December		
	2004	2003	% Chg
Telefónica de España Group	1,207.5	1,480.5	(18.4)
Telefónica Latinoamérica Group	753.3	654.1	15.2
Cellular Business	1,669.0	1,339.7	24.6
Directories Business	21.5	20.6	4.5
Terra Networks Group	25.4	80.4	(68.3)
Atento Group	22.8	12.9	76.5
Content & Media Business	24.3	139.0	(82.5)
Other companies & Eliminations	48.1	0.0	n.s.
Group Total	3,771.9	3,727.1	1.2

TELEFÓNICA GROUP
CONSOLIDATED INCOME STATEMENT
Unaudited figures (Euros in millions)

	January - December			October - December		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	30,321.9	28,399.8	6.8	8,395.4	7,566.7	11.0
Internal expend capitalized in fixed assets (1)	474.3	531.1	(10.7)	165.7	174.1	(4.8)
Operating expenses	(17,539.1)	(16,136.9)	8.7	(5,267.7)	(4,442.7)	18.6
Supplies	(7,525.7)	(6,412.9)	17.4	(2,392.4)	(1,842.0)	29.9
Personnel expenses	(4,411.8)	(4,641.3)	(4.9)	(1,149.1)	(1,170.7)	(1.8)
Subcontracts	(5,082.5)	(4,558.4)	11.5	(1,581.4)	(1,285.4)	23.0
Taxes	(519.2)	(524.2)	(1.0)	(144.7)	(144.7)	0.0
Other net operating income (expense)	(41.7)	(191.9)	(78.3)	115.0	10.0	n.s.
EBITDA	13,215.4	12,602.1	4.9	3,408.4	3,308.0	3.0
Depreciation and amortization	(5,980.2)	(6,274.2)	(4.7)	(1,593.6)	(1,571.5)	1.4
Operating profit	7,235.2	6,327.9	14.3	1,814.8	1,736.5	4.5
Profit from associated companies	(56.1)	(212.6)	(73.6)	(7.5)	(51.2)	(85.3)
Financial net income (expense)	(1,183.8)	(1,060.7)	11.6	(366.1)	(310.1)	18.0
Amortization of goodwill	(432.6)	(442.5)	(2.2)	(112.0)	(116.5)	(3.8)
Extraordinary net income (expense)	(1,165.7)	(1,249.7)	(6.7)	(299.3)	(1,197.3)	(75.0)
Income before taxes	4,397.0	3,362.5	30.8	1,029.9	61.4	n.s.
Income taxes	(1,138.7)	(913.4)	24.7	(161.8)	204.7	c.s.
Net income before minority interests	3,258.3	2,449.1	33.0	868.0	266.2	n.s.
Minority interests	(381.0)	(245.5)	55.2	(107.9)	(77.0)	40.1
Net income	2,877.3	2,203.6	30.6	760.2	189.2	n.s.
Average shares (millions) (2)	4,955.9	4,984.6	(0.6)	4,955.9	4,955.9	0.0
Net income per share	0.581	0.442	31.3	0.153	0.038	n.s.

(1) Including work in process.

(2) Weighted average number of shares in the period adjusted by free capital increases funded by reserves, that mean a change in the number of shares that did not produce any variation of equity structure, as if they were done at the beginning of the first period presented. That relates the two capital increases funded by a charge on freely disposable reserves, recorded with the Mercantile Register on February 18, 2003 and on April 24, 2003. Moreover, the number of shares in 2003 is affected by the capital reduction by amortization of treasury stock shares, from April 11, 2003, when the AGM was held, and that was recorded with the Mercantile Register on June 10, 2003. Accordingly, there was an average number of shares outstanding at the end of the period of 4,955,891,361.

TELEFÓNICA GROUP
CONSOLIDATED BALANCE SHEET
Unaudited figures (Euros in millions)

	December		
	2004	2003	% Chg
Subscribed shares not paid-in	0.0	0.0	n.s.
Long-term assets	43,982.1	45,003.9	(2.3)
Start up expenses	409.2	543.6	(24.7)
Intangible net assets	8,430.0	7,673.2	9.9
Fixed net assets	23,348.1	24,315.8	(4.0)
Investment	11,794.8	12,471.4	(5.4)
Goodwill on consolidation	7,409.4	6,053.9	22.4
Deferred expenses	432.2	535.0	(19.2)
Current assets	11,642.6	10,482.4	11.1
Inventories	669.6	401.0	67.0
Accounts receivable	6,935.8	6,218.3	11.5
Short-term investments	2,288.4	3,199.6	(28.5)
Cash and banks	855.0	336.4	154.2
Others	893.8	327.1	173.3
Assets = Liabilities	63,466.3	62,075.2	2.2
Shareholder's equity	16,225.1	16,756.6	(3.2)
Minority interests	3,775.6	4,426.2	(14.7)
Badwill on consolidation	5.0	11.4	(56.5)
Deferred income	329.0	658.0	(50.0)
Provisions for risks and expenses	7,574.2	7,688.2	(1.5)
Long-term debt	15,147.9	17,693.8	(14.4)
Accrued taxes payable	855.8	801.6	6.8
Short-term debt including current maturities	9,413.4	5,587.1	68.5
Interest payable	370.8	376.5	(1.5)
Other creditors	9,769.5	8,075.8	21.0
Financial Data			
Consolidated net debt (1)	20,982.2	19,235.3	9.1
Consolidated debt ratio (2)	49.8%	45.9%	3.8 p.p.

(1) Net debt: Long-term debt + Short-term debt including current maturities - Short-term and Long-term financial investments - Cash and banks.

(2) Debt ratio: Net debt / (Shareholders' equity + Minority interests + Deferred income + Accrued taxes payable + Net debt).

TELEFÓNICA GROUP
FREE CASH FLOW AND CHANGE IN DEBT
Unaudited figures (Euros in millions)

January - December			
	2004	2003	% Chg
I Cash flows from operations	12,635.1	11,974.8	5.5
II Extraord. payments related to operating activities and commitm.	(956.6)	(1,006.4)	
III Net interest payment (1)	(1,152.2)	(1,496.9)	
IV Payment for income tax	(326.0)	(277.7)	
A=I+II+III+IV Net cash provided by operating activities	10,200.3	9,194.0	10.9
B Payment for investment in fixed and intangible assets	(3,457.7)	(3,458.7)	
C=A+B Net free cash flow after CAPEX	6,742.6	5,735.3	17.6
D Cash received from sale of Real State	210.8	399.1	
E Net payment for financial investment	(5,745.3)	(2,115.1)	
F Dividends paid (2)	(2,857.0)	(1,474.5)	
G=C+D+E+F Free cash flow after dividends	(1,648.9)	2,544.9	(164.8)
H Effects of exchange rate changes on net debt	(223.4)	(859.4)	
I Effects on net debt of changes in consolidation and others	321.4	106.4	
J Net debt at beginning of period	19,235.3	22,533.1	
K=J-G+H+I Net debt at end of period	20,982.2	19,235.3	9.1

(1) Including cash received from dividends paid by subsidiaries that are not under full consolidation method.

(2) Dividends paid by Telefónica S.A. and dividend payments to minoritaries from subsidiaries that are under full consolidation method.

TELEFÓNICA GROUP
RECONCILIATIONS OF CASH FLOW AND EBITDA MINUS CAPEX
Unaudited figures (Euros in millions)

January - December			
	2004	2003	% Chg
EBITDA	13,215.4	12,602.1	4.9
– CAPEX accrued during the period (EoP exchange rate)	(3,771.9)	(3,727.1)	
– Extraord. payments related to operating activities and comm.	(956.6)	(1,006.4)	
– Net interest payment	(1,152.2)	(1,496.9)	
– Payment for income tax	(326.0)	(277.7)	
– Investment in working capital	(266.1)	(358.8)	
= Net Free Cash Flow after Capex	6,742.6	5,735.3	17.6
+ Cash received from sale of Real Estate	210.8	399.1	
– Net payment for financial investment	(5,745.3)	(2,115.1)	
– Dividends paid	(2,857.0)	(1,474.5)	
= Free Cash Flow after dividends	(1,648.9)	2,544.9	c.s.

Note: At the Investor Conference held in October 2003, the concept expected "Free Cash Flow" 2003-2006 was introduced to reflect the amount of cash flow available to remunerate Telefónica S.A. Shareholders, to protect solvency levels (financial debt and commitments), and to accommodate strategic flexibility. The differences with the caption "Net Free Cash Flow after Capex" included in the table presented above, are related to "Free Cash Flow" being calculated before payments related to commitments (workforce reductions and guarantees) and after dividend payments to minoritaries, due to cash recirculation within the Group.

	Jan-Dec 2004	Jan-Dec 2003
Net Free Cash Flow after Capex	6,742,6	5,735,3
+ Payments related to cancellation of commitments	697,2	818,3
– Dividend payments to minoritaries (1)	(259,8)	(241,2)
= Free Cash Flow	7,180,0	6,312,4

(1) 673.0 million euros corresponding to extraordinary dividends to minoritaries (mainly of Terra and CTC) are not included in the ordinary dividend payment to minoritaries of 259.0 million euros.

TELEFÓNICA GROUP
NET FINANCIAL DEBT AND COMMITMENTS
Unaudited figures (Euros in millions)

		December 2004
	Long-term debt	15,147.9
	Short term debt including current maturities	9,413.4
	Cash and Banks	(855.0)
	Short and Long-term financial investments (1)	(2,724.1)
A	Net Financial Debt	20,982.2
	Guarantees to IPSE 2000	483.9
	Guarantees to Sogecable	80.0
	Guarantees to Newcomm	44.8
B	Commitments related to guarantees	608.7
	Gross commitments related to workforce reduction (2)	5,170.3
	Value of associated Long-term assets (3)	(697.5)
	Taxes receivable (4)	(1,450.1)
C	Net commitments related to workforce reduction	3,022.8
A + B + C	Total Debt + Commitments	24,613.7
	Total Debt + Commitments / EBITDA (5)	1.6x
	Total Debt + Commitments / EBITDA (5)	1.9x

(1) Short term investments and certain investments in financial assets with a maturity profile longer than one year, whose amount is included in the caption "Investment" of the Balance Sheet..

(2) Mainly in Spain, except 56.9 million euros related to the provision of pension fund liabilities of corporations outside Spain. This amount is detailed in the caption "Provisions for Contingencies and Expenses" of the Balance Sheet, and is the result of adding the following items: "Provision for Pre-retirement, Social Security Expenses and Voluntary Severance", "Group Insurance", "Technical Reserves", and "Provisions for Pension Funds of Other Companies".

(3) Amount included in the caption "Investment" of the Balance Sheet, section "Other Loans". Mostly related to investments in fixed income securities and long-term deposits that cover the materialization of technical reserves of the Group insurance companies.

(4) Net present value of tax benefits arising from the future payments related to workforce reduction commitments.

(5) Calculation based on twelve months rolling EBITDA, that is from December 2003 to December 2004.

TELEFÓNICA GROUP
EXCHANGES RATES APPLIED

	P&L (1)		Balance Sheet and CapEx (2)	
	Jan - Dec 2004	Jan - Dec 2003	Dec 2004	Dec 2003
US Dollar / Euro	1,242	1,129	1,362	1,263
Argentinean Peso / Euro	3,651	3,324	4,058	3,701
Chilean Peso / Euro	692,379	670,174	759,235	749,969
Brasilian Real / Euro	3,632	3,454	3,616	3,649
Peruvian Nuevo Sol / Euro	4,077	3,910	4,470	4,375
Mexican Peso / Euro	13,993	12,681	15,344	14,191

(1) These exchange rates are used to convert the P&L accounts of the Group foreign subsidiaries from local currency to euros. P&L accounts for subsidiaries that use inflation adjusted accounting criteria (México, Chile, Perú, Colombia and Venezuela), are first converted to US dollars at the closing exchange rate, and then the conversion into euros is made according to the average exchange rate.

(2) Exchange rates as of 31/12/04 and 31/12/03.

A photograph of a woman with long blonde hair, wearing a blue sweater and jeans, lying in a field of tall, golden-brown grass. She is resting her head on her hand, looking peaceful. The background is filled with the texture of the grass.

03/02

Results by Business Lines

Results by Business Lines

FIXED LINE BUSINESS

TELEFÓNICA DE ESPAÑA GROUP

At the end of 2004, Telefónica de España achieved growth in revenues of 2.4%, placing it at the top end of the target set for the year (+0.5%/+2.5%), and a growth in EBITDA of 6.1% to exceed the target established (+2.0%/+5.0%). These good results support the transformation strategy the Company is committed to, having as basic pillars the boost of innovative broadband services and operational efficiency.

In relation with commercial initiatives, it should be highlighted the determined push of Telefónica de España to launch Imagenio service as a key driver on broadband strategy. The following items should be mentioned on this front:

- Contents: Incorporation of football matches to the contents of Imagenio pay-per-view services following the agreement reach with Sogecable. Under this agreement Imagenio is now offering all Spanish Professional Football League and "Copa del Rey" games on pay-per-view. The offer of these "premium" contents continues the enrichment of the contents catalogue, increasing the attractiveness of Imagenio service

The thematic channels offer has also been improved, comprising now a total of 36 channels after adding new ones such as EuroSport, Canal Real Madrid, Bloomberg TV, Euronews, CNN International and Cartoon Network.

- Coverage: Imagenio's coverage has been extended to Basque Country (País Vasco) and improved in the areas where the service is already being offered. As such, by middle February, Imagenio is available at around 1.600.000 households.
- Services: New Imagenio Service modality without Internet connectivity service for clients only interested in digital television or not having a PC at home. This service is offered at a price of 19 euros per month.

Voice price plan offering a flat rate for local and provincial calls made to ten preset numbers at a price of 8 euros per month; should national long distance calls be also included in the voice package, the price rises to 13 euros per month. These voice packages together with Imagenio make up an attractive triple-play offer.

- Promotions: Free installation and connection fee, as well as monthly fees up to May, for new clients of Imagenio service and an additional bonus of a free football match of the Spanish League or Copa del Rey.

Regarding other broadband services, and on completion of the process to double the speed of the ADSL Service, Telefónica de España continued its strategy to promote this technology through the launch of new commercial offers during the last quarter of 2004, more particularly:

- "Navidad ADSL" (Christmas ADSL) promotion from November the 20th, 2004 to January the 7th, 2005, by which Telefónica de España offered for basic ADSL Service free connection fee, USB modem and monthly fees up to January the 31st, 2005.

- The launch of “Servicio Flexible ADSL Negocios” (Flexible ADSL Business Service) taylor made for the business market segment and offering internet access from Monday to Friday from 9:00 to 12:00 and from 18:00 to 21:00, together with 12 extra hours a month during any time slot for 24.90 euros per month. Additional minutes are billed at 2.99 euro cents, with a maximum monthly bill of 42 euros. The new service Solución ADSL E-gestión Negocio (ADSL E-management Business Solution), also aimed at the business market segment, together with ADSL access to provide management applications for commercial processes based on ASP (Application Service Provider) technology.

Other notable commercial actions taken by the Company in the traditional business include:

- 13.7% reduction in the price of the “Combinado País” (access+traffic modular plan) rate as of October the 28th, 2005, to 33.17 euros per month.
- December launch of the new Video-telephony service over conventional lines. This new services enables real-time transmission and reception of speakers' image by connecting a screen, with a built-in camera, to a basic line at no extra cost to clients.
- Improvement of Voice Mailbox Service with the introduction of additional features: information of incoming calls without message, that informs the client on the telephone number of incoming calls that did not leave a message in the voice mailbox; Immediate Call-back Service, allowing to make a phone call to the telephone number leaving a message right after listening to it.
- Additionally, a new portfolio of services for SME and Professional market segment has been launched, of which we could highlight the following: free PSTN line connection fee promotion for additional lines from November the 26th, 2004 to March the 31st, 2005; the new “Professional Line” having a Comprehensive and specifically tailored service for the market segment; and the new “Tarifa Plana Comercial” (Commercial Flat Rate), including unlimited national calls within commercial hours for 19 euros per month, with a promotional price of 9.90 euros per month up to June the 30th, 2005.

Insofar as Regulation is concerned, the approval of the 2005 Price-Cap formula set at CPI-3%, must be highlighted. Modifications to rates in compliance with this formula should be completed by July the 1st, 2005, when the CMT is expected to have completed its analysis of the relevant markets, resulting in a new regulatory price and service control framework in Spain.

Telefónica de España has been granted authorization to raise the PSTN monthly fees by 2.0% to 13.43 euros as of January the 22nd, 2005, when said rise came into force.

Telefónica de España Group **operating revenues** totaled 10,955.8 million euros during the year, representing a 2.4% growth in comparison with 2003, the last quarter remaining in line with the growth trend recorded in revenues over the year: 1.7% in the quarter ending March 2004, 2.2% in the period from January to June, and 2.3% in the nine months to September. Telefónica de España parent company contributed revenues of 10,491.2 million euros to the Group, which represented a year-on-year growth rate of 2.1% in 2004 after recording revenues 213.6 million euros above those of the period January-December 2003.

Particularly noteworthy when analyzing the contribution to the growth in revenues of each of the businesses forming the Telefónica de España Parent company is the good progress made by revenues from the Internet and Broadband Services, which widely offset the 182.9 million euro decline in Traditional Services revenues, with 290.5 million euros. The Data and Solutions Business and the Wholesale Business contributed to growth by 13.0 and 93.1 million euros, respectively. A more precise analysis of each business follows:

- Aggregate revenues from Traditional Services totalled 7,060.4 million euros at the end of December, 2.5% down on those recorded during the previous year. The positive progress recorded during the year must be highlighted, the drop in revenues slowing down from 4.7% in the first quarter to an aggregate 3.8% in June, 3.1% over the first nine months of the year and up to 2.5% in 2004, due to a better performance during the fourth quarter in which they dropped by 0.8%. The growth in revenues from Client Network Access recorded as of the third quarter 2004, together with the better performance of revenues from voice traffic over the last quarter, have resulted in the evolution of revenues from Traditional Services during the period October-December 2004.

Revenues from Client Network Access amounted to 2,969.4 million euros over the year, which was 0.7% higher in comparison with the previous year. Along these lines, the positive effect of the 4.35% rise in monthly fees for PSTN lines by 0.55 euros in April 2004 and the surcharges on calls made to toll-free numbers from public payphones as of the third quarter are worth noting.

The estimated access market share at December 2004 stood at 88.2%, 0.8 percentage points lower than in the last quarter and 2.2 percentage points down on December of the previous year. In absolute terms, 17,361 lines (PSTN+ISDN basic access) were lost during the quarter, a considerable improvement with regard to the last two quarters in which this value stood at around 70,000 lines. Last September's free connection fee campaign contributed significantly to this, as most of the lines became operational during October. With regard to the year as a whole, the total number of lines lost reached 185,936. It is also important to compare this amount with the number of lines lost in 2002 and 2003 (492,793 and 334,299 respectively) to evaluate the improved progress of this indicator.

Revenues from voice usage amounted to 3,281.8 million euros to December, down by 2.5% from the same period of the previous year. This performance must be considered positive, bearing in mind the relevant drop of 10.9% recorded in the volume of minutes, and is a result of the changes made in the second quarter to the Comprehensive Maintenance Service (SIM) and, in general, in the optimisation policy for discounts and bonuses for the service, focused more specifically on client segmentation. In this sense, it is worth noting that the 1 euro discount applied to all SIM service clients was eliminated as of January 1st, 2005, when the number of clients with the service contracted amounted to 5.7 million.

As regards voice traffic, the estimated total volume of the market in Spain, expressed in minutes, dropped by round 5% over 2004. Telefónica de España's estimated market share of the voice market stood at 68.0%¹ in December, 2.1 percentage points lower than in September and 4.4 percentage points lower than December 2003.

¹. Change in criteria to adapt to data published by Spanish Regulator CMT.

The estimated total volume of minutes processed by Telefónica de España during 2004 amounted to 123,026 million, a 6.7% year-on-year drop. Total outgoing traffic (including internet), which accounted for 55.9% of total traffic, amounted to 68,787 million minutes and fell by 14.9% with regard to the same period of the previous year. Traditional outgoing traffic totalled 47,334 million minutes at December end, down by 10.9% year on year due to the negative performance of the market and the aforementioned loss in market share. The negative trend in traffic continued over the year, with very significant year on year falls in domestic fixed line-to-fixed line traffic: local traffic was down by 13.7%, provincial traffic by 10.9% and DLD traffic by 9.5%. There was also a 1.3% drop in fixed-to-mobile traffic during this period. Only international traffic maintained a positive trend, with year-on-year growth of 4.0%. The number of outgoing minutes to the internet amounted to 21,435 million to December and continued to show a negative interannual year-on-year variation of 22.5%, mainly as a result of switched internet traffic cannibalisation by broadband ADSL services. Finally, incoming traffic rose by 6.2% year on year to 54,239 million minutes.

Due to the introduction of verbal consent preselection procedure, the total number of preselected lines has risen by 83,246 in the fourth quarter. The total number of pre-selected lines over 2004 amounted to 100,435, a much lower figure than the 500,950 registered in 2003. As such, the total number of preselected lines at 2004 year end stands at 2,379,457.

In regard to Value-Added Services, Voice Mailbox and Caller ID services should be noted. By the end of December 2004, the number of services activated amounted to 11,901,202 and 7,500,542, with positive progress in the year of 3.1% and 10.0%, respectively. As a result of the continued increase in clients with handsets adapted to the Text Messaging service, this service grew on the number of messages process by 217% year on year, reaching a volume of processed messages that exceeded 50 million, of which 33 million were originated from the fixed network. The total number of access + traffic modular plans "Combinados" amounted to 1,140,639.

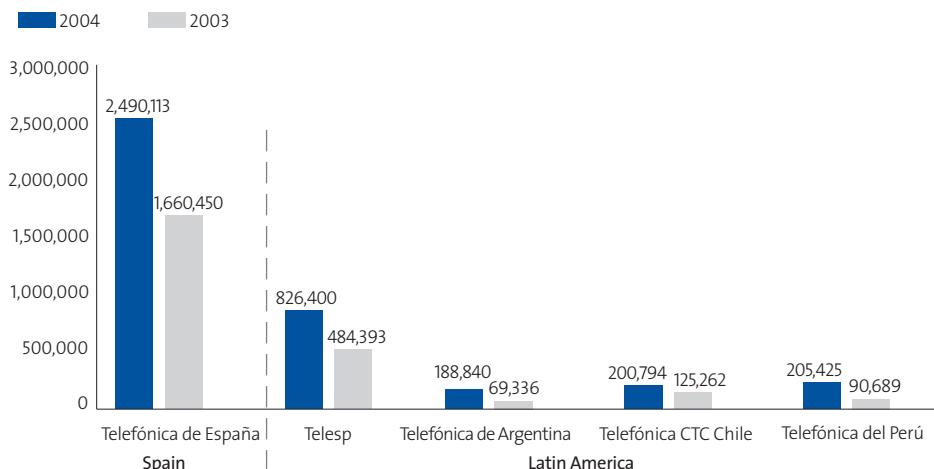
- Internet and Broadband Services recorded aggregate revenues of 1,139.5 million euros over the year, representing year-on-year growth of 34.2% and a slight acceleration with regard to the previous quarters of 2004.

The broadband market experienced a remarkable acceleration during the last quarter of 2004 following the intensive sales campaigns undertaken by the different operators on the market. This greater commercial activity resulted in the net gain of 440,000 new broadband lines in Spain during the fourth quarter of 2004 with regard to the quarterly average net gain of 270,000 lines over the rest of 2004.

The net gain of ADSL retail and wholesale lines during the fourth quarter amounted to 332,308, favored by this intensive market drive. Thus, the total number of ADSL lines in service amounted to 2,490,113, during 2004, a 50.0% increase. It should be noted this figures does not include unbundled lines as ADSL connections. Telefónica de España retail ADSL lines also benefited from the increased growth, recording a net gain of 168,099 to give an aggregate total of 1,611,897 retail ADSL lines.

The unbundled loops by competitors of Telefónica de España in the fourth quarter of the year were 20,745 as fully unbundled loops and 23,180 as shared access loops; the total number of

ADSL CONNECTIONS



unbundled loops by the end of December being 116,112, of which 78,445 were fully unbundled and 37,667 were shared loops. The continued acceleration in the net gain of loops was observed during the quarter, although for the first time the highest growth corresponded to the shared access loop. Were all of the unbundled loops, fully unbundled and shared, to have an ADSL connection, the total number of ADSL accesses in Spain at the end of December 2004 would reach 2,606,225.

As a result of the greater commercial pressure of competitors, Telefónica Group's market share stood at 55.5%, 2.6 percentage points down on the end of the third quarter. With a clear aim to lead the broadband market, Telefónica de España continues to present attractive new commercial offers, such as the promotional ADSL + voice package that, for all new subscriptions to the 24 hours ADSL Flat Rate service made between January the 26th 2005 and February 14th 2005, offers free local calls throughout 2005 and free connection to the ADSL service, or the promotion starting February the 21st 2005 and ending March the 31st 2005 that provides monthly fee discounts up to 25.7% for all 2005 year long.

The rich portfolio of value-added services is being well received among Telefónica de España ADSL clients, as shown by the fact that 48.1% of these clients have already signed up to at least one kind of value-added service. Of the most successful services in terms of both greater acceptance and revenues generated, "Soluciones ADSL" (ADSL Solutions) reached 178,226 operative units, registering a 16.3% growth from September 2004. The "Seguridad ADSL" (ADSL Security) service is another service with a strong growth rate, reaching a total of 347,198 operative units. In regard to Imagenio Service launched in Madrid, Barcelona and Alicante last year, the total number of clients at December end stood at 6,024, of which over 85% have internet access and over 63% have signed up for some kind of additional subscriber service. It is important to note that the total number of value-added services operative at year end 2004 exceeded one million to reach 1,187,363.

The accelerated growth in the number of retail ADSL lines is reflected in revenues, which grew by 65.7% year on year during the fourth quarter, in comparison with the 58.5% growth rate recorded during the third quarter. Hence, revenues from retail Broadband services recorded a year-on-year growth of 60.0% to reach 891.0 million euros. Revenues associated to the provision of value-added services on the retail ADSL service also showed this trend, representing 9.8% of retail ADSL ARPU.

The strong demand for broadband services is resulting in a decline in narrowband internet revenues due to the continued migration of clients from narrowband internet access to broadband services with greater features. At year-end 2004, revenues from Narrowband Internet fell by 14.9% to 248.5 million euros.

- The Data and Solutions Service business recorded an aggregate growth in revenues of 1.4% over the year and totaled 941.6 million euros.

The planning and operating of virtual private networks represented 53.1% of these revenues, although the migration to lower cost, IP-technology based products, not completely offset by the growth in plant in service, resulted in a year-on-year decrease of 1.7%.

The Solutions and Value-Added Services for Businesses segment continued to grow within the Data and Solutions services and accounted for 26.5% of total Data and Solutions revenues in 2004 compared with 24.1% during 2003 to record a year-on-year growth of 11.6%. There are currently 175 agreements for the management or outsourcing of services for large corporations, of which 129 are client management centers operated by Telefónica, and there has been a 29.7% increase in the number of hosting servers.

- Wholesale Business contributed to revenues with 1,349.8 million euros during 2004, a 7.4% increase compared to 2003. The slower growth rate compared with the period of January-September 2004, which stood at 9.0%, was due to a double effect: the decrease of domestic incoming fixed-to-fixed traffic during the fourth quarter of 2004, and the change in the mix of international incoming traffic, loosing weight the traffic to mobile networks, with a higher price per minute.

“Other National Operators Services” contributed notably to the increase in Wholesale Business with a 18.3% growth in the quarter, thus reflecting the impact of agreements signed with large domestic operators on non-regulated price schemes for the carriage of transit traffic to mobile networks.

26.3% of wholesale revenues came from National Interconnection services, which decreased by 0.3% year on year due basically to the 6.4% reduction in fixed-to-fixed interconnection revenues that was not fully offset by the 15.2% growth in fixed-to-mobile interconnection revenues.

Telefónica de España Group’s **operating expenses** experienced a year-on-year reduction of 0.5% to 6,019.0 million euros (0.7% on the aggregate to September) having remained unchanged during the fourth quarter of 2004 with regard to the same quarter in 2003. The 9.3% reduction in personnel expenses in comparison with the same period of the previous year must be noted, which amounted to a total of 2,083.6 million euros. This annual reduction is a result of the 2003-2007 Redundancy Program, although during the fourth year of 2004 personnel expenses dropped by 6.1%, given that the first redundancies associated to the program occurred during the last quarter of 2003 and, as such, this quarter included part of the impact of the Redundancy Program of personnel expenses. The Telefónica de España parent company headcount reached 35,045 employees at the end of December 2004, representing a reduction of 2,014 employees over the year. In 2004 a total of 2,417 employees have joined the Redundancy Program (E.R.E. 2003-2007).

Contrary to **personnel expenses** evolution, the Company’s increased commercial activities aimed at revenue growth led to a 13.5% rise in External Services & Others which totaled 1,179.9 million euros.

Supplies expenses, amounting to 2,571.3 million euros, grew by 1.7 % despite the 5.2% decrease in interconnection expenses following the reductions in fixed-to-mobile interconnection tariffs that came into effect in November 2003 and October 2004. The increase in expenses at Telyco linked to the handset sale business had a decisive impact on the evolution of supplies expenses at Telefónica de España Group; without them, the Group’s supplies expenses growth would have fallen by 2.5 percentage points.

Telefónica de España Group **EBITDA** amounted to 5,054.5 million euros, up 6.1% year on year. The Group's EBITDA margin was 46.1%, 1.6 percentage points higher than in the same quarter of the previous year. During the last quarter of 2004, EBITDA growth stood at 4.8% compared with the 6.6% growth of the January-September period, due to the slower decrease in costs over the last three months of 2004. Telefónica de España Parent company EBITDA amounted to 5,027.3 million euros (+6.2 % on the previous year).

Telefónica de España Group's **operating profit** amounted to 2,680.5 million euros at the end of 2004, +26.2% over the previous year as a result of the positive evolution of EBITDA and the 10.0% decrease in amortization and depreciation.

TELEFÓNICA DE ESPAÑA
SELECTED OPERATING DATA
Unaudited figures (Thousands)

	December		
	2004	2003	% Chg
Equivalent lines (1)			
PSTN Lines	19,835.3	19,100.4	3.8
ISDN equivalent basic access	14,838.2	15,061.0	(1.5)
ISDN equivalent primary accesses y 2/6 equivalent accesses	1,863.8	1,827.0	2.0
Fully unbundled local loops	564.7	535.7	5.4
Fully unbundled local loops	78.4	16.3	n.s.
ADSL connections	2,490.1	1,660.5	50.0
ADSL connections	1,611.9	1,070.3	50.6
Telefónica de España retail ADSL	123,026	131,897	(6.7)
Traffic (minutes in millions) (2)			
Employees (units)	35,045	37,059	(5.4)

(1) Equivalent lines: PSTN (including Public Use Telephony) (x 1); ISDN Basic accesses (x 2); ISDN Primary access (x 30); 2/6 Accesses (x 30); ADSL Lines (x 1).

(2) January - December cumulative data.

TELEFÓNICA DE ESPAÑA PARENT COMPANY**OPERATING REVENUES***Unaudited figures (Euros in millions)*

	January - December			January - December		
	2004	2003	% Chg	2004	2003	% Chg
Traditional Services	7,060.4	7,243.3	(2.5)	1,774.8	1,789.6	(0.8)
Client network access (1)	2,969.4	2,950.0	0.7	743.9	726.0	2.5
Voice usage (Net total) (2)	3,281.8	3,366.1	(2.5)	844.8	827.1	2.2
Local	778.2	816.9	(4.7)	202.5	213.9	(5.3)
Provincial	252.0	259.5	(2.9)	65.4	64.3	1.7
Domestic long distance	441.7	461.6	(4.3)	114.7	119.7	(4.2)
International long distance	295.4	243.9	21.1	86.8	53.7	61.8
Fixed to mobile	1,207.4	1,257.9	(4.0)	303.7	312.2	(2.7)
IRIS and others (3)	307.2	326.3	(5.9)	71.8	63.3	13.5
Handsets sales and maintenance	586.4	706.0	(16.9)	130.2	182.7	(28.7)
Other business lines (4)	222.8	221.1	0.7	55.9	53.9	3.7
Internet and Broadband Services	1,139.5	849.0	34.2	323.2	238.3	35.6
Narrowband	248.5	291.9	(14.9)	53.4	75.5	(29.3)
Broadband (retail)	891.0	557.1	60.0	269.8	162.8	65.7
Data and Solutions Services	941.6	928.6	1.4	249.1	248.9	0.1
Corporate networks (5)	692.4	705.4	(1.8)	180.8	178.3	1.4
Solutions	249.2	223.3	11.6	68.2	70.6	(3.4)
Wholesale Services	1,349.8	1,256.7	7.4	352.3	341.9	3.0
National interconnection	355.4	356.6	(0.3)	86.3	96.2	(10.3)
Wholesale ADSL (Megabase. Megavía and GigADSL)	234.7	166.1	41.3	65.8	51.1	28.7
International operators services	287.4	309.3	(7.1)	59.6	75.6	(21.2)
Other national operators services (6)	472.3	424.7	11.2	140.7	118.9	18.3
Total operating revenues	10,491.2	10,277.6	2.1	2,699.3	2,618.7	3.1

Note: Starting first quarter 2004, Telefónica Data España and Telefónica Soluciones results will be incorporated within Telefónica de España Group. 2003 figures are proforma for the benefit of comparison.

(1) Revenues derived from monthly and connection fees (PSTN, Public Use Telephony, ISDN and Corporate Services), public telephone booths and network services.

(2) Voice usage net of discounts, foreign participation (international long distance) and payments to Intelligent Network providers.

(3) Services included: Intelligent Network services, Special Valued Services and others.

(4) Special Projects, Services agency and others. (Broadcasting included).

(5) Included leased circuits, VPN and dedicated internet access.

(6) Services included: Commercial wholesale services (access, carrier and maintenance), wholesale leased circuits, other IP services and ULL.

CapEx accumulated to December end by Telefónica de España Group dropped by 18.4% to 1,207.6 million euros to reach a CapEx over Revenues ratio of 11.0%.

Operating free cash flow, defined as EBITDA minus CapEx minus early retirement payments, amounted to 2,968.3 million euros in the January-December 2004 period, up by 21.0% on the same period of 2003 to exceed the growth target (+13%/+16%).

**TELEFÓNICA DE ESPAÑA PARENT COMPANY
OPERATING REVENUES - PROFORMA 2003**

Unaudited figures (Euros in millions)

	2003			
	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec
Traditional Services	1,816.2	3,664.3	5,453.6	7,243.3
Client network access (1)	737.8	1,489.6	2,224.0	2,950.0
Voice usage (Net total) (2)	849.6	1,709.2	2,539.0	3,366.1
Local	213.6	420.2	603.0	816.9
Provincial	66.6	132.5	195.2	259.5
Domestic long distance	116.8	232.8	341.9	461.6
International long distance	58.5	122.5	190.2	243.9
Fixed to mobile	305.9	623.5	945.7	1,257.9
IRIS and others (3)	88.3	177.9	263.1	326.3
Handsets sales and maintenance	174.8	353.7	523.4	706.0
Other business lines (4)	54.1	111.8	167.2	221.1
Internet and Broadband Services	191.0	399.0	610.6	849.0
Narrowband	79.9	149.6	216.4	291.9
Broadband (retail)	111.1	249.4	394.3	557.1
Data and Solutions Services	215.3	443.0	679.8	928.6
Corporate networks (5)	168.8	345.1	527.1	705.4
Solutions	46.4	97.9	152.7	223.3
Wholesale Services	287.7	600.1	914.8	1,256.7
National interconnection	83.5	175.3	260.4	356.6
Wholesale ADSL (Megabase. Megavía & GigADSL)	35.7	74.8	115.0	166.1
International operators services	71.9	148.1	233.6	309.3
Other national operators services (6)	96.5	201.9	305.8	424.7
Total operating revenues	2,510.1	5,106.3	7,658.9	10,277.6

Note: Starting first quarter 2004, Telefónica Data España and Telefónica Soluciones results will be incorporated within Telefónica de España Group. 2003 figures are proforma for the benefit of comparison.

(1) Revenues derived from monthly and connection fees (PSTN, Public Use Telephony, ISDN and Corporate Services), public telephone booths and network services.

(2) Voice usage net of discounts, foreign participation (international long distance) and payments to Intelligent Network providers.

(3) Special Projects, Services agency and others. (Broadcasting included).

(4) Proyectos Especiales, Agencia de Servicios y otros. (Incluye Retransmisiones).

(5) Included leased circuits, VPN and dedicated internet access.

(6) Services included: Commercial wholesale services (access, carrier and maintenance), wholesale leased circuits, other IP services and ULL.

TELEFÓNICA DE ESPAÑA GROUP
CONSOLIDATED INCOME STATEMENT
Unaudited figures (Euros in millions)

	January - December			October - December		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	10,955.8	10,695.4	2.4	2,822.4	2,748.7	2.7
Internal expend capitalized in fixed assets (1)	144.3	174.6	(17.4)	47.0	53.8	(12.6)
Operating expenses	(6,019.0)	(6,048.7)	(0.5)	(1,542.5)	(1,542.1)	0.0
Other net operating income (expense)	(26.5)	(58.9)	(55.0)	(8.6)	(2.3)	n.s.
EBITDA	5,054.5	4,762.4	6.1	1,318.3	1,258.0	4.8
Depreciation and amortization	(2,374.0)	(2,638.8)	(10.0)	(570.3)	(646.0)	(11.7)
Operating profit	2,680.5	2,123.6	26.2	748.0	612.0	22.2
Profit from associated companies	(1.0)	(0.9)	12.5	(0.2)	(0.1)	54.9
Financial net income (expense)	(374.0)	(447.5)	(16.4)	(86.4)	(107.4)	(19.6)
Amortization of goodwill	(3.2)	(2.8)	14.0	(0.7)	(3.1)	(75.7)
Extraordinary net income (expense)	(718.1)	(1,374.1)	(47.7)	(65.3)	(1,395.6)	(95.3)
Income before taxes	1,584.1	298.2	N.S.	595.3	(894.2)	C.S.
Income taxes	(471.9)	(18.1)	N.S.	(176.6)	322.4	C.S.
Net income before minority interest	1,112.2	280.1	N.S.	418.7	(571.8)	C.S.
Minority interests	(0.2)	(0.0)	N.S.	(0.0)	(0.0)	N.S.
Net income	1,112.1	280.1	N.S.	418.7	(571.8)	C.S.

Note: Starting first quarter 2004, Telefónica Data España and Telefónica Soluciones results will be incorporated within Telefónica de España Group. 2003 figures are proforma for the benefit of comparison.

(1) Including work in process.

TELEFÓNICA DE ESPAÑA GROUP
CONSOLIDATED INCOME STATEMENT - PROFORMA 2003
Unaudited figures (Euros in millions)

	2003			
	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec
Operating revenues	2,590.0	5,282.9	7,946.7	10,695.4
Internal expend capitalized in fixed assets (1)	41.2	83.8	120.8	174.6
Operating expenses	(1,460.6)	(2,983.7)	(4,506.6)	(6,048.7)
Other net operating income (expense)	(12.5)	(40.1)	(56.6)	(58.9)
EBITDA	1,158.2	2,343.0	3,504.4	4,762.4
Depreciation and amortization	(675.7)	(1,337.1)	(1,992.8)	(2,638.8)
Operating profit	482.5	1,005.9	1,511.6	2,123.6
Profit from associated companies	(0.4)	(0.6)	(0.7)	(0.9)
Financial net income (expense)	(117.1)	(228.4)	(340.1)	(447.5)
Amortization of goodwill	(0.7)	0.2	0.2	(2.8)
Extraordinary net income (expense)	(3.0)	18.7	21.5	(1,374.1)
Income before taxes	361.3	795.8	1,192.5	298.2
Income taxes	(104.4)	(226.4)	(340.5)	(18.1)
Net income before minority interests	257.0	569.4	852.0	280.1
Minority interests	(0.0)	(0.1)	(0.0)	(0.0)
Net income	256.9	569.4	851.9	280.1

Note: The incorporation of the assets corresponding to Telefónica Empresas into Telefónica de España Group in 2004, implies the presentation of Telefónica de España Group proforma financial statements for fiscal year 2003, under the same criteria, for the benefit of comparisons. In February 27th, 2004, the company notified the main metrics of these proforma financial statements for fiscal year 2003 under the new consolidation perimeter. The final definition of the assets to be incorporated to Telefónica de España Group makes these metrics to vary slightly with respect to the ones previously presented (-4.4 million euros in revenues and -10.4 million euros in EBITDA), a change that does not imply modifications in neither Telefónica de España Group nor Telefónica Group published accounts in the above mentioned fiscal year.

(1) Including work in process.

TELEFÓNICA LATINOAMÉRICA GROUP

In 2004, Telefónica Latinoamérica showed a very solid performance, experimenting growths of 7.5% and 6.8% respectively in both operating revenues and EBITDA in constant currency, in line with the expected 2004 guidance for these two indicators (+6/+9% growth in both cases). In current euros, both operating revenues and EBITDA at Telefónica Latinoamérica, also recorded positive cumulative growth, as a result of a stable currency evolution. In the last quarter of the year, almost all Latin American currencies appreciated against the dollar. Likewise, the average dollar/euro exchange rate remained almost unchanged through this fourth quarter. However, on a year-on-year basis, Latin American currencies recorded significant levels of depreciation against the euro, which had a negative impact on the year-on-year variation in both operating revenues and EBITDA, reducing growth by 5.4 percentage points and 5.5 percentage points, respectively.

Operating revenues amounted to 6,883.4 million euros, registering a year on year growth of 2.1% (+7.5% in constant euros), slightly slowing down the growth seen in previous quarters. The evolution of total revenues in constant euros reflects the behavior of revenues at:

- Telesp (+14.6% in local currency), as a result of the positive progress made by the traditional business (+13.6%), helped by the good performance of the new businesses (SMP, long distance outside São Paulo, etc.), the successive tariff increases (+6.89% for the local telephony basket and 3.2% for domestic long distance calls in July, corresponding to 2004, +4.1% in September and +3.9% in November, the latter two corresponding to 2003 due to the difference between the increase granted in 2003 and the IGP-DI), the increase in fixed-to-mobile traffic and the good performance of value-added services.
- TASA (+10.6% in local currency), primarily due to the good performance of the plant and traffic operating variables in comparison with 2003, despite the tariff freeze in force since January 2002, which made it possible to achieve growth of 8.7% in local currency in revenues from traditional services.
- CTC recorded a fall in revenues of 6.2% in local currency, with a slow down in the decreasing rate recorded at September 2004 (-6.8%) due to the positive impact of the new Tariff Decree 2004-2009, following the new version published in September and the launch of minute plans in June. However, a downside review of termination tariffs on mobile networks (CPP), the cannibalization of mobile telephone and the poor performance of the domestic long-distance market explain the year-on-year drop in revenues.
- TdP registered a 1.1% fall in revenues in local currency. The good performance of the Internet business (Narrowband + Broadband), which grew by 57.9%, was unable to offset the drop in Traditional business (-3.8%) caused by both the lower local traffic and the impact of the decrease in average tariffs related to the new tariff scheme.
- Telefónica Empresas América and TIWS continued with the positive trend of previous quarters and ended the year with a revenue growth of 11.2% and 21.2%, respectively, in constant euros.

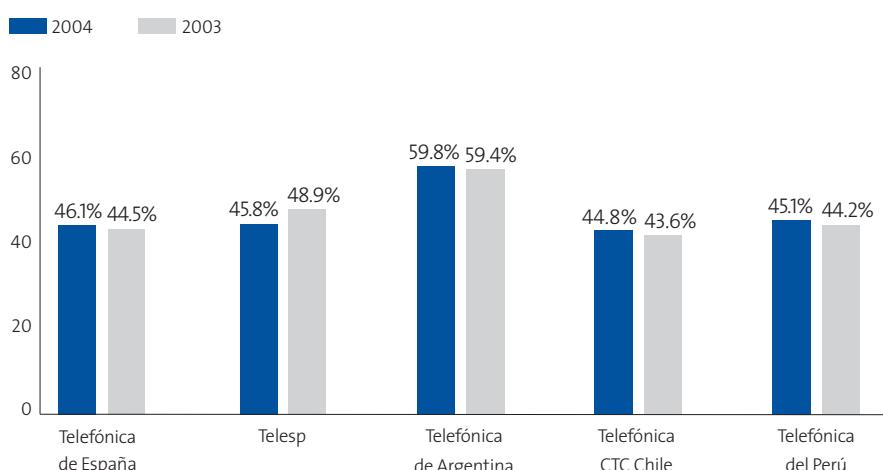
The total **operating expenses** of Telefónica Latinoamérica stood at 3,843.2 million euros at year end 2004, 2.1% higher than in 2003 in current euros. In constant euros, expenses continued to

slow down, recording a 7.4% increase compared to the 7.9% figure registered in the nine months of 2004. This slow-down is explained by the smaller growth in expenses in local currency at Telesp and to the expenses reduction at TdP and TIWS, which offset the slowing down in the decreasing costs at CTC and the increase in costs at TASA, due to greater commercial activity. However, this year-on-year growth in expenses in constant euros reflects the higher interconnection costs and other supply expenses, mainly coming from Telesp and TASA, which are related to increased activity and traffic mostly with mobile operators. The increase in the Group's expenses excluding interconnection costs would be limited to 5.8%.

EBITDA at the end of 2004 stood at 3,141.0 million euros, showing a growth of 1.3% in current euros (+6.8% in constant euros). EBITDA margin reached 45.6%, slightly better than the figure as of September 2004. The decrease in depreciation and amortization expense (-1.4% in constant euros) made it possible to achieve an operating profit of 1,443.2 million euros, representing an improvement of 18.1% in constant euros.

At December 2004, Telefónica Latinoamérica recorded an **extraordinary net income** of 363.1 million euros, compared with the negative 128.1 million euros registered in December 2003. The sale of Telefónica Móviles Chile (until then a 100% subsidiary of CTC) to Telefónica Móviles last July had a determining impact, contributing with an extraordinary net income of 425.5 million euros. The **financial results** stood at -315.3 million euros, compared with the previous year's -228.6 million euros. Excluding the impact of the exchange rate differences, which in 2003 had a great positive impact due to exchange gains recorded by Argentine companies (around 113 million euros) and the profit recorded in 2003 as a result of the cancellation of the debt denominated in dollars (around 250 million euros), Telefónica Latinoamérica net financial results were down 57% as a result of the lower interest expenses connected with the lower debt and interest rates.

EBITDA MARGIN – FIXED TELEPHONY



These results, together with a tax provision of 264.0 million euros, allowed Telefónica Latinoamérica to record a **net income** of 806.6 million euros, with a year-on-year increase of 44.4%.

In 2004, Telefónica Latinoamérica's CapEx amounted to 753.3 million euros, posting an increase of 15.2% (+16.9% in constant euros), primarily due to greater investment in ADSL. At December 2004, the CapEx/Revenues ratio stood close to 11%. The good performance of EBITDA enabled the company to achieve an **operating free cash flow** (EBITDA-CapEx) of 2,387.7 million euros, showing a decrease of 2.4% in current euros (+4.1% in constant euros).

Telefónica Latinoamérica's plant of equivalent lines totaled 22.8 million, which was 5.4% more than at the end of 2003, thanks to the efforts made in the broadband business, which are reflected in the strong growth of the ADSL plant with 651,779 new clients since the beginning of the year, increasing by 84.7% compared to the previous year and reaching a total number of Telefónica Latinoamérica broadband connections of 1.4 million. It must be highlighted that broadband connections now represent 6.2% of total equivalent lines, compared with 3.6% in December 2003.

Furthermore, traditional business lines showed in 2004 an increase of 2.5%, reaching a total of 21.4 million fixed telephony lines, helped by the general growth experienced in all Group operators, in particular at TdP (+9.5%), as a result of the new tariff plans, and TASA (+3.8%), whose plant reached its historic maximum due to both the sound performance of demand in 2004 and the higher commercial efforts. There was a net gain of 522,778 lines in 2004, with the biggest contribution being made by TdP and Telesp, with a net gain of 186,765 and 165,816 lines, respectively.

TELESP

2004 was a year of intense commercial efforts for Brazil aiming at consolidating the growth of broadband and the new products adapted to all segments of the population. The economic environment was favorable, with stable exchange rates throughout the year and a substantial increase in tariffs. Apart from the 6.89% average increase in tariffs in July for the local telephony basket and 3.2% for domestic long distance calls, a second adjustment was established by ANATEL, according to the judgment handed down by the Higher Court of Justice that ruled in favor of allowing fixed line telephony operators to raise tariffs in compensation for the difference between the previous year's increase and the result of applying 2003's IGP-ID as the reference index (wholesale price index), to be made in two stages and not retroactive. The first (+4.1%) was executed in September and the second (+3.9%) in November.

At the end of 2004, the equivalent lines in service (traditional business + ADSL) at Telesp amounted to 13.3 million (+4.0% higher than in December 2003), due to the strong increase recorded in the ADSL plant (+70.6%) and the growth of traditional lines. For the second consecutive quarter, Telesp recorded a net gain of 103,589 traditional lines, obtaining a net gain of 241,959 lines in this second half of the year and reversing the trend of traditional plant loss experienced during the first half of the year (-76,143 lines). The strong competence of the cellular business makes difficult to keep on growing the subscriber base. This change in trend was helped by the successful launch of new products in July targeting low income clients (economic and super-economic lines), which have enabled Telesp to increase subscriptions compared to

December 2003 and to place its traditional plant at 12.5 million lines, posting a year-on-year growth of 1.3% despite the impact registered by the ARPU due to the lower usage of those lines.

Telesp continued to pursue its policy of giving fixed lines greater value through a higher volume of Value Added Services and broadband expansion. In this last quarter it achieved a new record net gain of 110,800 ADSL connections, bringing the total ADSL plant up to 826,400 at the end of the year (70.6% higher than in December 2003). The growth in Telefónica's ISP (itelefonica) users also continued, reaching a total of 2.1 million with an estimated market share of around 24%.

Telesp was able to consolidate its position in the long distance market during 2004. Thanks to the launch of several commercial initiatives, the company was able to partly compensate the negative market evolution, mostly due to the cannibalization of the cellular business. Hence, Telesp increased its market share in all traffic segments. Its market share in the domestic intra-state long-distance market stood at 88.5% (slightly up on December 2003). In inter-state long-distance, its market share rose to 58% (+7 percentage points), while the international long-distance market share increased almost by 12 percentage points compared to December 2003, up to 51%.

At the end of the year, Telesp obtained **operating revenues** of 3,707.9 million euros, which represents an increase of 14.6% compared to 2003 in local currency, thanks to the increase in tariffs, the good performance of new businesses (SMP, long distance outside São Paulo, etc.), the sound progress of value-added services and the increase in fixed-to-mobile traffic and public telephone traffic, leading to a 13.6% growth in traditional business revenues in local currency. In addition to this, there was a notable increase in broadband revenues (+61.4% in local currency) due to the growth in the customer base, leading to a 31.6% increase in internet revenues (broadband+narrowband) in local currency, contributing with 6.4% of the operator's total operating revenues.

Although **operating costs** were 18.3% higher in local currency than in 2003, the slowing trend shown in previous quarters remained (1.7 percentage points lower than September 2004). Among the items which grew the most, it must be highlighted interconnection expenses (+23.9% in local currency) related to the increased fixed-to-mobile, SMP and long distance traffic revenues. It is also worth noting the increase in subcontracting services (up 20.4% in local currency), due to an increase in commercial activity, higher co-billing expenses and the indexing of certain contracts. However, personnel expenses were 7.7% lower in local currency, as a result of the reduction in the average workforce due to the lay-offs that took place in 2003 and in the second quarter of 2004. Bad debt provision as a percentage of revenues continued to drop in December to 3.1% (0.8 percentage points down on the previous year), mainly due to new more closely adapted products for different client profiles.

Telesp's EBITDA stood at 1,698.2 million euros, with a year-on-year increase of 7.4% in local currency. EBITDA margin continued its progression compared to previous quarters, reaching 45.8% (0.5 percentage points up on September 2004). There was a 3.1 percentage point drop in comparison with the previous year, due to the higher proportion of revenues accounted for by new businesses with higher associated interconnection expenses (fixed-to-mobile, long distance outside São Paulo, SMP).

Telesp's very strict policy of CapEx control continued for the entire year, with priority being given to strategic investments, particularly broadband. At year end, **CapEx** stood at 370.2 million euros, 0.4% down in local currency compared to the previous year. The CapEx/Revenues ratio totaled almost 10% at the end of the year, while the **operating free cash flow** (EBITDA–CapEx) generated amounted to 1,328 million euros, showing an increase of 9.8% year on year in local currency.

Telesp had 7,125 employees as of year end, almost the same as in 2003, reaching a productivity ratio of 1,865 lines per employee (up 4.1% on the previous year).

TELEFÓNICA DE ARGENTINA

The stability of the macroeconomic situation in Argentina was consolidated during 2004. The sustained growth of the GDP (+8.2%) and the stability of the peso against the dollar, with a slight 1.7% depreciation over the year, should be noted. In line with the economic improvement, the Telecommunications sector continued to grow thanks to the gradual recovery of the fixed line telephony market, the accelerated rollout of broadband and the strong growth of the cellular market. In this context, the management of Telefónica de Argentina continued in keeping with the recovery of the market, leading to a significant increase on revenues obtained in 2003.

During 2004, no news concerning tariffs has been announced, continuing with the tariff freeze. The accumulated inflation effect over operating expenses and Capex is starting to generate management tensions, as revenues are decreasing due to a reduction in both traffic and plant volumes, as a result of the cellular business expansion.

The plant of traditional lines recorded a growth of 3.8% in 2004, once again accelerating the growth rate registered during the previous quarter (+3.6%) and reaching 4.3 million lines, its maximum historic value, thanks to the demand recovery (36.6% year-on-year increase in subscriptions). The net gain recorded during the year amounted to 159,612 lines (compared with the loss of 12,494 in 2003), of which an increasing proportion were prepaid and consumption control (27.7% of the total plant, 1.4 percentage points up on 2003). In addition to the plant increase, total traffic per line grew significantly during 2004 (+7.2%), mainly driven by prepaid traffic, both in cards and prepaid lines. There was also a substantial increase in the ADSL plant (+172.4%), which stood at 188,840 lines and provided a net gain for the whole year of almost 120,000 lines. The commercial efforts related to the accelerated rollout of ADSL has enabled the company to increase its estimated broadband market share in the southern area by 12.3 percentage points to 80.7%. The ratio of lines to employee stood at 558 lines, representing an increase of 5.5% over 2003.

Thanks to the good performance of the operating variables with respect to 2003, TASA **operating revenues** accelerated its growth rate in 2004 and recorded an increase of 10.6% in local currency up to 810.5 million euros, despite the tariff freeze in place since January 2002. When comparing the figures for 2004 with those of the previous year, it is important to remember that it was in the second quarter of 2003 that the impact of agreements with operators for mutual invoicing applying CER (inflation indexing of wholesale offerings) was recorded for the whole of 2002. Excluding this effect, TASA's revenues rose by 12.5% in local currency. Broken down by business lines, revenues from traditional services (accounting for 92.8% of the total) rose 8.7% in local currency due to the growth in traffic and plant, while revenues from the Internet (Narrowband +

Broadband) business rose 41.5% in local currency thanks to the ADSL plant expansion, which offset the decrease in the narrowband business.

The strong growth rate of revenues is coupled with a 9.7% increase in **operating expenses** in local currency, despite the fact that TASA continued to apply a strict policy for cost rationalization and control adopted as a result of the crisis in 2002. Of particular note over the year was the effective management of bad debts, with increased use of prepaid and consumption control products, which has made it possible to maximize debt recovery and place bad debt provision as a percentage of revenues below 1%.

Cost control, together with the increased sales, enabled TASA to achieve **EBITDA** of 484.7 million euros in 2004, showing an increase in local currency of 11.2% over 2003. In homogenous terms (excluding the impact on 2003 revenues of CER invoicing related to 2002), EBITDA experienced a year-on-year growth rate of 13.7%. The EBITDA margin was 0.4 percentage points higher than in 2003, at 59.8%.

The good performance of EBITDA enabled the company to achieve an **operating free cash flow** (EBITDA-CapEx) of 388.3 million euros, 3.3% less in local currency than in 2003, due to the sharp increase in investment (+135.5% in local currency), in line with the recovery of the business. This investment, totaling 96.4 million euros, was primarily focused on massive ADSL rollout, which accounted for 39.3% of CapEx. The CapEx to revenues ratio stood at 13.2% in local currency.

TELEFÓNICA CTC CHILE

On September 21st, the Chilean General Controller, published a review of the 2004-2009 Tariff Decree in which most of the suggestions made by CTC were accepted. This review has meant an increase in tariffs with regard to the version of the Decree published in May this year. Given that the final version is yet to be approved and these conditions to be applied to the market, since early May CTC's accounts have included the impact of the initial Decree and in September the effects of the new version of the Decree were recorded, which were also retroactive to May. However, the Tariff Decree was finally published in the Official Bulletin on February 11th 2005, hence the company will begin the resettlement process for its clients within the terms established by law. This process is not thought to have a significant impact on company revenues.

The **traditional plant** improved significantly compared to the previous quarter, recording a net gain of 29,227 lines (compared with the 733 lines obtained in the third quarter and the loss of 19,375 lines in the first half of the year). CTC therefore closed the year with a net gain of 10,585 lines, compared with the loss recorded during the previous year. This improvement was mostly due to launch of new services in July: the minute plans (which at year end totaled 167,555 clients including high consumption) and the Controlled Line (low consumption plan, with 34,516 lines in 2004). The traditional plant line totaled 2,427,364 lines at the end of December 2004 (+0.4% over 2003).

Growth in broadband clients over the year amounted to 60.3% up to 200,794, driven by September's launch of the 2V (double broadband speed without an increase in prices for clients) and by the package offers with minute plans.

Although the domestic long distance market continued to decline (down 9.2% year on year), as observed in previous quarters, CTC succeeded in increasing its market share by 3.7 percentage points, reaching a market share of 45.3%. CTC's share of the international long distance market stood at 29.4% at year end (+0.3 percentage points compared to 2003).

Operating revenues in 2004 totaled 932.9 million euros, registering a 6.2% decrease in local currency compared to 2003 (-6.8% as of September; -9.4% in the first half of 2004), continued in the last quarter with the improvement seen throughout the year (excluding the effect of the CPP tariff reduction, the decrease would be only 2.6%). This progress was possible due to the better performance of traditional business revenues, which continued to reduce their drop in local currency quarter by quarter, as a result of the increased plant, the successful acceptance of minute plans and the new tariff situation following the last review. Furthermore, Internet (Narrowband + Broadband) revenues maintained a high growth rate (+45.1% in local currency), accounting for 5.9% of CTC operating revenues.

Operating expenses remained at levels below those of 2003 (-8.0% in local currency), as a result of the strict cost control policy and of the lower fixed-to-mobile tariffs, causing a 22.5% reduction in interconnection expenses in local currency. Expenses related to commercial management, one of the priorities of the company, are practically the ones to have increased the most over the year, as a result of the advertising campaigns used to launch and position new products. The ratio of bad debts to revenues stood at 4.1%, slightly above the figure registered in 2003, due to certain extraordinary provisions accounted for in the last quarter of the year. As a result, **EBITDA** for the year stood at 417.8 million euros, posting a 3.6% decrease in local currency compared to 2003. The level of investments at the end of December placed **CapEx** at 80.8 million euros, climbing 1.4% over 2003, due to greater investments in Broadband (32.3% of total CapEx), which rised 2.7 percentage points over 2003. The CapEx to revenues ratio totaled 9.4%. The **operating free cash flow** (EBITDA–CapEx) generated totaled 337.1 million euros, experiencing a 4.9% decrease in local currency compared to 2003, due to both lower EBITDA and increased investments.

TELEFÓNICA DEL PERÚ

Telefónica del Perú experienced a significant growth in the plant of equivalent lines during 2004 (+14.6% year on year, 0.5 percentage points higher than in the previous quarter), as a result of the 9.5% increase in traditional lines (largely due to the marketing of new tariff plans since March 2003), as well as the growth in broadband connections (+126.5%) which, with an aggregate net gain of 114,736 connections (+103.8% year on year), totaled 205,425 lines.

Operating revenues totaled 1,032.1 million euros, registering a year-on-year drop of 1.1% in local currency due to the fact that the increase in internet revenues (Narrowband + Broadband), which grew by 57.9% and accounted for 7.0% of operating revenues, were unable to make up for the 3.8% fall in revenues from the Traditional Business. Traditional services were affected (i) by the impact of the migrations to new plans, representing 50.4% of the traditional plant, (ii) by the impact of exchange rates on revenues in dollars (Cablenet, ADSL, incoming international long distance and Multimedia), (iii) by the application of the new Usage Conditions, allowing users being refunded the amounts corresponding to the monthly fees for periods of line disconnection, in addition to the revenues from the payment of packages and of the revenues of

associated value added services (i.e. memobox -voicemail-) and (iv) by the entering into force of the new productivity factor for the price cap system as of September 1st.

The Long Distance business continued to be affected by competition from prepaid cards. At the end of the year, the company's market shares of the domestic and international markets stood at 72.4% and 57.8%, respectively, experienced increases compared to the previous quarter of 2.3 percentage points and 0.6 percentage points, respectively, despite to the enforcement imposed by OSIPTEL since July to publish detailed information on TdP clients for knowledge of the competition.

The cost control policy implemented by TdP, together with the lower interconnection expenses (-6.9%) due to the decrease in traffic terminating on mobile networks, resulted in a 2.9% decrease in **operating expenses** in local currency, partly due to lower bad debts provisions (-53.1%) as a result of an improvement in the level of bad debts through the increased prepaid plant. Thus, in line with the improvement recorded in previous quarters, the bad debts to revenues ratio stood at 1.3% in comparison with 3.1% in 2003.

The company's **EBITDA** increased slightly in local currency (+0.9%) in relation to December 2003 to stand at 465.1 million euros.

CapEx increased by 15.2% in local currency, primarily due to the greater effort made in broadband. The CapEx to revenues ratio stood at 11.5%. This higher investment reduced the **operating free cash flow** (EBITDA-CapEx) to 3.3% to stand at 356.7 million euros in local currency at year end.

At December 2004, the company had a **workforce** of 3,025 employees, registering a decrease of 4.7% compared to 2003 (including the workforce at subsidiaries, the total number of employees was 5,039, +5.7%). As a result, the productivity ratio stood at 781 lines per employee, jumping by 20.3% year on year.

TELEFÓNICA EMPRESAS AMÉRICA

Telefónica Empresas América continued to improve efficiency and to consolidate its growth rate during 2004. **Operating revenues** amounted to 467.7 million euros, experiencing a year-on-year growth of 11.2% in constant terms. This growth is basically due to the progress observed in constant terms in Data & Internet revenues, which grew by 5.6% and accounted for 63% of total operating revenues, and in Hosting/ASP revenues, which recorded a 50.2% growth. It is also noticeable the growth in constant terms of the Solutions revenues (+40.3%) and International Services revenues (+15.5%). EBITDA grew by 71.5% (+79% in constant terms) reaching 54.3 million euros, with an EBITDA margin of 11.6% (+4.5 percentage points year on year). **CapEx** experienced a 3.9% increase (+5.7% in constant currency) amounting to 45.5 million euros and enabling Telefónica Empresas América to record an **operating free cash flow** (EBITDA–CapEx) of 8.8 million euros at the end of December 2004, compared with the negative figure of 12.2 million euros reached in the same period of 2003.

Telefónica Empresas Brazil accounted for approximately 36% of operating revenues at Telefónica Empresas América in 2004, with a growth of 15.8% in local currency. EBITDA grew year on year by 53.8% in local currency, a 4.8 percentage point improvement in the EBITDA margin compared to 2003. Argentina, Chile and Peru, whose joint EBITDA amounted to 46 million euros, generated positive operating free cash flow (EBITDA–CapEx) totalling 31.3 million euros. Of the three, Chile stands out, with a growth in local currency by 19.3% and 24.3% in terms of revenues and EBITDA, respectively.

Regarding other countries, it must be noted that Colombia recorded a positive EBITDA of 2.8 million euros at year end and generated positive operating free cash flow. Mexico and the US improved their EBITDA margins by 14.2 percentage points and 1.0 percentage points respectively year on year.

TELEFÓNICA INTERNATIONAL WHOLESALE SERVICES (TIWS)

TIWS continued to focus on increasing profitability. At year end, the company recorded growth of 15.2% in its **operating revenues** up to 157.5 million euros, being sales from the international IP services the main contributor with a growth of 24.8%. Despite this growth in revenues, **operating expenses** decreased by 9.3% year on year, basically due to the fall in supplies (-14.2%) and subcontracts (-8.7%). As a result, TIWS obtained an EBITDA margin of 31.8%, representing an 18.8 percentage point improvement on 2003. The improvement in **operating free cash flow** (EBITDA–CapEx) continued and amounted to 25.6 million euros.

TELEFÓNICA LATINOAMÉRICA GROUP**SELECTED OPERATING DATA***Unaudited figures (Thousands)*

	December		
	2004	2003	% Chg
Telesp			
Lines (1)	13,289.1	12,781.3	4.0
PSTN Lines	11,386.6	11,171.5	1.9
ISDN equivalent accesses	27.8	29.9	(6.9)
2/6 Accesses for PBX and Ibercom	1,048.4	1,095.6	(4.3)
ADSL connections	826.4	484.4	70.6
Employees (units) (2)	7,125	7,134	(0.1)
Traffic (millions of minutes) (3)	81,023.3	84,414.2	(4.0)
Telefónica de Argentina			
Lines (1)*	4,517.3	4,238.3	6.6
PSTN Lines	4,246.3	4,088.5	3.9
ISDN equivalent accesses	6.1	6.5	(6.6)
2/6 Accesses for PBX and Ibercom	76.1	73.9	2.9
ADSL connections	188.8	69.3	172.4
Employees (units) (2)	8,090	8,007	1.0
Traffic (millions of minutes) (3)	39,824.9	36,232.7	9.9
Telefónica CTC Chile			
Lines (1)*	2,628.2	2,542.0	3.4
PSTN Lines	2,276.4	2,266.1	0.5
ISDN equivalent accesses	96.1	93.3	2.9
2/6 Accesses for PBX and Ibercom	54.8	57.4	(4.4)
ADSL connections	200.8	125.3	60.3
Employees (units) (2)	3,070	3,202	(4.1)
Traffic (millions of minutes) (3)	22,191.5	24,337.0	(8.8)
Telefónica del Perú			
Líneas (1)	2,361.5	2,060.0	14.6
PSTN Lines	2,121.6	1,934.8	9.7
ISDN equivalent accesses	34.5	34.5	(0.0)
2/6 Accesses for PBX and Ibercom	0.0	0.0	n.d
ADSL connections + Cablemodem	205.4	90.7	126.5
Employees (units) (2)	5,039	4,769	5.7
Traffic (millions of minutes) (3)	13,055.3	13,218.6	(1.2)
T. LATINOAMÉRICA GROUP			
Lines (1)	22,796.1	21,621.7	5.4
PSTN Lines	20,030.9	19,460.9	2.9
ISDN equivalent accesses	164.5	164.3	0.1
2/6 Accesses for PBX and Ibercom	1,179.3	1,226.9	(3.9)
ADSL connections	1,421.5	769.7	84.7
Employees (units) (4)	23,324	23,112	0.9
Traffic (millions of minutes) (3)	156,095.0	158,202.6	(1.3)

* In 2003, number of lines is affected by internal reclassification in line with 2003 criteria, homogeneous within the operators.

(1) Lines: PSTN (including Public Use Telephony) (x1); ISDN Basic access (x2); ISDN Primary access (x30); 2/6 Accesses (x30); ADSL Lines (x1) and Cablemodem (in Peru).

(2) Calculated with the wireline company staff of the fixed telephone operator (OTF) and the subsidiaries that are consolidated by the full integration method.

(3) Including total invoiced incoming and outgoing traffic: Local, PUTs, DLD and ILD. January-December accumulated data.

(4) Calculated with the wireline company staff of the fixed telephone operator (OTF) and the subsidiaries that are consolidated by the full integration method. Does not include the employees of Telefónica Empresas América and those of TIWS. As of 31/12/04 they were 2,352 and 244 respectively.

TELEFÓNICA LATINOAMÉRICA GROUP
SELECTED FINANCIAL DATA
Unaudited figures (Euros in millions)

	January - December		
	2004	2003	% Chg
Telesp			
Operating revenues (1)	3,707.9	3,400.9	9.0
EBITDA	1,698.2	1,662.8	2.1
EBITDA margin	45.8%	48.9%	(3.1 p.p.)
Telefónica de Argentina			
Operating revenues	810.5	805.3	0.7
EBITDA	484.7	478.7	1.3
EBITDA margin (2)	59.8%	59.4%	0.4 p.p.
Telefónica CTC Chile			
Operating revenues	932.9	1,029.1	(9.3)
EBITDA	417.8	448.7	(6.9)
EBITDA margin	44.8%	43.6%	1.2 p.p.
Telefónica del Perú			
Operating revenues	1,032.1	1,088.1	(5.1)
EBITDA	465.1	480.9	(3.3)
EBITDA margin	45.1%	44.2%	0.9 p.p.
Telefónica Empresas América			
Operating revenues	467.7	443.9	5.4
EBITDA	54.3	31.7	71.5
EBITDA margin	11.6%	7.1%	4.5 p.p.
TIWS			
Operating revenues	157.5	136.7	15.2
EBITDA	50.1	17.8	181.8
EBITDA margin	31.8%	13.0%	18.8 p.p.

Note: EBITDA before management fees. Data for Telefónica de Argentina include the ISP business of Advance, while those of Telefónica del Perú includes CableMágico.

(1) Net of international accounting payments, homogeneous within Latin America operators. Criteria applied retroactively in 2003.

(2) Net of fixed to mobile interconnection.

TELEFÓNICA LATINOAMÉRICA GROUP
CONSOLIDATED INCOME STATEMENT
Unaudited figures (Euros in millions)

	January - December			October - December		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	6,883.4	6,744.9	2.1	1,837.4	1,823.5	0.8
Internal expend capitalized in fixed assets (1)	44.3	47.4	(6.5)	14.0	12.9	8.8
Operating expenses	(3,646.6)	(3,548.5)	2.8	(980.7)	(964.7)	1.7
Other net operating income (expense)	(140.2)	(142.5)	(1.6)	(21.5)	(22.7)	(5.0)
EBITDA	3,141.0	3,101.3	1.3	849.2	848.9	0.0
Depreciation and amortization	(1,697.8)	(1,805.7)	(6.0)	(446.9)	(467.0)	(4.3)
Operating profit	1,443.2	1,295.6	11.4	402.3	381.9	5.3
Profit from associated companies	(0.4)	2.5	c.s.	0.2	1.4	(84.7)
Financial net income (expense)	(315.3)	(228.6)	38.0	(75.2)	(156.7)	(52.0)
Amortization of goodwill	(83.1)	(91.1)	(8.7)	(18.1)	(22.2)	(18.6)
Extraordinary net income (expense)	363.1	(128.1)	c.s.	(55.3)	(43.3)	27.7
Income before taxes	1,407.4	850.3	65.5	253.9	161.1	57.6
Income taxes	(264.0)	(169.7)	55.6	(69.0)	105.3	c.s.
Net income before minority interests	1,143.4	680.7	68.0	184.9	266.4	(30.6)
Minority interests	(336.8)	(122.1)	175.8	(23.9)	(48.1)	(50.3)
Net income	806.6	558.5	44.4	161.0	218.3	(26.2)

Note: Starting first quarter 2004, Telefónica Data in Latin America and TIWS results will be incorporated in Telefónica Latinoamérica Group. 2003 figures are proforma for the benefit of comparison.

(1) Including work in process.

TELEFÓNICA LATINOAMÉRICA GROUP
CONSOLIDATED INCOME STATEMENT - PROFORMA 2003
Unaudited figures (Euros in millions)

	2003			
	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec
Operating revenues	1,498.2	3,132.7	4,921.5	6,744.9
Internal expend capitalized in fixed assets (1)	10.3	22.2	34.5	47.4
Operating expenses	(785.4)	(1,650.9)	(2,583.8)	(3,548.5)
Other net operating income (expense)	(39.7)	(80.3)	(119.8)	(142.5)
EBITDA	683.4	1,423.8	2,252.4	3,101.3
Depreciation and amortization	(428.4)	(877.3)	(1,338.7)	(1,805.7)
Operating profit	255.1	546.5	913.7	1,295.6
Profit from associated companies	6.3	2.3	1.0	2.5
Financial net income (expense)	(13.5)	129.1	(71.8)	(228.6)
Amortization of goodwill	(23.4)	(46.6)	(68.8)	(91.1)
Extraordinary net income (expense)	(41.5)	(47.0)	(84.8)	(128.1)
Income before taxes	182.9	584.4	689.3	850.3
Income taxes	(92.5)	(247.4)	(275.0)	(169.7)
Net income before minority interests	90.3	337.0	414.3	680.7
Minority interests	(26.1)	(48.8)	(74.0)	(122.1)
Net income	64.3	288.2	340.3	558.5

(1) Including work in process.

Results by Business Lines

MOBILE BUSINESS

RESULTS BY BUSINESS LINES

Mobile Business

Telefónica Móviles reported net income in 2004 of 1,633.9 million euros vs. 1,608 million euros in 2003, an increase of 1.6%. Excluding the impact of extraordinary provisions booked in both years, the Group would have reported a year-over-year increase in net income of 7.1%.

As for the fourth quarter 2004 results, it should be taken into account for the year-over-year comparison that these figures include the incorporation of the November and December results of the new operators acquired from BellSouth in Latin America (except those of Chile and Argentina, whose acquisition was completed in January 2005).

Results in 2004 were driven by a solid operating performance in a year marked by a sharp increase in commercial activity by the Group operators, against a backdrop of strong competitive pressure in all markets of operation.

The intense commercial activity carried out throughout the year continued in the fourth quarter 2004, driven by the Christmas campaign, with the Group operators maintaining their number 1 or 2 position in its principal markets of operation. Companies managed¹ by Telefónica Móviles achieved net adds of over 6 millions in the fourth quarter 2004, compared to 4.2 millions in the fourth quarter 2003. Excluding the impact of the incorporation of BellSouth's Latin American operators in November, net adds stand at over 4.8 millions, representing record organic growth for the Group.

As a result, the Group ended 2004 with 74.4 millions managed¹ customers in all its markets (representing a year-over-year increase of 43.6%, and +22.4% excluding the operators acquired from BellSouth in Latin America), of which 52.7 millions belonged to Latin American operators and close to 19 millions to Telefónica Móviles España (TME).

Including the customers of BellSouth's operators in Chile and Argentina, whose acquisition was completed in early January 2005, Telefónica Móviles' managed customer base would have exceeded 78.2 millions, with 56.5 millions in Latin America.

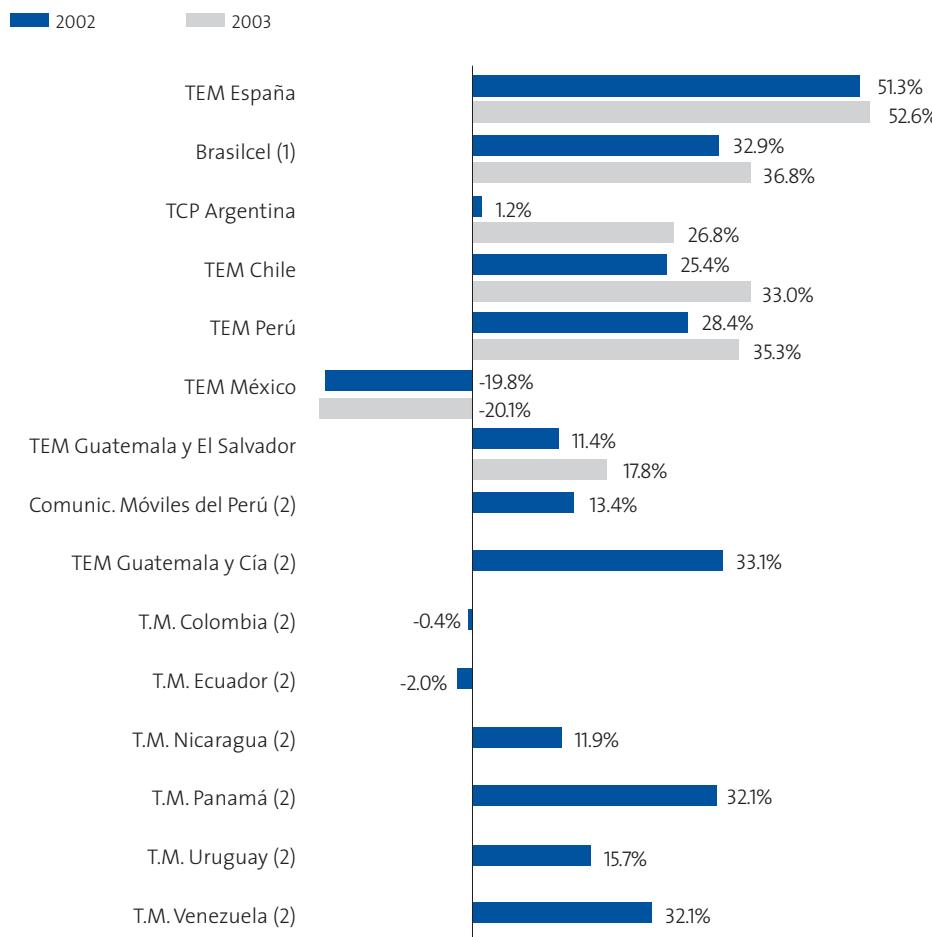
Key aspects of the year 2004 are as follows:

- Year-over-year growth in **operating revenues** of 17.5% to 11,827.6 million euros in 2004. The incorporation of the operators acquired from BellSouth in Latin America into the Group's consolidation perimeter contributed 425 million euros to total operating revenues, and 4.2 p.p. to the growth rate for the year, whereas the incorporation of Telefónica Móvil Chile (TM Chile) contributed 1.8 p.p. On the other hand, exchange rate fluctuations led to a 2.2 p.p. decline in revenue growth in 2004.

Thus, assuming constant exchange rates and excluding changes in the Group's consolidation perimeter with respect to December 2003, consolidated operating revenues would have registered a year-over-year increase of 13.6%.

¹. Since the cancellation of Movistar Puerto Rico's management contract in September 2004, its customer base is no longer accounted for within the Group's managed customer base.

EBITDA MARGIN EVOLUTION – TELEFÓNICA MÓVILES GROUP



Note: Telefonica Cellular Business includes Telefónica Móvil Chile.

(1) Year over year comparision is affected by TCO incorporation from May 2003.

(2) Includes financial data for November and December 2004.

By components, service revenues totalled 10,239 million euros in 2004, a year-over-year increase of 15.4% and an increase of 29.7% in the fourth quarter 2004 vs. the fourth quarter 2003. The solid advance in service revenues in Latin American operators must be highlighted, with a 35.2% year-over-year increase vs. 2003.

Revenues from handset sales for the year registered a year-over-year increase of 32.6% to 1,589 million euros.

By companies, Telefónica Móviles España (TME) obtained operating revenues of 8,190.0 million euros in 2004, a year-over-year increase of 9.3%, driven by the positive performance in service revenues, which grew 9.2% in the year.

Operating revenues from consolidated Latin American operators totalled 3,649.8 million euros, a year-over-year increase of 42.1%. The impact from the incorporation of the operators acquired from BellSouth in Latin America was 425 million euros in absolute terms. Excluding the impact of changes in the Group's consolidation perimeter with respect to December 2003, and assuming constant exchange rates, these operators' revenues would have shown growth of 27.0% vs. 2003.

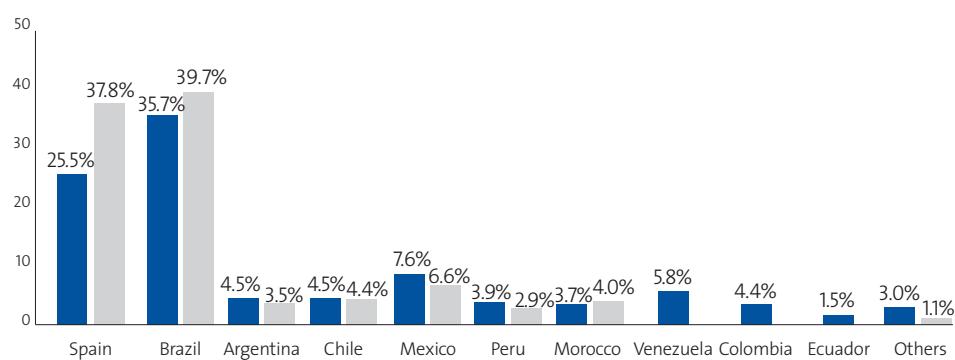
We would highlight the increase in the weight of the Latin American operators on the Group's total revenues to 30.9% in 2004 from 25.5% in 2003, driven by both organic growth and acquisitions.

- Increase of 5.3% in consolidated EBITDA vs. 2003 to 4,701.0 million euros in 2004.

The incorporation of BellSouth's operators in Latin America into the Group's consolidation perimeter from November 2004 contributed 66 million euros to consolidated EBITDA.

DISTRIBUTION OF MANAGED CUSTOMERS IN MOBILE TELEPHONY
(Data in million euros)

■ 2004 ■ 2003



Assuming constant exchange rates and excluding the changes in the Group's consolidation perimeter with respect to December 2003², year-over-year growth in EBITDA would have been 3.1%.

EBITDA margin reached 39.7% in 2004, impacted by the increase in commercial and advertising costs in a year marked by rising commercial activity and a strong competitive pressure in the main markets of operation, and by network roll-outs in various Latin American operations.

Stripping out the impact of the incorporation of TM Chile and BellSouth's operators in Latin America to the consolidated results, the Group's EBITDA margin would have been 40.9% in 2004.

EBITDA in the fourth quarter 2004 reached 1,173.4 million euros, an increase of 7.2% vs. the fourth quarter 2003, with an EBITDA margin of 32.7%. The decline in the EBITDA margin vs. the fourth quarter 2003 was due to higher commercial efforts associated with the stronger commercial activity – a year-over-year increase of 49% vs. the fourth quarter 2003 in the fully consolidated operators – and the impact of the incorporation of TM Chile and the BellSouth operators to the consolidation perimeter. Excluding the impact of these incorporations, the Group's EBITDA margin for the fourth quarter 2004 would have been 35.2%.

By regions, EBITDA at TME increased by 6.6% in 2004, leaving an EBITDA margin of 51.3%.

EBITDA for the Group's consolidated Latin American subsidiaries, in euros, fell by 2% vs. 2003. Assuming constant exchange rates and excluding the contribution of TM Chile and BellSouth's

2. Excluding the impact of the incorporation of Telefónica Móvil Chile from August 1, 2004 and the incorporation of the operators acquired from Bell South in Latin America from November 1, 2004.

operators in Latin America to the consolidated results, EBITDA for these companies would have declined 19.2% vs. 2003, due to the increased commercial activity mentioned above.

As regards the rest of the main items, we would highlight:

- Allocation of the purchase price of TM Chile and of the operators acquired from BellSouth in Latin America in 2004. Appraisals carried out have led to the following allocation of intangible assets: 279 million euros to customers, 758 million euros to licences and 32 million euros to software. The remainder, 2,055 million euros, is to be booked as goodwill.

Such allocation is the result of the preliminary assessment by third party independent experts.

Impact of the depreciation of these assets in the fourth quarter 2004 totalled 53 million euros (33 million euros as customers depreciation, to be depreciated along the expected average life, with higher rates in the short term, 17 million euros as licenses depreciation and 3 million euros as software depreciation).

- Consolidated CapEx reached 1,618 million euros in the full year 2004, an increase of 33.3% vs. 2003, due to higher CapEx in the main markets (TME's UMTS network rollout, GSM networks in Argentina and Mexico, and increased capacity in Brazil) as well as the impact of the incorporation of Telefónica Móvil Chile (69 million euros CapEx) and BellSouth's Latin American operators (81 million euros CapEx).

Regarding the evolution of the **Mobile Business of Telefónica Group** (including Telefónica Móvil Chile since January 1st, 2004), the operating revenues totalled 12,054.1 million euros as of December 2004, a year-on-year increase of 15.6% compared to the same period of last year. On the other hand, EBITDA reached 4,755.0 million euros, a year-on-year increase of 3.8%.

SPAIN

The Spanish cellular market in 2004 was marked by growing commercial pressure from competitors, mainly focused in number portability actions in the residential market and aggressive pricing in the corporate segment.

Against this backdrop, Telefónica Móviles España (TME) ended 2004 with close to 19 million customers, with net adds of 280 thousand customers in the fourth quarter 2004. The positive performance of the contract segment (residential and corporate) during the year must be highlighted, registering cumulative net adds of over 1.3 millions. The weight of the contract segment over the total customer base stood at 48.8% in December 2004 (an increase of 8.5 p.p. for the year), placing TME as the European operator with the best performance in terms of mix since December 2003.

Regarding commercial activity in 2004, total volume including gross additions, migrations and handset upgrades was close to 9 millions in the full year 2004 and almost 2.5 millions in the fourth quarter 2004. TME's handset upgrades reached close to 3.6 millions in the full year, with

almost a million in the fourth quarter 2004; while prepaid to contract migrations stood at over a million (256 thousand in the fourth quarter 2004).

In terms of number portability actions, TME maintained a steady position in 2004 with a net balance of close to 8 thousand customers for the year, with a notably favourable performance in the contract segment, with a positive balance of 176 thousand customers (51 thousand in 2003).

In line with TME's strategy centred on high-value segments, we would highlight the focus on the corporate segment, where the Company continues reacting to competitors' aggressiveness by developing new products, services and solutions which create value for its customers. During the fourth quarter 2004, TME stepped up the commercialisation of services such as "Movistar Desktop" and "Blackberry Professional Mail" with attractive offers for its devices. We would also highlight the launch of the TSM 520 handset, primarily targeted at this segment, with the Windows Mobile Smartphone 2003 system built in.

In parallel, as part of the strategy of developing commercial plans targeted at high growth segments, it is worth highlighting the specific offer for the professional segment ("Plan Autónomos") ("Self-employed Plan") with its own price plan, high-quality post-sales service and handset upgrade incentives.

As for usage, traffic carried on TME's networks increased by 12.6% in 2004 (+10% in the fourth quarter 2004 vs. the fourth quarter 2003). MOU for the full year was 129.1 minutes (134.6 in the fourth quarter 2004).

Regarding data services, close to 3.8 million customers used web browsing with GPRS technology in December, almost 2.4 millions more than in December 2003, with almost 700 thousand of them using its i-mode service. Another mark is the consolidation of the multimedia messaging service (MMS), with almost 1.5 millions users in December 2004 (half a million in December 2003).

All of this contributed to a significant increase in data revenues, which totalled almost 1,000 million euros in 2004 (+16.1% vs. 2003). Data ARPU for 2004 was 4.3 euros (4.6 euros in the fourth quarter 2004).

Total ARPU for TME was 32.6 euros in 2004 and 33.4 euros in the fourth quarter 2004.

Highlights of TME's financial results include:

- **Operating revenues** for the full year stood at 8,190.0 million euros, with a year-over-year increase of 9.3%.

Service revenues posted a similar performance, reaching 7,282 million euros in 2004 (+9.2% vs. 2003), driven by the positive trend seen in traffic.

Handset sales totalled 908 million euros for the year, representing a year-over-year increase of 10%, and a maintaining its weighting over total operating revenues stable with last year at 11%.

Operating revenues in the fourth quarter 2004 totalled 2,147.1 million euros (+5.9% vs. the fourth quarter 2003), driven by strong service revenues' growth, which registered a year-over-year increase of 8.8% vs. the fourth quarter 2003.

It must be remembered that service revenues in the fourth quarter 2004 were impacted by the 12% reduction in interconnection tariffs, which came into effect in November 2004.

- The weight of subscriber acquisition and retention costs over operating revenues stood at 8.6% in 2004 (1.5 p.p higher than in 2003). This increased effort was driven by the increase in commercial activity, which has impacted in higher commercial costs (+30% vs. 2003), as well as the high cost of number portability initiatives. This increased commercial activity is also evident in the fourth quarter 2004, with SACs and SRCs representing 9.8% of operating revenues (+2.0 p.p. vs. the fourth quarter 2003).
- In spite of the above, TME has achieved a 6.6% increase in **EBITDA** to 4,202.0 million euros in 2004, leading to an EBITDA margin of 51.3%. EBITDA in the fourth quarter 2004 stood at 1,006.4 million euros, with an EBITDA margin of 46.9%, impacted by the increased commercial activity typical of the quarter.

Excluding the impact of commercial and advertising costs, EBITDA would have registered year-over-year growth of 10.1%. This strong performance in the adjusted margin³ (67.7% in 2004 vs. 67.2% in 2003) underscores the company's solid operating efficiency.

- Finally, **CapEx** in 2004 totalled 628 million euros, driven by the rollout of the UMTS network. By the end of the year, TME's UMTS coverage represented 40% of the population, with 3,800 base stations in approximately one hundred cities.

MOROCCO

Médi Telecom ended 2004 with 2.7 million customers (+32.5% vs. 2003). Net adds in the fourth quarter 2004 amounted to 158 thousand customers, following a third quarter with strong commercial activity due to the summer campaigns.

Operating revenues rose 24.9% year-over-year in 2004 vs. 2003 to 336 million euros (87 million euros in the fourth quarter 2004), driven by both customer and traffic growth. **EBITDA** continues to show positive performance, standing at 154 million euros in the full year 2004 (94 million euros in 2003), with an increasing trend in quarterly EBITDA (51 million euros in the fourth quarter 2004 vs. 38 million euros in the third quarter 2004).

EBITDA margin for the full year 2004 at Médi Telecom stands at 46.0% (58.9% in the fourth quarter 2004) vs. 35.0% in 2003.

Thanks to the growth of EBITDA and the scaling back of CapEx, **operating cash flow** reached 94 million euros in 2004, close to triple that of 2003.

³. EBITDA margin excluding marketing and advertising costs over gross service revenues from the loyalty points program.

LATINOAMERICA

BRAZIL

The growth trend in the Brazilian cellular market continued into the fourth quarter of the year, driven by the Christmas campaign. Total customers in the market stood at 65.6 millions by year-end, leading to a significant increase in the penetration rate, to close to 37% by December 2004, compared to 33% in September (40% in VIVO's areas of operation).

In the context of a rapidly expanding market, with increased competitive pressure from all operators, VIVO has maintained its leadership position. In the fourth quarter 2004 VIVO achieved close to 1.9 millions net adds vs. 1.1 millions in the third quarter 2004. We would point out that VIVO targeted its commercial activity during the fourth quarter 2004 at high-value customers, rising entry barriers in the prepaid segment and promoting customer acquisition in the contract segment, as well as prepaid to contract migrations.

It must also be remembered that at the end of September 2004 a new operator started up in the Amazon, Rio Grande do Sul, Paraná and Santa Catarina regions, areas in which VIVO operates, launching aggressive commercial plans in both the prepaid and contract segments.

Against this backdrop, VIVO ended 2004 with a total customer base of over 26.5 millions (year-over-year growth of 28.5% and 7.7% compared to September 2004). This gives it an estimated market share of 40% for Brazil as a whole and 51% in its areas of operation.

As for customer usage, total MOU in the fourth quarter 2004 was 86 minutes, while total ARPU was 31 reais. In the full year 2004, MOU stood at 89 minutes and ARPU reached 33 reais.

The year-over-year performance in ARPU was shaped by the sharp growth in the total customer base, driven by the prepaid segment –which accounted for 80.5% of total customers in December 2004 compared to 76.6% in December 2003–, increased traffic promotions and the impact on incoming traffic of the blocking of fixed-to-mobile calls by fixed-line operators.

Regarding data services, the accelerating trend in usage must be highlighted, with data revenues representing 5% of VIVO's total service revenues in the fourth quarter 2004 (3% in the fourth quarter 2003). For the year as a whole, they accounted for 4% of service revenues.

Regarding the financial results, **operating revenues** for the year showed a 16.2% year-over-year increase in local currency, boosted by service revenue growth on the back of the increase in the customer base. Excluding TCO's contribution during the first four months of 2004, operating revenues would have grown 9.5% vs. 2003 in local currency. The impact of the competitive environment on the growth of revenues, with more traffic promotions in 2004, and the impact of the migration to SMP from July 2003 must be taken into account.

EBITDA for the year reached 500.3 million euros. The evolution from 2003 (+3.8% in reais) is impacted by the strong increase in net adds in the year (+59% vs. 2003) as well as by higher commercial and advertising costs. Excluding TCO's contribution during the first four months of 2004, this change would have been -3.8% vs. 2003 in local currency.

We would point out that despite seasonality in commercial activity typical of the fourth quarter of the year (with a 68% increase in the fourth quarter 2004 vs. the third quarter 2004), the control in per unit subscriber acquisition cost in the prepaid segment –the main component of VIVO's net adds– during the Christmas campaign has allowed for year-over-year decline in margin in the year to remain stable with the decline seen in cumulative EBITDA to September 2004 (-3.9 p.p.). Thus, EBITDA margin, after management fees, for full year 2004 stood at 32.9% (28.5% in the fourth quarter 2004).

Excluding the impact of higher commercial and advertising costs, the performance of the adjusted margin⁴ (61.6% in 2004 vs. 58.0% in 2003) reflects the improvement in operating efficiency and economies of scale at VIVO.

Finally, total **CapEx** in 2004 stood at 278 million euros, driven by increased capacity of the operators' networks in order to meet the growth of the customer base and by the further rollout of VIVO's 1xRTT networks. By year-end 2004, VIVO's 1xRTT network extended to 3,700 base stations, covering over 800 municipalities in its areas of operation.

MEXICO

In 2004 Telefónica Móviles México (TMM) has reinforced its positioning as number two player in the country, boosted by the strong growth in its customer base.

TMM's total **customer base** at the end of 2004 was 5.6 millions, maintaining the accelerating trend in quarterly customer growth, with an increase in the fourth quarter 2004 vs. the third quarter 2004 of over 25% (+10% in the third quarter 2004 vs. the second quarter 2004 and +8% in the second quarter 2004 vs. the first quarter 2004).

Net adds increased sharply in the fourth quarter 2004, driven by the Christmas campaign, to over 1.1 millions new customers (+58% vs. the fourth quarter 2003 and nearly triple the third quarter 2004 figure), over half of which were added during December.

We note the favourable results in the contract segment, with the second consecutive quarter of positive net adds, to end the year with a positive balance, compared to net losses in 2003. By December 2004, the contract customer base increased by 25% from December 2003.

The strong performance of GSM customer adds continues being a main driver in total customer growth. As of December 2004, GSM customers accounted for 72% of the total customer base (compared to 58% in September).

The consolidation of TMM's market positioning was driven over the course of the year by ongoing advances in the expansion and enhancement of its sales network and the rollout of its GSM network.

⁴. EBITDA margin excluding marketing and advertising costs over service revenues. For comparison purposes 2003 includes TCO from January 1st.

As a result, the number of points of sale increased by almost 70% during the year to over 10,400 by December 2004 (6,200 at the end of 2003), while GSM coverage had extended to 248 cities (189 in September 2004 and 96 as of December 2003), to reach a level of population representing 77% of Mexican GDP.

Regarding customer usage, MOU in the fourth quarter 2004 was 59 minutes and ARPU was 172 Mexican pesos (stable from the third quarter 2004). MOU for the year stood at 61 minutes, while ARPU was 172 Mexican pesos.

Regarding financial results, we would highlight the positive quarterly trend in **operating revenues** in local currency (+76.7% in the fourth quarter 2004 vs. the third quarter 2004), boosted by increased handset sales and the acceleration in service revenue growth, which was up 12.7% vs. the third quarter 2004 driven by the solid growth in the customer base.

The positive performance shown by revenues, together with cost control policies, kept **EBITDA** losses under control in the fourth quarter 2004. As a result, despite having triple the number of net adds in the fourth quarter 2004 compared to the third quarter 2004, TM México's EBITDA losses were 44 million euros in the quarter (compared to losses of 22 million euros in the third quarter 2004). EBITDA losses in the full year 2004 totalled 145 million euros.

In terms of margin, the control of EBITDA losses led to a slight decline of only 1.9 p.p. (EBITDA margin of -14.2% in the third quarter 2004 and of -16.1% in the fourth quarter 2004). As for year-over-year comparison, despite a 60% increase in commercial activity in the fourth quarter 2004 compared to the fourth quarter 2003, cost efficiency allowed for the margin to improve by over 20 p.p. vs. 2004.

Excluding the impact of higher commercial and advertising costs, the adjusted margin⁵ for 2004 would have been 33.0% vs. 25.3% in 2003.

Finally, CapEx was 391 million euros in 2004, reflecting the rollout of the GSM network.

ARGENTINA

The Argentine cellular market was marked in 2004 by a significant acceleration in growth, driven since the beginning of the year by the improved macroeconomic environment, increased commercial efforts from all operators and the rollout of GSM networks. The estimated penetration rate at the end of 2004 was 34% (compared with 29% in September 2004 and 21% in the fourth quarter 2003), above initial expectations.

During the fourth quarter 2004 Unifón maintained its strategy to improve its competitive positioning in the market, increasing its commercial activity and continuing to roll out GSM in new cities. The year's most important commercial campaigns – Mothers' Day in October and Christmas – took place during the fourth quarter 2004, resulting in record customer net adds for

5. EBITDA margin excluding marketing and advertising costs over gross service revenues from the loyalty points program.

the year. Net adds in the fourth quarter 2004 were 765 thousand customers, almost 50% of the total for the year, accelerating the growth trend compared to prior quarters (almost six times higher than in the fourth quarter 2003 and compared to 417 thousand in the third quarter 2004). Total net adds for the year were over 1.5 million customers, more than seven times higher than in 2003.

Unifón's total customer base stood at 3.4 millions by December 2004 (+84.8% vs. 2003 and +29.3% vs. September 2004). Growth was mainly driven by GSM customers, particularly in the last quarter (in which they accounted for 87% of net adds). By year-end, GSM accounted for 33% of the total customer base, twice the weight in September 2004. Also of note is the continued growth in the contract segment, where the customer base doubled over 2003, to 36.8% of total customers by the end of 2004.

Continuing with the trend seen since the beginning of the year, customer usage ratios improved despite the significant growth in the customer base, underpinned by campaigns aimed at boosting the usage of voice and data services. MOU rose 20% in the fourth quarter 2004 vs. the fourth quarter 2003, in line with year-over-year growth in ARPU. MOU in full year 2004 rose 26% year-over-year, while ARPU in Argentinean pesos registered year-over-year growth of 22%, to 45 Argentinean pesos.

In terms of financial results, Unifón recorded a year-over-year increase of 65% in **operating revenues** in 2004 in Argentine pesos, continuing with the acceleration in growth driven by strong advance in customers and traffic, together with increased handset sales (which were six times those of 2003).

EBITDA was impacted by the significant increase in commercial activity, especially in light of the seasonal pickup in the fourth quarter of the year, by increased competitive pressure and by the higher costs associated to the GSM rollout. The company posted EBITDA losses in the fourth quarter 2004 of 15.2 million euros, leading to EBITDA for the full year of 4.4 million euros. EBITDA margin for the full year 2004 stood at 1.2% in 2004 (-12.5% in the fourth quarter 2004).

CapEx continued to be driven by the rollout of the GSM network, which continued into the fourth quarter 2004. As of December 2004, the GSM network reached population coverage of approximately 82% of national GDP. CapEx in 2004 totalled 105 million euros.

On 11 January 2005, after the end of the fiscal year, Telefónica Móviles completed the acquisition of 100% of BellSouth Movicom.

Adding BellSouth Movicom's operations to those of Unifón makes Telefónica Móviles the leading cellular operator in Argentina, with more than 5.5 million customers at the end of 2004, and leaves the company in an excellent position to capture a significant portion of the strong growth potential in cellular telephony in Argentina.

PERÚ

The Peruvian cellular market showed a strong expansion in 2004, registering a 4 p.p. increase in penetration to 15% at the end of December.

In this context, Telefónica Móviles Perú has led market growth in the year, with net adds of 618 thousand in the full year, more than double the 2003 figure. It is worth noting the positive performance in net adds in the contract segment, where TM Peru added 10 times as many customers in the fourth quarter 2004 as in the fourth quarter 2003 and 61% more than in the third quarter 2004 (almost three times more in the full year 2004 than in 2003).

Moreover, with the acquisition of 99.85% of Comunicaciones Móviles del Perú – the remaining 0.15% is still publicly listed – at the end of October 2004, Telefónica Móviles consolidated its leadership in the Peruvian market. In December 2004 the combined operators' customer base totalled close to 2.9 millions (TM Peru: 2.1 million customers; Comunicaciones Móviles del Perú: 0.7 millions).

Regarding financial results, TM Peru's **operating revenues** in local currency grew 4.4% in 2004, driven by the increased customer base and growth in outgoing and on-net traffic, partially offset by lower incoming traffic from fixed networks and the reduction in fixed to mobile tariffs. In quarterly terms, service revenues grew 3.6% in local currency vs. the third quarter 2004 due to the stabilisation of incoming MOU in the fourth quarter 2004 and the positive performance in outgoing traffic, boosted by campaigns aimed at increasing usage.

It is worth noting that the good results of TM Peru's cost control policies have allowed it to increase EBITDA margin to 35% in the fourth quarter 2004, higher than the margin registered in previous quarters, despite the increase in net adds. Thus, the year-over-year decline in total **EBITDA** vs. 2003, consequence of the increased commercial activity in the year, is reduced to 16% in local currency (-22.9% in the period January-September 2004). In annual terms, this leads to a 28.4% EBITDA margin, higher than the margin registered in 9Mo4.

The incorporation of Comunicaciones Móviles del Perú's results in November and December contributed 19 million euros to operating revenues and 2.6 million euros to EBITDA. As a result, the two companies' combined operating revenues stood at 267 million euros for 2004, and EBITDA at 73 million euros, representing an aggregate EBITDA margin of 27.4%.

CHILE

Telefónica Móvil Chile (TM Chile) recovered its leadership position in the Chilean market in 2004, ending the year with over 3.3 million customers (+46% vs. 2003). Growth was driven, during yet another quarter, by a strong increase in GSM customers, with 1.5 million customers in December 2004, accounting for 44% of the total customer base.

TM Chile continued to lead market growth in the fourth quarter 2004, obtaining net adds of 317 thousand (+33% vs. the fourth quarter 2003), boosted by strong results of the Christmas campaign.

Regarding usage, it is worth noting that, despite strong growth in its customer base, ARPU in the fourth quarter 2004 remained practically flat compared to the third quarter 2004. The decline vs. 2003 reflects a 26% reduction in interconnection rates and the higher weight of the prepaid segment in the total customer base (85% in 2004 vs. 80% in 2003).

Moreover, **operating revenues** continued to be driven by the steady increase in the customer base and in outgoing traffic, which more than offset lower interconnection revenues.

EBITDA margin in the fourth quarter 2004 stood at 28.8%, and at 27.4% for the five months in 2004 which are incorporated to the Group's consolidated results.

After the close of fiscal year 2004, on 7 January 2005, Telefónica Móviles completed the acquisition of 100% of BellSouth Chile.

Telefónica Móviles' customer base in Chile from the combined operations of TM Chile and BellSouth Chile totalled approximately 4.7 millions at the end of 2004.

GUATEMALA Y EL SALVADOR

With the cellular markets in both countries expanding rapidly, TM Guatemala and TM El Salvador showed significant increases in net adds during 2004. Net adds at TM El Salvador in 2004 were 7.5 times higher than in 2003, and at TM Guatemala, 3.6 times higher than in 2003.

Bearing in mind seasonality typical of fourth quarter, customer acquisition continued to grow, with combined new adds of 128 thousand, more than four times higher than those added in the fourth quarter 2003.

As a result, TM Guatemala more than doubled its customer base compared to 2003, while TM El Salvador's customer base rose 55% vs. 2003. We would also highlight the strong take-up of GSM in both countries during the fourth quarter 2004. Five months after its launch, GSM customers account for 21% of the total customer base in TM El Salvador and TM Guatemala.

On the other hand, after the closing of the acquisition of 100% of TEM Guatemala y Cía. in mid-October 2004, Telefónica Móviles' total customer base in Guatemala stands at 751 thousand (TM Guatemala: 376 thousand; TEM Guatemala y Cía.: 375 thousand) and at 384 thousand in TM El Salvador.

Regarding financial results, TM Guatemala and TM El Salvador recorded a year-over-year increase in total **operating revenues**, in constant euros from both operations of 23% in 2004 vs. 2003, boosted by increased service revenues and higher handset sales. **EBITDA** for the year showed a 21% decline in constant euros vs. 2003, reflecting the increase in commercial activity.

The incorporation of the results of BellSouth Guatemala in November and December contributed 13.7 million euros to operating revenues and 4.5 million euros to EBITDA.

OTHERS OPERATIONS (OTHER LATIN AMERICAN OPERATORS ACQUIRED FROM BELLSOUTH)

At the close of December 2004, the customer base of the other six operators acquired from BellSouth in Latin American totalled 9.9 millions (Colombia: 3.3 millions; Ecuador 1.1 millions; Nicaragua 286 thousand; Panama 626 thousand; Uruguay 203 thousand and Venezuela: 4.3 millions).

Commercial activity during the two months under Telefónica Móviles' management was marked by Christmas campaigns primarily targeting the acquisition of prepaid customers, which resulted in significant growth in monthly net adds for November and December, with most of the operators recovering or increasing their monthly shares of net adds.

Regarding financial results, the incorporation of the results of BellSouth in Colombia, Ecuador, Nicaragua, Panama, Uruguay and Venezuela in November and December contributed 392 million euros to Group operating revenues and 59 million euros to Group EBITDA.

CELLULAR BUSINESS**SELECTED OPERATING DATA: CELLULAR CUSTOMERS***Unaudited figures (Thousands)*

	December	
	2004	% Chg 04/03
T Móviles España (1)	18,977	n.c.
Contract	9,260	n.c.
Prepaid	9,717	n.c.
Brasilcel	26,543	28.5%
Contract	5,186	7.2%
Prepaid	21,357	35.0%
TCP Argentina	3,370	84.8%
Contract	1,240	113.6%
Prepaid	2,130	71.4%
T Móviles Perú (2)	2,870	90.5%
Contract	497	66.1%
Prepaid	2,308	91.2%
Fixed Wireless	65	n.d.
TEM El Salvador	384	55.3%
Contract	78	27.2%
Prepaid	294	57.8%
Fixed Wireless	12	66.1%
TEM Guatemala (3)	751	378.5%
Contract	80	84.7%
Prepaid	562	395.0%
Fixed Wireless	109	(5.4%)
Telefónica Móviles México	5,639	63.3%
Contract	301	25.3%
Prepaid	5,338	66.1%
Medi Telecom	2,730	32.5%
Contract	110	(14.8%)
Prepaid	2,620	35.7%
Telefónica Móvil Chile (4)	3,318	46.2%
Contract	484	9.3%
Prepaid	2,834	55.2%
Venezuela	4,326	n.d.
Colombia	3,297	n.d.
Ecuador	1,122	n.d.
Panamá	626	n.d.
Nicaragua	286	n.d.
Uruguay	203	n.d.
Total Managed	74,442	43.6%

(1) Customer base net of 1.3 million inactive prepaid SIM cards no longer included in the reported customer base. For reporting purposes and regarding all the operating metrics this adjustment has been made from 1 April 2004, in accordance with the decision adopted by the Company as of June 2004..

(2) Subscriber data for 2004 includes Comunicaciones Móviles del Perú subscribers, company acquired by TEM Group in October 2004.

(3) Subscriber data for 2004 includes TEM Guatemala y Cia.'s subscribers, company acquired by TEM Group in October 2004.

(4) TM Chile has been incorporated into the consolidation perimeter of Telefónica Móviles Group as of August 2004. In 2003, Telefónica Móviles just managed the company.

Note: Since the cancellation of Movistar Puerto Rico's management contract in September 2004, its subscriber base is excluded from the Group subscriber base.

CELLULAR BUSINESS**SELECTED FINANCIAL DATA***Unaudited figures (Euros in millions)*

	January - December		
	2004	2003	% Chg
Telefónica Móviles España			
Operating revenues	8,190.0	7,495.5	9.3
EBITDA	4,202.0	3,940.8	6.6
EBITDA margin	51.3%	52.6%	(1.3 p.p.)
Brasilian companies (1)			
Operating revenues	1,521.7	1,377.8	10.4
EBITDA	500.3	506.8	(1.3)
EBITDA margin	32.9%	36.8%	(3.9 p.p.)
Telefónica Móviles México			
Operating revenues	730.0	540.0	35.2
EBITDA	(144.9)	(108.7)	33.3
EBITDA margin	(19.8%)	(20.1%)	0.3 p.p.
TCP Argentina			
Operating revenues	360.5	240.1	50.1
EBITDA	4.4	64.4	(93.1)
EBITDA margin	1.2%	26.8%	(25.6 P.P.)
Telefónica Móviles Perú			
Operating revenues	247.8	247.4	0.1
EBITDA	70.4	87.4	(19.5)
EBITDA margin	28.4%	35.3%	(6.9 p.p.)
Comunicaciones Móviles del Perú (2)			
Operating revenues	19.0	n.d.	n.d.
EBITDA	2.6	n.d.	n.d.
EBITDA margin	13.4%	n.d.	n.d.
TEM Guatemala and El Salvador			
Operating revenues	182.6	163.5	11.7
EBITDA	20.9	29.1	(28.3)
EBITDA margin	11.4%	17.8%	(6.4 p.p.)
TEM Guatemala y Cía. (2)			
Operating revenues	13.7	n.d.	n.d.
EBITDA	4.5	n.d.	n.d.
EBITDA margin	33.1%	n.d.	n.d.
Telefónica Móvil Chile			
Operating revenues	412.9	361.1	14.3
EBITDA	104.1	119.0	(12.5)
EBITDA margin	25.2%	33.0%	(7.7 p.p.)
Telefónica Móvil Colombia (2)			
Operating revenues	94.9	n.d.	n.d.
EBITDA	(0.4)	n.d.	n.d.
EBITDA margin	(0.4%)	n.d.	n.d.
Telefónica Móvil Ecuador (2)			
Operating revenues	43.8	n.d.	n.d.
EBITDA	(0.9)	n.d.	n.d.
EBITDA margin	(2.0%)	n.d.	n.d.
Telefónica Móvil Nicaragua (2)			
Operating revenues	8.3	n.d.	n.d.
EBITDA	1.0	n.d.	n.d.
EBITDA margin	11.9%	n.d.	n.d.
Telefónica Móvil Panamá (2)			
Operating revenues	24.0	n.d.	n.d.
EBITDA	7.7	n.d.	n.d.
EBITDA margin	32.1%	n.d.	n.d.
Telefónica Móvil Uruguay (2)			
Operating revenues	5.6	n.d.	n.d.
EBITDA	0.9	n.d.	n.d.
EBITDA margin	15.7%	n.d.	n.d.
Telefónica Móvil Venezuela (2)			
Operating revenues	215.2	n.d.	n.d.
EBITDA	51.0	n.d.	n.d.
EBITDA margin	23.7%	n.d.	n.d.

Note: Telefonica Cellular Business includes Telefónica Móvil Chile.

(1) Year over year comparision is affected by TCO incorporation from May 2003.

(2) Includes financial data for November and December 2004.

TELEFÓNICA MÓVILES GROUP
CONSOLIDATED INCOME STATEMENT
Unaudited figures (Euros in millions)

	January - December			October - December		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	11,827.6	10,070.3	17.5	3,591.2	2,766.5	29.8
Operating expenses	(7,257.2)	(5,660.5)	28.2	(2,517.1)	(1,707.0)	47.5
Other net operating income (expense)	130.5	53.1	145.7	99.3	34.7	186.2
EBITDA	4,701.0	4,462.9	5.3	1,173.4	1,094.2	7.2
Depreciation and amortization	(1,611.0)	(1,420.6)	13.4	(507.6)	(348.4)	45.7
Operating profit	3,090.0	3,042.3	1.6	665.8	745.8	(10.7)
Profit from associated companies	(38.2)	(80.7)	(52.6)	(8.1)	(23.8)	(65.9)
Financial net income (expense)	(353.8)	(378.1)	(6.4)	(118.8)	(119.2)	(0.3)
Amortization of goodwill	(94.7)	(101.7)	(6.8)	(35.0)	(27.4)	27.7
Extraordinary net income (expense)	(92.9)	(4.5)	N.S.	(70.0)	(10.4)	N.S.
Income before taxes	2,510.3	2,477.3	1.3	433.9	565.0	(23.2)
Income taxes	(898.1)	(890.5)	0.9	(176.9)	(223.8)	(21.0)
Net income before minority interests	1,612.2	1,586.8	1.6	257.0	341.2	(24.7)
Minority interests	21.7	21.1	2.7	20.4	9.1	123.4
Net income	1,633.9	1,607.9	1.6	277.4	350.3	(20.8)

CELLULAR BUSINESS
CONSOLIDATED INCOME STATEMENT
Unaudited figures (Euros in millions)

	January - December			October - December		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	12,054.1	10,428.3	15.6	3,607.1	2,888.9	24.9
Internal expend capitalized in fixed assets (1)	94.8	90.1	5.1	41.1	34.3	19.7
Operating expenses	(7,381.9)	(5,881.3)	25.5	(2,500.2)	(1,785.7)	40.0
Other net operating income (expense)	(12.1)	(55.2)	(78.1)	29.2	(6.9)	c.s.
EBITDA	4,755.0	4,581.9	3.8	1,177.1	1,130.6	4.1
Depreciation and amortization	(1,673.4)	(1,516.0)	10.4	(511.9)	(380.1)	34.7
Operating profit	3,081.6	3,065.9	0.5	665.3	750.5	(11.4)
Profit from associated companies	(39.6)	(80.7)	(50.9)	(8.1)	(23.8)	(65.9)
Financial net income (expense)	(369.3)	(416.6)	(11.4)	(119.9)	(130.6)	(8.2)
Amortization of goodwill	(103.0)	(116.4)	(11.5)	(35.6)	(32.0)	11.0
Extraordinary net income (expense)	(92.7)	(7.5)	C.S.	(70.0)	(13.0)	n.s.
Income before taxes	2,476.9	2,444.7	1.3	431.7	551.0	(21.7)
Income taxes	(893.7)	(889.0)	0.5	(176.6)	(222.3)	(20.5)
Net income before minority interests	1,583.2	1,555.7	1.8	255.0	328.7	(22.4)
Minority interests	37.2	38.6	(3.7)	21.5	16.2	33.0
Net income	1,620.4	1,594.3	1.6	276.5	344.9	(19.8)

Note: Telefonica Cellular Business includes Telefónica Móvil Chile.

(1) Including work in process..

Results by business lines

OTHER BUSINESSES

DIRECTORIES BUSINESS

During the year 2004, TPI Group's operating revenues increased by 6.6% to 605.9 million euros, despite the negative performance of Latin American currencies against the euro. The Group's EBITDA amounted to 210.1 million euros, 17.0% higher than the figure of 2003 and net profit grew by 24.2% up to 111.9 million euros. These results are explained by:

- The good performance of advertising revenues within Spain, which improved by 4.4% compared to 2003 up to 411.7 million euros.
- The revenues of Publiguías, the Chilean subsidiary, increased by 1.9% in local currency, despite the non publication of Adenda, the addendum of the Santiago de Chile residential White Pages directory, a biannual book. However, advertising revenues showed a sound evolution, growing at 6.8% in local currency. EBITDA improved 5.0% also in local currency, with an increase of 1.1 percentage points in the EBITDA margin up to 37.6%.
- TPI Brazil experienced a decrease in revenues of 9.6% in local currency due to more strict receivables and sales policies. However, during the fourth quarter, publishing revenues climbed by 15.5% like for like. TPI Brasil reduced its negative EBITDA by 3.7% in local currency to -4.9 million euros, being newly affected by higher bad debt provisions coming from 2003.
- The increase in total revenues at TPI Peru of 8.4% in local currency. It must be highlighted the contribution of the Internet business, which experienced a revenues increase of 61.4% and accounts for 6.8% of total advertising revenues. EBITDA rose by 30.5% up to 7.8 million euros, also in local currency, due to efficiencies in costs.

With these results, TPI easily exceeds the initial 2004 year-end forecasts announced during May 2004 of growth at constant exchange rates in revenues (+3/+5%) and EBITDA (+9/+11%). At constant rates, revenues increased by 7.4% and EBITDA by 17.6%.

España, which includes the revenues of TPI Edita (former Goodman Business Press), increased its contribution to Group's revenues by 2 percentage points up to 80.0%. EBITDA contribution of TPI Spain amounted 85.6% of total Group's EBITDA. Excluding the revenues of TPI Edita, TPI España revenues rose by 8.9% to 484.7 million euros, mainly due to the following three factors:

- The Editorial business, which grew by 3.0% up to 371.9 million euros. This division registered an organic growth, like for like, of 2.1% and 5.6% experienced by the 110 Yellow Pages directories (105 directories in 2003) and the 60 White Pages directories (62 directories in 2003), respectively published.
- The advertising revenues related with the Internet Business, which rose by 16.4% up to 31.0 million euros and the advertising revenues related to telephony information services, which reached 4.5 million euros, registering an increase of 14.7%.
- And the strong performance achieved by the telephony traffic business line (11888), whose revenues soared by 95.2% up to 46.6 million euros, and represents 9.6% of total TPI Spain revenues.

In turn, EBITDA of Spain jumped by 18.3% up to 180.2 million euros, thanks to the good evolution of operating revenues and cost control.

Latin America contributed with the remaining 20.0% of revenues and 14.4% of EBITDA (positive EBITDA of 30.3 million euros). TPI Chile was the biggest Latin American contributor to both revenues (73.7 million euros) and EBITDA (27.7 million euros).

In turn, the directories business of the Telefónica Group, which includes the Argentinean company Telinver, recorded during 2004 an increase in total revenues of 6.6% up to 628.1 million euros compared with 2003. EBITDA amounted 215.2 million euros, representing a year-on-year increase of 16.9%.

**TPI - PÁGINAS AMARILLAS GROUP
SELECTED OPERATING DATA IN SPAIN**
Unaudited figures

	January - December		
	2004	2003	% Chg
Books Published			
Yellow Pages*	110	105	
White Pages	60	62	
<i>(Euros in millions)</i>			
Revenue Breakdown (1)			
Advertising	411.7	394.5	4.4
Publishing	371.9	361.2	3.0
Yellow Pages	296.3	291.1	1.8
White Pages	69.1	66.1	4.5
Others paper revenues	6.5	4.0	63.8
Internet	31.0	26.7	16.4
Operator Assisted Yellow Pages	4.5	4.0	14.7
Others	4.3	2.7	59.9
Telephony Traffic	46.6	23.9	95.2
Operator	24.9	24.6	1.4
Others	1.6	2.4	(33.9)

* Includes a breakdown by residential/business services and pocket guides.

(1) TPI España includes Telefónica Publicidad e Información S.A. and 11888 Servicio de Consulta Telefónica S.A.U. results. TPI Edita (former Goodman Business Press) is not included.

TPI - PÁGINAS AMARILLAS GROUP
CONSOLIDATED INCOME STATEMENT
Unaudited figures (Euros in millions)

	January - December			October - December		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	605.9	568.6	6.6	160.7	148.2	8.4
Operating expenses	(395.8)	(389.0)	1.7	(111.7)	(106.7)	4.7
EBITDA	210.1	179.6	17.0	48.9	41.5	7.9
Depreciation and amortization	(24.5)	(30.0)	(18.1)	(8.5)	(10.9)	(22.2)
Operating profit	185.6	149.6	24.0	40.4	30.5	32.3
Profit from associated companies	(0.6)	(1.2)	(46.1)	(0.1)	(0.2)	(23.5)
Financial net income (expense)	(2.9)	(2.6)	9.7	(1.4)	0.1	c.s.
Amortization of goodwill	(6.6)	(3.0)	115.9	(1.3)	(0.8)	n.s.
Consolidation adjustments	0.0	0.6	N.S.	0.0	0.0	n.s.
Extraordinary net income (expense)	(0.4)	(0.8)	(53.9)	0.0	0.3	(93.1)
Income before taxes	175.1	142.5	22.9	37.6	30.0	25.4
Income taxes	(63.8)	(48.9)	30.5	(17.9)	(10.9)	63.9
Net income before minority interests	111.3	93.7	18.9	19.7	19.1	3.4
Minority interests	0.5	(3.6)	c.s.	0.0	(0.1)	c.s.
Net income	111.9	90.1	24.2	19.7	19.0	4.1

DIRECTORIES BUSINESS
CONSOLIDATED INCOME STATEMENT
Unaudited figures (Euros in millions)

	January - December			October - December		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	628.1	589.3	6.6	175.8	163.5	7.5
Internal expend capitalized in fixed assets (1)	0.0	0.0	n.s.	0.0	0.0	n.s.
Operating expenses	(378.7)	(375.9)	0.8	(111.2)	(111.4)	(0.1)
Other net operating income (expense)	(34.2)	(29.4)	16.4	(11.4)	(6.5)	75.3
EBITDA	215.2	184.0	16.9	53.2	45.6	16.5
Depreciation and amortization	(25.1)	(30.8)	(18.3)	(8.5)	(11.1)	(23.4)
Operating profit	190.1	153.3	24.0	44.6	34.5	29.4
Profit from associated companies	(0.6)	(1.2)	(46.1)	(0.1)	(0.2)	(23.5)
Financial net income (expense)	(6.0)	(6.6)	(8.3)	(2.2)	(0.6)	260.0
Amortization of goodwill	(6.6)	(2.5)	165.6	(1.3)	(0.8)	71.6
Extraordinary net income (expense)	(2.4)	(1.7)	42.3	(1.4)	0.2	c.s.
Income before taxes	174.4	141.4	23.4	39.6	33.1	19.7
Income taxes	(62.3)	(48.9)	27.5	(16.4)	(10.9)	50.2
Net income before minority interests	112.1	92.5	21.2	23.2	22.2	4.7
Minority interests	0.5	(3.7)	c.s.	(0.1)	(0.2)	(60.5)
Net income	112.6	88.8	26.9	23.2	22.0	5.2

Note: Telefónica Directories Business includes Telinver (Argentina).

(1) Including work in process.

TERRA NETWORKS GROUP

In 2004, the **operating revenues** obtained by Terra Networks amounted 539.2 million euros, representing a decrease of 1.1% over 2003. It is important to highlight that the year on year variation is affected by the changes produced in the consolidation perimeter with the sale of Lycos, Inc. shares in October 2004. Therefore, excluding this variation and the negative impact in exchange rates fluctuations, total revenues would have increased 8%.

The Strategic Alliance with Telefónica Group has reached a revenue figure for Terra Networks Group of 133.8 million euros at the end of December 2004 compared with 101.1 million euros obtained in the same period of 2003.

The revenues breakdown by business line was as follows: 43.8% Access revenues (+7.0% y-o-y), 22.1% Advertising and Online revenues (-16.3% y-o-y), 22.6% Value added & Contents services revenues (+2.8% y-o-y) and the remaining 11.5% Corporate Services and others revenues (-2.4% y-o-y).

Regarding the geographical revenues breakdown, Spain continues to be the biggest contributor, weighting 44.4% of total revenues (37.2% in 2003), followed by Brazil with 27.5% of total revenues (26.1% in 2003) and USA with 16.2% of total revenues (23.1% in 2003). The remaining 11.9% mainly comes from Mexico (5.5%) and Chile (5.3%).

During 2004, Terra España experienced a year over year revenues growth of 18.3% to 220.3 million euros, mainly due to the growth registered in both ADSL access subscribers (+14.0%) and VAS&Contents subscribers (+55.9%). As of December 31st, 2004, Terra España accounts for 336,259 paying subscribers, of which 147,223 are narrowband clients and 189,036 are broadband clients. Moreover, Terra España has 2.1 million paying customers that have signed up for VAS & Contents products. During this fourth quarter, it should be mentioned, among the new products and services launched, the migration of ADSL Home clients to ADSL Plus platform in order to increase portfolio quality and migrate all clients to higher value-added products. It is also important to highlight the launch of Football and Music, two news products that were followed by an important advertising investment.

Brazil revenues stood at 148.8 million euros, registering an increase of 4.4% over 2003 (+9.8% in local currency). Terra Brasil has exceeded the 1.25 million paying access subscribers figure, of which 724,728 are broadband clients. Terra consolidates its leadership in Brazil in access paying subscribers in internet, and holds more than 50% market share in the broadband market. During this fourth quarter, it should be mentioned, among the new products and services launched, the incorporation of new European tournaments in the Sports channel and the packages (UEFA and European Championships) for mobile and Internet.

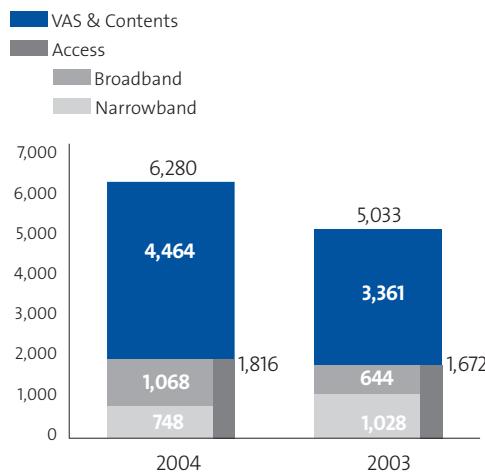
EBITDA for 2004 stood at 20.9 million euros, representing a positive EBITDA margin of 3.9% (-7.2% in 2003), compared with the negative 39.5 million euros reached in 2003. This margin improvement has been possible through higher revenues coming from our main markets and savings obtained in all operating expenses. It should be mentioned the sharp decrease in personal costs (-20.0% in 2004) due to the headcount reduction carried out during 2004 (-28.8% to 1,606 employees).

The Alliance with Telefónica registered coverage of the value committed for the whole year (79.6 million euros) of 101.3%.

Terra Networks registered a **positive net income** of 164.0 million euros compared to a net loss of 172.7 million euros in 2003. Due to the incorporation of Terra Networks within the fiscal perimeter of Telefónica Group during the year, Terra Networks materialized in 2004 a tax credit of 306.5 million euros coming mainly from the sale of Lycos Inc.. Also in 2004, Terra Networks recognized an **extraordinary loss** of 25.8 million euros mainly resulted from the headcount reduction carried out.

TOTAL PAY CUSTOMERS

(Data in thousands)



At the end of December 2004, Terra Networks's client base reached 6.3 million paying subscribers (+24.8% over 2003). Access clients accounted for 1.8 million (+8.6% vs. 2003), of which more than 1.1 million are broadband clients, the majority of them being ADSL (+66.0% y-o-y).

It should be mentioned that 71.1% of the company's total paying customers had signed up for VAS & Contents products. These clients have increased 32.8% in the last twelve months up to 4.5 million, of which 3.2 come from the Strategic Alliance with Telefónica.

At the end of December 2004, Terra Networks had a cash position of 529 million euros.

TERRA NETWORKS GROUP**SELECTED OPERATING DATA***Unaudited figures (Thousands)*

	December		
	2004	2003	% Chg
Total Pay Subscribers	6,279.9	5,032.5	24.8
Access	1,815.7	1,672.0	8.6
Narrowband	747.6	1,028.4	(27.3)
Broadband	1,068.0	643.6	66.0
OBP (CSP/Portal)	4,464.3	3,360.5	32.8
Broadband Access Subscribers by Country	1,068.0	643.6	66.0
Spain	189.0	165.9	14.0
Latin America	879.0	477.7	84.0
Employees (units)	1,606	2,255	(28.8)

TERRA NETWORKS GROUP**CONSOLIDATED INCOME STATEMENT***Unaudited figures (Euros in millions)*

	January - December			October - December		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	539.2	545.1	(1.1)	132.9	155.0	(14.3)
Internal expend capitalized in fixed assets (1)	0.7	0.9	(20.1)	0.1	0.2	(69.1)
Operating expenses	(510.4)	(577.8)	(11.7)	(114.1)	(145.7)	(21.7)
Other net operating income (expense)	(8.7)	(7.7)	12.5	(2.3)	(1.9)	22.9
EBITDA	20.9	(39.5)	c.s.	16.5	7.6	117.0
Depreciation and amortization	(79.5)	(78.7)	1.0	(31.3)	(21.6)	44.9
Operating profit	(58.6)	(118.2)	(50.4)	(14.8)	(14.0)	5.7
Profit from associated companies	(14.6)	(34.7)	(58.1)	(1.7)	(19.7)	(91.4)
Financial net income (expense)	18.3	57.7	(68.3)	1.9	30.7	(93.7)
Amortization of goodwill	(64.8)	(82.3)	(21.2)	(5.9)	(19.9)	(70.6)
Extraordinary net income (expense)	(25.8)	4.5	c.s.	4.0	(12.9)	c.s.
Income before taxes	(145.6)	(173.0)	(15.9)	(16.4)	(35.8)	(54.1)
Income taxes	306.5	(0.3)	c.s.	277.1	(0.0)	c.s.
Net income before minority interests	160.9	(173.2)	c.s.	260.7	(35.8)	c.s.
Minority interests	3.1	0.5	n.s.	0.1	0.1	56.2
Net income	164.0	(172.7)	c.s.	260.8	(35.7)	c.s.

(1) Including work in process.

ATENTO GROUP

The last quarter of 2004 reflected the results of the commercial effort made throughout the year, consolidating the revenue growth registered since the beginning of the year. By geographical countries, the commercial agreements that have contributed the most to this evolution are as follows:

- In Brazil, the operations with VIVO, Unibanco and Telesp, which continued with a sound growth rate, and the new clients Bradesco, Microsoft, Telemig and Sul América.
- In Spain, the agreement with BBVA and the services with Gas Natural, Repsol and Serviberia.
- In Mexico, the increased activity with BBVA and the consolidation of the agreements with Amex, Infonatel, GE Seguros and British American Tobacco.
- In Puerto Rico, the agreement with AT&T.
- In Chile, the sales coming from Correos de Chile, Autopista Central and Banco París.
- In Venezuela, the services with Electricidad de Caracas and Citibank.
- In Argentina, the increased activity with TASA and Unifón.

Atento Group **operating revenues** during 2004 amounted to 611.7 million euros, 24.1% more than in the same period of 2003. This increase was primarily due to Atento Spain (revenues +29.4%), Atento Brazil (revenues +18.3%), Atento Mexico (revenues +68.2%), Atento Argentina (revenues +77.4%) and Atento Puerto Rico (revenues +71.6%). Excluding the negative exchange rate effect, revenues would have increased by 28.4%. During the fourth quarter, the revenue growth trend experienced since the second quarter of 2004 was consolidated, reaching the highest level of revenues in the history of the Atento Group (178.9 million euros).

The contribution of the external clients of the Telefónica Group continued its upwards trend, reaching 44.1% of total revenues at the end of 2004, compared with 37.0% in December 2003, as a result of the aforementioned commercial progress.

By geographical regions, both Spain and Brazil contributed with 71.4% of total revenues, the same percentage as in 2003, although Spain individually increased its contribution to 39.0% (37.5% in 2003) and Brazil, in turn, reduced it to 32.4% (33.9% twelve months ago). Regarding the remaining countries, Mexico increased its contribution (7.1% vs. 5.2% a year ago), as well as Argentina (2.7% vs. 1.9% in December 2003) and Puerto Rico (2.8% vs. 2.0% twelve months ago).

Operating expenses registered in 2004 a growth of 22.2% up to 524.0 million euros (+26.3% in constant euros), primarily due to an increase in personnel expenses (+25.4%) as a result of greater activity.

ATENTO GROUP
CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December			October - December		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	611.7	493.0	24.1	178.9	136.3	31.2
Operating expenses	(524.0)	(429.0)	22.2	(154.0)	(111.8)	37.7
Other net operating income (expense)	3.1	2.5	23.9	1.1	1.0	3.4
EBITDA	90.8	66.5	36.6	25.9	25.5	1.4
Depreciation and amortization	(36.4)	(52.2)	(30.3)	(8.2)	(11.5)	(28.8)
Operating profit	54.4	14.3	N.S.	17.7	14.0	26.3
Financial net income (expense)	(17.6)	(30.3)	(42.0)	(4.3)	(6.2)	(31.3)
Amortization of goodwill	(6.0)	(6.9)	(12.2)	(1.5)	(1.6)	(8.3)
Extraordinary net income (expense)	(4.5)	2.9	c.s.	(0.2)	1.0	c.s.
Income before taxes	26.3	(20.0)	c.s.	11.7	7.2	63.8
Income taxes	(6.5)	4.6	c.s.	(4.2)	(3.7)	12.5
Net income before minority interests	19.8	(15.5)	c.s.	7.5	3.4	119.5
Minority interests	(1.6)	(0.8)	103.3	(0.6)	(0.4)	46.4
Net income	18.2	(16.2)	c.s.	6.9	3.0	130.3

Cumulative **EBITDA** for the year stood at 90.8 million euros, a figure 36.6% higher than in 2003 (+44.3% excluding the exchange rate effect). EBITDA margin rose to 14.9%, a 1.4 percentage points improvement on the figure twelve months ago. This margin places the Atento Group among the most profitable companies in the "Contact Center" sector.

The operating profit for 2004 amounted to 54.4 million euros compared with the 14.3 million euros registered during January-December 2003, due to a higher EBITDA and a decrease in depreciations (-30.3% year-on-year) as a result of the degree of maturity achieved in operations.

Net income in 2004 reached 18.2 million euros (-16.2 million euros compared to 2003). During the fourth quarter of 2004, the Atento Group recorded a **positive net income** of 6.9 million euros for the fifth consecutive quarter.

At operating level, the Atento Group had 30,566 positions in place at December 31st 2004, 4,866 more than one year ago. The average number of occupied positions for 2004 was 22,116, representing a level of occupation of 75% (74% in 2003).

Cumulative **CapEx** at the end of the fourth quarter totaled 22.8 million euros, showing a year-on-year increase of 76.5%. This increase was mainly due to the investments made by Atento Brazil to attend new services and clients at the new Contact Center in São Bento and at the extended call center in Barra funda, as well as the opening of new platforms in Spain to attend new services and the implementation of the new call center in Chile (Viña) and Mexico (Puebla).

Finally, **operating free cash flow** (EBITDA-CapEx) reached 68.0 million euros compared with the 53.6 million euros generated in 2003.

CONTENT AND MEDIA BUSINESS

The Content and Media Business obtained **operating revenues** of 1,219.1 million euros at 2004 year end, compared with the 1,378.5 million euros registered during the same period of last year, mainly due to the consolidation by the global integration method of the results of Antena 3 and its subsidiary Onda Cero until the end of June 2003, along with Euroleague Marketing during the first nine months of the year. These companies were subsequently removed from the consolidation perimeter of the Telefónica Group. Without taking into account these changes in the consolidation perimeter, consolidated revenues would grow 10.9% in relation to the same period of the previous year, mainly due to the positive performance of Endemol and ATCO in Argentina.

The consolidated **EBITDA** amounted to 182.6 million euros, compared with 210.3 million euros in 2003. Without taking into account the aforementioned changes in the consolidation perimeter, the EBITDA growth would have been 9.2%.

The process of divestiture of non-strategic assets continued during the fourth quarter of 2004, being totally removed from the consolidation perimeter the Group's stake on Rodven, the Venezuelan music producer, and having agreed the sale of Torneos y Competencias, the owner of the Argentinean football league content rights. Furthermore, Telefónica has reached to a selling agreement with Prisa Group in relation to the ownership of the Argentinean radio stations LS4 Radio Continental and Radio Estéreo (100% owned by ATCO Group), subject to final approval by the Argentinean competition defence authorities.

ENDEMOL

The Endemol Group generated **revenues** of 1,033.7 million euros during the year 2004, which was 13.1% more than in the previous year. Endemol obtained **EBITDA** of 180.9 million euros, up by 9.9% year-on-year, and it is noteworthy to highlight the achievement of an EBITDA margin of 17.5%, in line with the previous year's figure.

These results are due primarily to the good behavior of operations in competitive markets where Endemol has operations, like United Kingdom and the USA. The US subsidiary reached a year-on-year increase of 128.1% in revenues, measured in local currency, due to the successful adaptation of Endemol format library to the US market and the rebroadcast of past produced TV programs through a local TV channels group, leaded by NBC. Even though Western Europe continues to be the main contributor to Endemol Group revenues (76.7%), Endemol USA represents the 13.2% in 2004 vs. 7.2% in 2003.

ATCO

Throughout the year 2004, the advertising market in Argentina has consolidated the good trend initiated in 2003, having registered year-on-year growth of approximately 39% in Capital and Gran Buenos Aires areas. At the end of 2004, Telefé reaffirmed its position as the audience leader both on total population and commercial audience, reaching 37.8% and 40.9% shares in these two metrics, respectively, and followed by Canal 13, its main competitor, with 27.4% and 30.3% shares.

As a result of the aforementioned audience figures, cumulative advertising market share achieved at the end of 2004 is 44.9% in Capital and Gran Buenos Aires areas, 12.3 percentage points higher than its main competitor's, and 4.5 percentage points higher than the one achieved in the same period of last year. The company obtained revenues at the end of the year of 330.4 million pesos, 38.0% more than in 2003 and EBITDA climbed to 53.9 million pesos, 37.6 million pesos higher than registered at the end of 2003.

CONTENT AND MEDIA BUSINESS CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December			October - December		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	1,219.1	1,378.5	(11.6)	387.2	341.8	13.3
Internal expend capitalized in fixed assets (1)	0.2	0.1	90.8	(0.0)	(0.0)	200.0
Operating expenses	(1,027.9)	(1,179.7)	(12.9)	(328.8)	(287.8)	14.3
Other net operating income (expense)	(8.9)	11.4	c.s.	(2.7)	(4.5)	(39.1)
EBITDA	182.6	210.3	(13.2)	55.6	49.5	12.4
Depreciation and amortization	(30.5)	(49.9)	(39.0)	(9.2)	(10.5)	(11.8)
Operating profit	152.1	160.4	(5.1)	46.4	39.0	18.9
Profit from associated companies	(20.9)	(95.2)	(78.1)	(7.1)	(22.9)	(68.8)
Financial net income (expense)	(104.1)	(61.5)	69.2	(81.0)	(14.4)	n.s.
Amortization of goodwill	(121.1)	(102.5)	18.2	(29.3)	(32.1)	(8.7)
Extraordinary net income (expense)	(32.7)	327.9	c.s.	7.4	367.9	(98.0)
Income before taxes	(126.7)	229.0	c.s.	(63.5)	337.6	c.s.
Income taxes	66.3	(105.1)	c.s.	25.4	(63.8)	c.s.
Net income before minority interests	(60.4)	123.9	c.s.	(38.2)	273.8	c.s.
Minority interests	(5.1)	(4.2)	19.7	(1.7)	0.0	c.s.
Net income	(65.5)	119.7	c.s.	(39.9)	273.8	c.s.

(1) Including work in process.

TELEFÓNICA DEUTSCHLAND GROUP

Telefónica Deutschland Group obtained **operating revenues** of 319.5 million euros in 2004, a decrease of 16.5% year on year, due primarily to the reduction in revenues from narrowband services which has not yet been offset by the increase in broadband business, which nearly accounted for 14.2% of the revenues.

With respect to the broadband business, due to its wholesale nature, a new method of equivalent ADSL lines accounting has been adopted, regarding the total broadband capacity contracted per client. Thus, the total number of equivalent ADSL lines in service for both German and UK markets reaches the figure of 497,180, which compares with the equivalent figure of 302,761 in 2003, providing services to four out of five top main ISPs in Germany.

EBITDA reached a total of 3.5 million euros in 2004, with an EBITDA margin of 1.1% which compares with the 22.3 million euros registered in the previous year.

TELEFÓNICA DEUTSCHLAND GROUP

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - December			October - December		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	319.5	382.7	(16.5)	72.6	94.3	(22.9)
EBITDA	3.5	22.3	(84.3)	(1.0)	11.2	c.s.
EBITDA margin	1.1%	5.8%	(4.7 p.p.)	(1.3%)	11.9%	(-13.2 pp)



03/03

Addenda

Addenda

COMPANIES INCLUDED IN EACH FINANCIAL STATEMENT

Based on what was indicated at the start of this section, the results breakdown of Telefónica Group are detailed according to the business in which the Group has a presence. The main differences between this view and the one that would apply attending to the legal structure, are the following:

- Telefónica, S.A. directly participates in the share capital of Endemol Entertainment Holding, N.V., which has been included in Telefónica de Contenidos Group. Furthermore, in the fiscal year 2003 the results from the participation, and following divestiture, in Antena 3 de Televisión, S.A., were integrated within the Telefónica de Contenidos Group results, although it had been participated directly by Telefónica S.A. through a part of the year. The results from the Sogecable stake have been also assigned to Telefónica de Contenidos Group, even though a part of the investment is legally dependent upon Telefónica, S.A.
- Telefónica Holding Argentina, S.A. holds 4.706% of Atlántida de Comunicaciones, S.A. (ATCO) and 26.82% of AC Inversora, S.A. which, for those purposes, are considered to be part of Telefónica de Contenidos Group, consolidating 100% share capital of both companies.
- In the case of Compañía de Telecomunicaciones de Chile, S.A. (CTC), participated by Telefónica Latinoamérica, the activities of the mobile telephony business in Chile have been sold to Telefónica Móviles Group in the third quarter of fiscal year 2004, although the results of this company have been assigned to the mobile business from the beginning of the year.
- The participation of Telefónica Group in IPSE 2000 SpA is assigned to the cellular business, also including the investment legally dependent upon Telefónica DataCorp, S.A.
- In the case of Telefónica de Argentina (TASA), participated by Telefónica Latinoamérica Group, Telinver has been assigned to the directories business, in line with our vision for the total Telefónica's directories business.
- Telefónica Data Group, legally dependent upon Telefónica S.A., has been segregated and subsequently integrated into the fixed line activities both in Spain and Latin America for presentation purposes, and according to geographic criteria. The stakes not included in either of the previous geographic areas will be consolidated directly by Telefónica S.A. In this sense, the stakes in Telefónica Data España, S.A.U. and Soluciones Group have been sold to Telefónica de España S.A.U. in the third quarter of 2004, although the results of both companies had been assigned to the fixed line business in Spain from the beginning of the year.
- Emergia Group, now denominated Telefónica International Wholesale Services América, S.A. (Uruguay), directly participated by Telefónica S.A., has been consolidated within the Telefónica Latinoamérica Group.

Addenda

KEY HOLDINGS OF THE TELEFÓNICA GROUP AND ITS SUBSIDIARIES DETAILED BY BUSINESS LINES

TELEFÓNICA GROUP

	% Part
Telefónica de España	100,00%
Telefónica Móviles	92,46%
Telefónica Latinoamérica	100,00%
TPI Group	59,90%
Terra Networks Group (1)	75,87%
Telefónica de Contenidos	100,00%
Atento Group	91,35%

(1) Effective participation: 76.80%. Including Terra's shares in treasury stock.

TELEFÓNICA DE ESPAÑA GROUP

	% Part
Telyco	100,00%
Telefónica Telecomunic. Públicas	100,00%
Telefónica Soluciones Sectoriales	100,00%
Telefónica Empresas España	100,00%
T. Soluciones de Informática y Comunicaciones de España	100,00%

TELEFÓNICA LATINOAMÉRICA GROUP

	% Part
Telesp	87,49%
Telefónica del Perú	98,19%
Telefónica de Argentina	98,03%
TLD Puerto Rico	98,00%
CTC Chile	44,89%
Telefónica Data Colombia	65,00%
Telefónica Empresas Brasil	93,98%
Telefónica Empresas Perú	97,07%
Telefónica Data Argentina	97,92%
Telefónica Data USA	100,00%
T. International Wholesale Serv. (TIWS)	100,00%

TELEFÓNICA MÓVILES GROUP

	% Part
Telefónica Móviles España	100,00%
Brasilcel (1)	50,00%
TCP Argentina	97,93%
TEM Perú	97,97%
T. Móviles México	92,00%
TEM El Salvador	91,75%
TEM Guatemala	100,00%
Telefónica Móvil Chile	100,00%
Telcel (Venezuela)	100,00%
TEM Colombia	100,00%
Comunicaciones Móviles del Perú	99,85%
TEM Guatemala y Cía	100,00%
Otecel (Ecuador)	100,00%
TEM Panamá	99,57%
Abiatar (Uruguay)	100,00%
Telefónica Celular Nicaragua	100,00%
Group 3G (Alemania)	57,20%
IPSE 2000 (Italia) (2)	45,59%
3G Mobile AG (Suiza)	100,00%
Medi Telecom	32,18%
Telefónica Móviles Interacciona	100,00%
Mobipay España	13,36%
Mobipay Internacional	50,00%
T. Móviles Soluciones y Aplicac. (Chile)	100,00%

(1) Joint Venture which fully consolidates TeleSudeste Celular Participações, Celular CRT Participações, TeleLeste Celular Participações and Telesp Celular Participações. Telesp Celular Participações fully consolidates Global Telecom Participações and, from May 2003, TeleCentro Oeste Participações.

The participation that consolidates of Brasilcel in their subsidiaries in December 2004 are the following: TeleSudeste Celular Participações 90,9%; Telesp Celular Participações 65,1%; Global Telecom Participações 65,1%; Celular CRT Participações 65,9%; TeleLeste Celular Participações 50,6% and TeleCentro Oeste Participações 33,0%.

(2) Additionally, Telefónica Group has a 4,08% of IPSE 2000 through Telefónica DataCorp.

TPI - PÁGINAS AMARILLAS GROUP

	% Part
TPI Edita	100,00%
Publiguías (Chile)	100,00%
TPI Brasil	100,00%
TPI Perú	100,00%
11888 Servicios de Consulta Telefónica	100,00%

ATENTO GROUP

	% Part
Atento Teleservicios España, S.A.	100,00%
Atento Brasil, S.A.	100,00%
Atento Argentina, S.A.	100,00%
Atento de Guatemala, S.A.	100,00%
Atento Mexicana, S.A. de C.V.	100,00%
Atento Perú, S.A.C.	99,46%
Atento Chile, S.A.	77,58%
Atento Maroc, S.A.	100,00%
Atento El Salvador, S.A. de C.V.	100,00%

TERRA NETWORKS GROUP

	% Part
Lycos Europe	32,10%
Terra Networks Perú	99,99%
Terra Networks México	99,99%
Terra Networks USA	100,00%
Terra Networks Guatemala	100,00%
Terra Networks Venezuela	100,00%
Terra Networks Brasil	100,00%
Terra Networks Argentina	99,99%
Terra Networks España	100,00%
Terra Networks Chile	100,00%
Terra Networks Colombia	99,99%
Ifigenia Plus	100,00%
EducaTerra	100,00%
R.U.M.B.O.	50,00%
Uno-E Bank	33,00%
One Travel.com (1)	54,15%

(1) In February 2005, the agreement of sale has been reached.

TELEFÓNICA DE CONTENIDOS GROUP

	% Part
Telefénico	100,00%
Endemol	99,70%
Torneos y Competencias (1)	20,00%
Telefónica Servicios de Música	100,00%
Sogecable	23,83%
Telefónica Servicios Audiovisuales	100,00%
Hispasat	13,23%

(1) In January 2005, it has been sold.



04

Risk management

Telefónica

INTRODUCTION

The Telefónica Group is exposed to diverse risks on the financial market due to (i) its ordinary business, (ii) the debt acquired to finance its business, (iii) shareholdings in companies, and (iv) other related financial instruments related to the previous points.

The main market risks that affect the companies in the Group are:

1. Exchange rate risk

This arises mainly due to the international presence of Telefónica, with investments and business in non-euro currency countries (mainly in Latin America), and due to the existence of debt in currencies other than those of the countries where business is conducted, or where the companies that have taken the debt are based.

2. Interest rate risk

This is embodied in the variation in (i) the financial costs of variable rate debt (or that with short term maturity, and foreseeable renewal), due to fluctuation in the interest rates, and (ii) the value of the long term liabilities with fixed interest rates (the market value of which rises when the interest rates drop).

1. Share price risk

This is due to the variation in value of the stakes that are not consolidated globally or proportionally, or which may be sold, of products derived from these, of own shares in portfolio, and of those derived from shares.

Moreover, the Group faces the risk of liquidity, which arises due to the possibility of imbalance between the needs of funds (due to operating and financial expenses, investment, debts that have matured and dividends committed) and the sources of these (revenue, divestments, financing commitments with financial institutions and operations on capital markets).

Lastly, it is important to highlight the so-called "country risk" (mixed with market and liquidity risks), which consists of the possibility of loss of value of the assets or decreased flows generated or sent to the parent company, due to political, economic and social instability in the countries in which the Telefónica Group operates, particularly in Latin America.

The Telefónica Group actively manages the risks mentioned, in order to stabilise:

- The cash flows, to facilitate financial planning and take advantage of investment opportunities.
- The Profit Account, to facilitate its understanding, and investor prediction.
- The value of the equity, protecting the value of the investment made.

In cases in which these objectives are mutually exclusive, the financial management of the Group will evaluate which must prevail.

In its risk management, Telefónica uses derivative financial instruments, mainly on exchange rates, interest rates and shares.

Exchange Rate Risk

The fundamental objective of exchange risk management is to compensate (at least partially) possible losses of value of assets related to the Telefónica business caused by depreciation of the exchange rate to the euro, with lesser savings in euros on the debt in currency (when this is depreciated).

For this purpose, the aim has been set for the decrease in EUR value of the debt in currency to cover the flows lost over two years due to the lower value of the Latin American currencies. Our estimates show that the loss in value of the Latin American currencies throughout 2003 and 2004 (in comparison to the levels of 2002 in

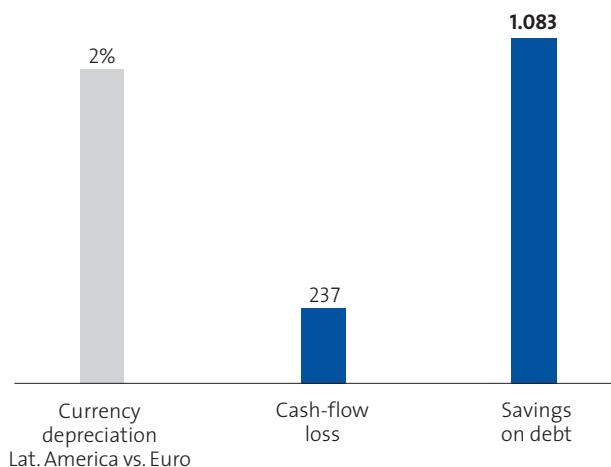
relation to the euro) has detracted 237 million euros from the flows generated by the Group in these two years. On the other hand, the effects of the depreciation of currency on our debt have brought savings of nearly 1.083 billion euros upon translating the debt in currency to euros. Thus, the accumulated loss of flows over the last two years has been comfortably covered. When this effect is measured against 2004 (compared with the interest rates of 2003 in relation to the euro), lost flows of 18 million euros are observed, more than compensated by savings of 223 million euros in lesser value (when measured in euros) of the debt in currency.

The protection against future depreciations of Latin American currencies in relation to the euro is based, firstly, on the debt in Latin American currencies. Excluding Mexico (which is a net receiver of flows) on 31st December, the debt in Latin American currencies (other than the Mexican peso) reached nearly 3.38 billion euros and was equivalent to 2.1 times the flows generated in Latin America (excluding Mexico).

However, this debt is not uniformly distributed as a proportion of flows generated in each country, so their future effectiveness in terms of protection against exchange rate risks will depend on where the eventual depreciations may take place. The greatest potential problem may arise in Venezuela, with a net cash position (instead of a net debtor position), which is subject to losses due to devaluation, and as such, does not offer coverage against potential cash flow losses.

Moreover, protection against losses of value of the Latin American assets due to currency effects is complemented by indebtedness in dollars in Spain, associated with investment, while the coverage is considered to be effective. On 31st December, this debt came to the equivalent of 2.4 billion euros, excluding USD-Eur derivatives which created a composite loan in dollars (for the equivalent of 0.96 billion euros) to finance the acquisition of the Argentinean and Chilean subsidiaries of Bell South (this acquisition took place in January 2005).

YEARS 2003 - 2004
(Data in % and millions of euros)



Another core strategy in exchange rate management has been to minimise negative financial results caused by variations in exchange rates without affecting the possibility of maintaining open positions in currencies in the future (under strict monitoring of the risk). Difficulties presented in minimising risk have arisen due to the virtual impossibility of covering the external debt in dollars of the Argentinean subsidiaries through derivatives, which totalled the equivalent of 652 million euros at 31st December 2004. The loss suffered in 2004 due to exposure to the Argentinean peso was limited to 11 million euros. In the future, the adoption of international accounting principles will allow the Group's internal loans to be eliminated in the consolidation process, in order to calculate exchange rate results. The combination of external debt in currency and the use of derivatives will enable the compensation, at least in part, of the exchange rate effects of the intra-group loans on the profit account.

Interest Rate Risk

The financial costs to Telefónica are exposed to fluctuations in interest rates, mainly the Euribor, the Brazilian SELIC rate, the Chilean UF, and the dollar Libor. On 31st December 2004, 59.2% of the total debt (or 83.3 % of the long term debt), had its rate set for a period exceeding one year, an identical proportion to that on 31st December 2003 (that represented 68.9% of the long term debt).

The financial costs in 2004 came to 1.1834 billion euros, 12% greater than those in 2003. However, excluding profits due to movements of the Argentinean peso and the positive exchange rate results in 2003 due to debt in dollars, the figures would be 1.173 billion euros in 2004 and 1.463 in 2003, which would entail a 19.8% decrease in adjusted financial costs in 2004 with respect to 2003. This figure of financial expenses in 2004 amounted to an average cost of 6.1% on the average net debt of the year. The strong increase in the Brazilian SELIC rate (with

an average rate of 16.25% in 2004, against 23.53% in 2003), low euro rates and the average net debt decrease (around 7%) explain the reduction in financial costs.

Throughout 2004, the proportion of debt at variable rate in euros was reduced by taking advantage of low interest rate levels, and rates were fixed at around 4 billion euros of debt with maturity after 2004. The debt in dollars taken by the Group (and not transformed to other currencies by exchange rate derivatives) was maintained at fixed rates practically throughout. The new debt in dollars taken to finance acquisitions in Latin America was covered by interest rate options or swaps, in anticipation of a dollar interest rate increase which was already underway. Additionally, the dollar Libor influenced only the formation of prices of coverages for purchase in dollars on term, against sale of Latin American currencies, which is especially relevant in the case of Chile and Peru.

However, options were sold on a nominal of 400 million euros in swaps which, if exercised by the counterpart, would have caused the interest rates to be fixed in some cases, paying levels lower than those in effect at the time of sale of the option, while in other cases, it would have involved receiving rates higher than those in effect at the time of sale of the option (in exchange for paying a variable rate). Two hundred million euros of these options were exercised at a rate of 3.80%.

Share Price Risk

One of the variable yield risks to which Telefónica is exposed is that due to the price of its own shares, as a result of the share repurchase scheme announced in October 2003, for an estimated amount of 4 billion euros up to 2006 (inclusive), linking the cash flow generation and the evolution of the share price.

On 31st December 2004, Telefónica S.A. held more than 207 million own shares. Under

international accounting principles applicable in 2005, these shares will reduce private equity and effects on the consolidated profit account will not be recognised.

Telefónica held purchase options for 8 million own shares, with maturity in the first quarter of 2005. Thus, there is a certain protection in that if the listed value rises, purchases become more expensive and fewer shares may be acquired for the pre-set amount. The maximum economic loss that may be experienced in this case is the premium paid on the option, if at maturity the price of the share is below the exercise price; however, in such case, Telefónica may purchase its shares on the market at a lower price.

Telefónica is also exposed to the fluctuations in the prices of shares in subsidiary companies, especially to the extent that these are not integrated in its core business and may be subject to divestments. In 2004, the most significant divestment was the sale of the 4.88% stake in Pearson Plc, for an approximate sum of 350 million euros, which generated a decrease of 33 million euros in consolidated accounts (although after taxes a profit of 56.5 million euros was obtained, since prior to the sale provisions due to goodwill depreciation were non-deductible).

Liquidity Risk

Telefónica aims to adapt the maturity profile of its debt to its capacity to generate cash flows to pay it, maintaining a certain margin. In practice, that has led to the monitoring of two criteria:

1. The average maturity of Group debt must be higher than the time required to pay the debt (assuming fulfilment of the internal projections, and all the flows generated being allocated to payment of the debt, and not to dividends or acquisitions).
2. The group must be able to pay off all its commitments in the coming 12 months,

without having to resort to further loans or the capital markets (but maintaining the credit lines already firmly committed by financing institutions), assuming budgetary fulfilment.

On 31st December, the average maturity of the net financial debt – 20.982 billion euros- was 4.9 years. At the Investor Conference in October 2003, the Telefónica Group announced that it expects to generate more than 27 billion euros from 2003 to 2006, assuming exchange rates are maintained at 2002 levels. In spite of the weakness of the dollar and its impact on the exchange rates of Latin American currencies with respect to the euro, the existing cash flow margin allows confidence that the first criteria was being fulfilled on 31st December 2004.

The gross maturity of debt in 2005 (9.413 billion euros) was proven to be less than liquid assets, with the sum of (i) the liquid assets on 31st December in the amount of 3.579 billion euros (temporary financial investments in the amount of 2.724 billion euros and cash and bank balances in the amount of 855 million euros), (ii) the annual cash generation (which amounted to 6.743 billion euros in 2004), (iii) divestments agreed upon in 2004 carried out in the first quarter of 2005 (sale of Infonet for 139 million dollars) and (iv) the lines of credit committed by banking firms with initial maturity exceeding one year, or extendable on option by Telefónica (7.213 billion euros on 31st December, of which 3.831 billion euros reached maturity in 2006 or subsequent years, while others, totalling more than 1.1 billion euros, were renewed beyond the end of 2005 at the beginning of the year). The existing margin allows the accommodation of dividend payment of 50 cents per share (about 2.4 billion euros) and the acquisition of the Latin American mobile phone companies of Bell South in Chile and Argentina made in January 2005 (by which the entire acquisition transaction would be completed).

Despite the measures put into place to guarantee its liquidity, Telefónica considers the

possibility of easy access to the capital markets to be of high importance for the development of its business plans and strategy, and for the management of its liabilities, and therefore, the legal or tax restrictions on such access can have a negative effect on the Company. Likewise, to maintain access to swift credit, on good conditions in price and terms, Telefónica keeps watch on the balance between the risk of its business and its financial structure, as well as the main credit ratios¹. The following table shows these ratios and the variables involved in their calculation.

2004 Operating figures

I	EBITDA	13,215.4
II	Free Cash Flow	7,180.0
III	Capex	3,771.9
IV	Dividends of Telefónica S.A.	1,924.2
V=II+III-IV	Cash Flow Withheld (before capex)	9,027.7

Liabilities at December 2003

A	Financial Debt	20,982.2
B	Guarantees	608.7
C	Net commitments for staff reduction	3,022.8
D=A+B+C	Total debt + Commitments	24,613.7
E	Preferred Shares	2,000.0

Financial ratios

Financial Debt / EBITDA	1.59
Total debt + Commitments / EBITDA	1.86
Cash Flow Withheld (before apex)	
Total Debt + Commitments + Pr. Shares	34%

¹. Credit scoring agencies also adjust ratios due to operational leasings and other commitments.

Country Risk

The perception of sovereign risk in the majority of Latin American countries ended 2004 at the best levels in the last 5 years (with the exception of Argentina). Thus, the margin of profitability required by investors for the sovereign debt of Latin American countries over the United States debt reached minimum levels on 31st December 2004: 3.83 percentage points for Brazil, 1.67 percentage points for Mexico, 2.20 percentage points for Peru, 4.12 percentage points for Venezuela, 6.90 percentage points for Ecuador and 3.32 percentage points for Colombia. As a reference, it is fitting to mention that between 1999 and 2004, the debt of all of these countries was valued, at some point, at more than 9 additional profitability percentage points over United States treasury bonds². At the end of 2004, Argentina maintained a situation of non-payment on close to 82 billion dollars (105 billion if we add unpaid accrued interest), offering a bond exchange in 2005 to resolve this situation.

The main cause for the improvement in sovereign risk lies in the continuation throughout 2004 of macroeconomic stability which has been in effect since the previous year in Latin America, due to the substantial improvement in balances of payments and the historic 5.5% growth, the highest in the past 24 years. The historic current account surplus achieved in the region would suffice to explain the improvement in the credit ratings, following a continual 3-year period of improvements in trade figures, but the use of this surplus is what is most outstanding on this front. Thus, the region made an early debt repayment for the amount of 18 billion dollars, allowing the reduction of its external indebtedness by nearly 1 GDP percentage point which, combined with the accumulation of close to 10 billion dollars in reserves, entailed a substantial improvement in the aforementioned country risk indicators.

². According to the EMBI index by JP Morgan.

Although the macroeconomic outlook suggests stability and the economic policies are adequate, it is essential to bear in mind certain risks still present on the microeconomic front which continue to divert the countries in the region with respect to other more economically developed countries. Among these risks are regulatory discretion, the large number of bureaucratic procedures required in the corporate environment and the rigidity of certain productive factor markets, data which prevents growth greater than that recorded via investment and productivity. Similarly, an additional effort is required in the way of reform of the tax and education systems that would further promote the human development achievements attained in the past few years in the region.

Telefónica took advantage of the situation to increase exposure in the region through the acquisition of the Bell South subsidiary mobile phone companies, for a company value equivalent to 5.85 billion dollars. Most of this acquisition was performed during 2004, with the exception of that of the subsidiary companies in Chile and Argentina, which closed in January 2005. A significant part of the assets acquired is located in countries with great sovereign risk (Argentina, Venezuela, Ecuador and Colombia), although diversification increases upon increasing the number of countries in which the Group is present and balancing the fixed -mobile composition.

The improved setting and positive expectations are no obstacle for Telefónica to continue with its strict monitoring of the risk of unforeseen loss of value of Latin American assets due to possible social, economic or political instability. In this respect, Telefónica has continued to act along two major lines (apart from ordinary management of the business):

1. To partially compensate the assets with liabilities in Latin American companies not guaranteed by the parent company, so an

eventual loss in assets is accompanied by a reduction in liabilities, and

2. To repatriate the funds generated in Latin America that are not expected to be put to profitable use in the future, through business opportunities in the region.

The acquisition of the Bell South companies entailed the assumption or guarantee of the debt of these companies, without the undertaking to date of a refinancing exercise, which should largely be addressed in 2005.

As to repatriation of funds, in 2004, 2.016 billion euros were received from Latin America, most in dividends or capital reductions (1.573 billion) and the rest in interest and principal on loans to the Latin American subsidiaries and for management fees. The flow of funds continued in the opposite direction toward Mexico, where Telefónica Móviles made material investments amounting to 377 million euros to launch the GSM network and had operational needs arising from a negative EBITDA of 144.9 million euros.

Derivative Policy

On 31st December 2004, the nominal amount of derivatives exposure came to 38.660 billion euros. This volume is so high because derivatives may be applied several times to the same debt for an amount equal to its face value; for example, a debt in currency may be transferred to euros at a variable rate, and then on each one of the interest rate periods, rate fixing may be performed using an FRA. Even so, it is necessary to exercise extreme caution when using derivatives so as to avoid problems due to errors or lack of knowledge of the real position and its risks.

The policy followed in use of derivatives has placed emphasis on the following points:

- i. Existence of a clearly identified underlying value, on which the derivative is applied, as a valid possibility for coverage accounting.

Among the acceptable underlying values are the results, revenue and flows expected in currency other than the euro, which is reasonably secure or foreseeable, even if these do not adapt to the criteria required by the accounting regulations for treatment as coverages. The coverages with economic sense in the Group's opinion do not always fulfil the requirements and effectiveness tests established by the different accounting regulations to be treated as such coverages; the decision to maintain them once the effectiveness test is not passed leads to entering the results in the Profit and Loss Accounts. For the purpose of recalculating the 2004 financial costs under the new international accounting principles applicable in 2005, a large part of the derivative portfolio has been treated as speculative, for the sake of simplicity (to avoid costly retrospective documentation and for ease in calculation), given that the vast majority of the derivatives matured during the year or had symmetrical treatment with the covered item (impacting the profit account measured at market value). In this sense, coverage relationships have been modified according to changes in treatment that the IFRS gives to certain transactions with respect to previous regulations, such that with the economic sense of the coverages remaining completely valid, the impact on the profit account, together with the underlying values to which they were assigned, was limited.

ii. Adjustment between the underlying value and one of the sides of the derivative, with the greatest possible precision.

This adjustment is aimed especially at the debt in foreign currency and derivatives of coverage of payments in foreign currency; however, even when a perfect coverage of the flows is sought, the scarce depth of the Latin American derivative markets has led to historical imbalances between the characteristics of the coverages and the debts covered. It is the intention of the

Telefónica Group to reduce these imbalances, so long as this does not involve disproportionate transaction costs. On other occasions, the coverages have been made in holding firms (Telefónica S.A., Telefónica Móviles S.A. and TISA) while the debt was maintained at other subsidiaries, which has led to the operations not fulfilling the coverage criteria required by the accounting regulations and the results being entered in the Profit and Loss Accounts. The main reasons for that separation between the coverage and the underlying value have been the possibility of differences in the legal validity of the local coverages against the international ones (due to unforeseen legal changes) and the different credit quality of the counterparts (of the companies in the Group involved as well as the banking institutions). On the other hand, interest rate derivatives may also suffer imbalances with the underlying values covered, especially when these are of shorter terms, as when Telefónica goes into long term swaps, caps, or collars to protect itself against rises in interest rates that may raise the financial costs generated by the promissory notes and commercial paper, with maturity in a few months, although the successive renewal of which is very probable.

iii. Capacity to evaluate the derivatives at market prices, using the value calculation systems available in the Group.

Telefónica uses several tools to evaluate and manage the risks of derivatives and of the debt. Of particular importance among these tools is the Kondor+ system, licensed by Reuters and widely used by numerous financial entities.

iv. Sale of options only when there is an underlying exposure (recorded in the balance or associated with a highly probable external flow) that counters the potential loss of exercising the option.

In 2004, Telefónica sold short term options on swaps at euro interest rates, which gave the counterpart the right to enter a swap receiving a specific fixed interest rate, lower than the prevailing level at the time of selling the option; thus, if the rates dropped, Telefónica would transfer part of its debt at variable rate to fixed rate, at lower levels to the initial ones, having collected a premium.

The directives for risk management are issued by the General Management of Corporate Finance of the Telefónica Group and implemented by the financial managers of the companies (ensuring they are in keeping with both the individual interests of the companies and those of the Group). The General Management of Corporate Finance may authorise deviations on this policy for justifiable reasons, normally due to the narrowness of the markets or clearly limited, reduced risks. Likewise, the entry of companies in the Group through acquisitions or mergers, requires time to adapt.

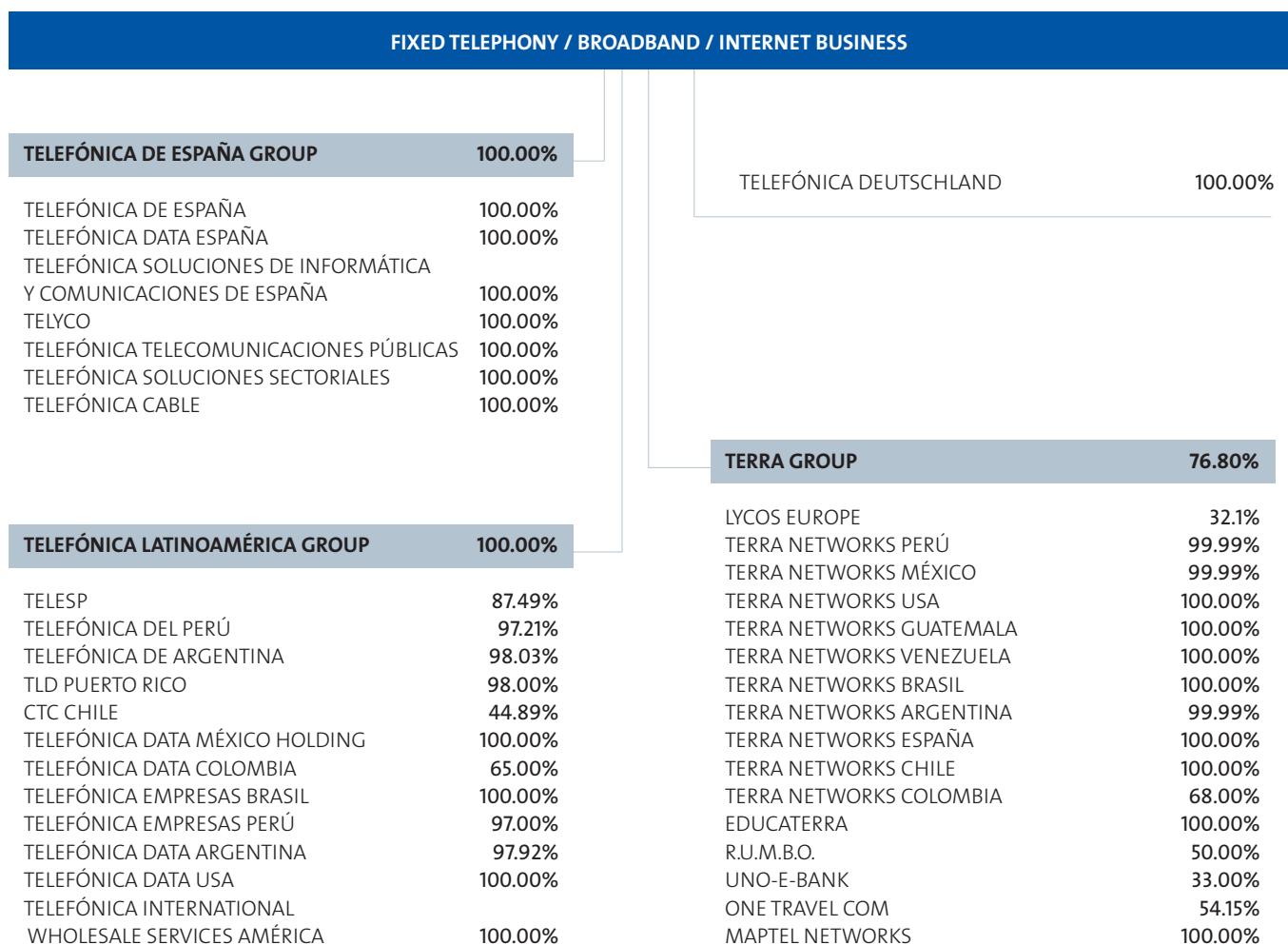


05

Group Structure

Telefónica

Group Structure





MOBILE TELEPHONY BUSINESS		OTHER BUSINESSES	
TELEFÓNICA MÓVILES GROUP		TELEFÓNICA PUBLICIDAD E INFORMACIÓN (TPI) GROUP	
TELEFÓNICA MÓVILES ESPAÑA	100.00%	PUBLIGUÍAS (CHILE)	100.00%
BRASILCEL ¹	50.00%	TPI BRASIL	100.00%
TCP ARGENTINA	97.93%	TPI PERÚ	100.00%
COMPAÑÍA DE RADIOCOMUNICACIONES MÓVILES (ARGENTINA)	100.00%	11888 SERVICIO DE CONSULTA TELEFÓNICA	100.00%
TEM PERÚ	97.97%	TPI Direct	100.00%
COMUNICACIONES MÓVILES DE PERÚ	99.85%	TPI Edita	100.00%
TELEFÓNICA MÓVILES MÉXICO	92.00%		
TEM EL SALVADOR	91.75%		
TEM GUATEMALA	100.00%		
TEM GUATEMALA Y CÍA	100.00%		
GROUP 3 G GERMANY	57.20%	ATENTO TELESERVICIOS ESPAÑA	100.00%
IPSE 2000 (ITALY) ²	49.67%	ATENTO BRASIL	99.999%
3 G MOBILE AG (SWITZERLAND)	100.00%	ATENTO MEXICANA	99.998%
MEDI TELECOM (MOROCCO)	32.18%	ATENTO PUERTO RICO	100.00%
MOBIPAY ESPAÑA	13.33%	ATENTO CHILE	70.0008%
MOBIPAY INTERNACIONAL	50.00%	TELEATENTO PERÚ	70.00%
TELEFÓNICA MÓVIL CHILE	100.00%	ATENTO VENEZUELA	100.00%
BELLSOUTH CHILE	100.00%	ATENTO MARRUECOS	100.00%
OTECEL (ECUADOR)	100.00%		
ABIATAR (URUGUAY)	100.00%		
TEM COLOMBIA	100.00%		
TELCEL (VENEZUELA)	100.00%	TELEFÉ	100.00%
TELEFONÍA CELULAR DE NICARAGUA	100.00%	ENDEMOL	99.47%
TELEFÓNICA MÓVILES PANAMÁ	99.57%	SOGECABLE	23.83%
		TELEFÓNICA SERVICIOS AUDIOVISUALES	100.00%
		HISPASAT	13.23%
		TORNEOS Y COMPETENCIAS	20.00%
ATENTO GROUP		TELEFÓNICA DE CONTENIDOS GROUP	
		100.00%	

1. Joint Venture that consolidates TeleSudeste Celular, CRT Celular, TeleLeste Celular and Telesp Celular Participações by global integration. The shareholding acquired in TeleCentro Oeste is incorporated into Telesp Celular Participações as of May, 2003. The Brasilcel's stakes in its subsidiaries are as follows: TeleSudeste Celular: 90.89 %, Telesp Celular: 65.12 %, Celular CRT: 66.97 %, Teleleste Celular: 50.58 % and TeleCentro Oeste: 50.65 %

2. Includes Telefónica Data's 4.08% stake in Ipse 2000.



06

Complementary Information

06/01	review	06/02	glossary	06/03	Index of tables and graphs
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Telefónica

06/01

Review

JANUARY

- The President of the Telefónica Group, César Alierta, sets out the Company's strategy – which sees the customer as key to growth – in his closing speech at Telefónica de España's Annual Directors' Conference.
- Telefónica Móviles selects Ericsson and Siemens as its radio access network suppliers in phase two of its UMTS network deployment in Spain. Telefónica Unifón announces its intention to expand its mobile telephony network in Argentina using GSM/GPRS technology. In Morocco, Médi Telecom wins the Moroccan Government's National Quality Award for 2003. At the beginning of financial year 2004, the operator boasted over 52 million active customers.
- Telefónica unveils the first services based on IPv6 technology at the IPv6 Global Launch Event in Brussels.
- Telefónica de España launches the integrated management of international end-to-end data circuits for corporations and major companies who need to connect head offices in Spain with other offices in France, the UK or Germany.
- Telefónica Empresas announces it will embark on the very first telemedicine project in Chile, among the first of its kind in South America.
- A new section is added to Telefónica's website for Spain, www.telefonica.es, featuring the online version of all the annual reports published by the Company since it was founded in 1924.
- Rumbo, the travel agency half-owned by Terra and half by Amadeus, acquires

Despegar.es, thus consolidating its leading position in Spain.

- Nokia chooses Grupo Atento to handle calls from Latin America. Atento Argentina starts handling calls from Chile and Argentina. The service is introduced at regional level at its initial stage.
- Telefónica and the Fundación pro Real Academia Española (RAE) sign a new partnership agreement to encourage the application of new technologies in promoting the correct usage of Spanish.

FEBRUARY

- At a forum organised by Telefónica de España in Madrid, the major European operators (BT, France Télécom, Telecom Italia, Portugal Telecom, TeleDanmark and Telia Sonera) reach agreements designed to increase their competitiveness within the context of the new Telecommunications legislation in effect in the European Union.
- Imagenio – Telefónica de España's integrated video- and audio-on-demand, digital interactive TV and broadband Internet access service – goes on sale in Madrid and Barcelona.
- Telefónica Móviles España launches Oficin@ MoviStar UMTS, the first GPRS/UMTS data card.
- Telefónica signs an official sponsorship agreement with racing driver, Fernando Alonso, and the French motor-racing team, Mild Seven Renault F1 Team, for the upcoming years.
- Atento Perú becomes the only Peruvian company in the sector to be awarded ISO 9001 Quality Certification.



- The Telefónica Foundation and the Fundación San Millán de la Cogolla set up the very first Spanish research portal to promote Internet-based learning of Spanish.
- Telefónica I+D (Telefónica's R&D division) receives one of the international IST 2004 Awards for AGORA, a groundbreaking multilingual dialogue management system designed for a new generation of voice services based on natural language, mainly voice portals. In addition, improvements continue in voice technologies with new products and languages, making them more accessible to customers. Telefónica I+D also creates a new pilot–Tunel broker – that allows Spanish Internet users to access new generation Internet products without having to use other European or American pilots. At the end of the year, over 1,000 users had begun working with the new pilot.
- Terra expands its Internet security product range with the Spanish launch of Terra ADSL Seguro and its Kit Seguridad (Antivirus and Firewall).
- For the third year running Fonditel Pensiones, the Telefónica's pension plan provider, receives the award from the magazine, *Mi Cartera de Inversión*, for Best Pension Plan Provider. Two of its new pension funds also win the *Expansión/Standard & Poor's* Award for Best Pension Funds of the Year.

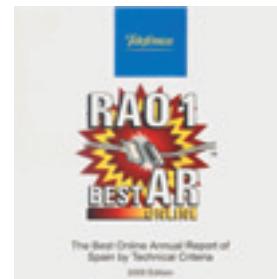
MARCH

- Telefónica completes the purchase of BellSouth's mobile operators in Latin America. The acquisition is conducted through the subsidiary, Telefónica Móviles.

- Four Telefónica Group employees are killed in the Madrid terrorist bombings on 11 March.
- At the Telefónica Latinoamérica Annual Directors' Conference in São Paulo the Executive Chairman of Telefónica, César Alierta, unveils "Customer Commitment", Telefónica Latinoamérica's new customer-orientation programme. The aim of the programme is to turn the Company's operators into customer-oriented organisations with a view to maintaining profitable and sustainable growth.
- Grupo TPI increases its stake in Publiguías, the leading directory publisher on the Chilean market, up to 100% of its share capital.
- Telefónica de España cuts its international call charges and raises the subscription fee for individual lines. With this latest reduction, its international call charges have been cut by some 67.7% since 1996.
- Atento España takes control of all the Postal System's customer service operations.

APRIL

- Telefónica puts together its Catalonia Advisory Council, chaired by Isidro Fainé – Vice President of Telefónica and General Manager La Caixa. The primary goal of this new regional Council is to reinforce the Company's institutional presence and to serve as support for its corporate relations in this Autonomous Community.
- In conjunction with the Spanish Royal Family, Telefónica Empresas creates the official website for the wedding of the Prince of Asturias and Letizia Ortiz Rocasolano.



- Telefónica I+D heads the BioSec project, an initiative co-funded by the European Union that aims to develop research into biometrics.
- The Brazilian operator, Vivo – a subsidiary of Telefónica Móviles – attracts its 22 millionth customer, after having recruited 1.34 million new customers in the year so far. The mobile phone operators' alliance formed by Telefónica Móviles, Orange, TIM (Telecom Italia Mobile) and T-Mobile launches its new service, FreeMove. Made up of the leading operators in the UK, France, Germany, Italy and Spain, the alliance serves nearly 170 million customers in 21 European countries and nearly 230 million customers worldwide.
- t-gestiona España creates an International Mobility Unit to respond to the needs of personnel posted to other companies within the Telefónica Group.

MAY

- Telefónica's Ordinary General Shareholders' Meeting approves the resolutions required to execute the Company's shareholder remuneration policy for the financial year 2004. The policy involves paying a dividend of €0.40 per share and the buyback of own shares representing up to 5% of the share capital.
- César Alierta opens the Telefónica Group's new head office in Mexico. Mexican President Vicente Fox also stresses the strategic importance of Mexico to the Telefónica Group, and the country's intention to consolidate its position as a long-term investor. He announces investments totalling \$600m in 2004 and his commitment to a \$1,500m investment programme up to 2006.

- Telefónica Móviles launches the first mobile UMTS video-telephone services in Spain.
- Telefónica CTC Chile accepts an offer from Telefónica Móviles to acquire a 100% stake in Telefónica Móvil Chile, a subsidiary of Telefónica CTC. Telefónica Móviles agrees to take on the debt of Telefónica Móvil Chile, which stood at \$243m as of 31 March 2004.
- TPI launches a new Internet product, www.CalleaCalle.com, a street-by-street directory of business and commercial establishments that is totally unique in Spain.

JUNE

- Telefónica adheres to the European Telecommunications Network Operators' Association's Sustainability Code and showcases its best practices linked to Corporate Social Responsibility at the Forum Barcelona 2004. It is also recognised as the Spanish company providing the most transparent and reliable corporate and financial information on the Internet by the Spanish Association of Accounting and Business Administration (AECA) at its Third Annual Awards.
- Telefónica, in addition to the Group's other companies listed on the stock market, adapts its website to the Corporate Transparency Act and the new regulations of the Securities and Exchange Commission (CNMV) by creating a new section: www.telefonica.es/accionistaseinversores, designed to become the main communication channel with shareholders and investors. At the beginning of 2005 the website, along with the Online Report, receives the first two Investor Relations



Websites and Online Annual Reports Global Rankings and Awards (known as the MZ Awards).

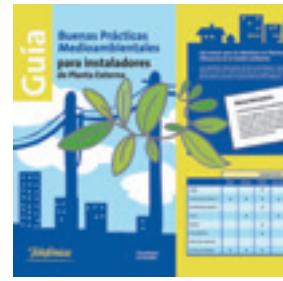
- The Telefónica Group and Intel Corporation sign a wide-ranging strategic partnership agreement to develop advanced mobile and broadband voice and data communication products and services, and to work on new business opportunities together.
- Telefónica Móviles announces its decision to join up with other major mobile phone operators and form part of an international organisation – OMTP – whose objective is to lay down globally recognised guidelines for the creation of an open mobile handset platform.
- The total number of ADSL lines installed in Spain reaches the two million mark. Telefónica de España also strengthens its position as the Wi-Fi market leader. The operator completes migrations from the TRAC analogue telephone lines to other technologies such as copper access/MUXFIN or GSM/GPRS technology. It launches its 11822 telephone information line following deregulation of Spain's telephone information services. Telefónica also wins the award for Best Employee Portal 2004 for e-domus and the European Seal of Excellence awarded by the European Foundation for Quality Management.
- La Caixa signs an agreement with Telefónica Empresas for the integrated outsourcing of its communications services.
- Through the Risolidaria ColaboraOnline website, the Telefónica Foundation lends its support to the Spanish Red Cross to help the victims of the floods that hit Haiti and the

Dominican Republic. Telefónica's Risolidaria portal is declared by the Argentinian Ministry of Social Development as a website "of social interest".

- Páginas Amarillas (part of the TPI Group) wins The Brand Council's Topbrand 2004 Award for most valued brand following a survey conducted by Sigma Dos.
- Telefónica Investigación y Desarrollo de México is founded to assist the technological development of the Group in Mexico.
- Telefónica I+D participates as a technological partner in a European project for tele-education in Latin America.

JULY

- According to the "General Report on Quality of Service in Relation to the Provision of Fixed Telephone Services in Spain" Telefónica de España is now the country's reference point in terms of quality. It also wins the palmOne Award for the best Wi-Fi solution. The number of TdE handsets sold reaches the one million mark, and the "España Directo" service handles nearly two million calls during the summer. In the first half of the year, the Company's SMS Web service registers nearly 23 million messages between fixed telephones and between fixed and mobile phones. At the end of the month, the Company announces that the speed of its ADSL lines will be doubled at no extra cost to users. The main marinas on the Spanish coast begin signing up for the Company's expanding Wi-Fi coverage.
- Telefónica Móviles México announces the incorporation of EDGE technology into its GSM Network, and signs a commercial



alliance with Avantel covering the latest innovations in fixed and mobile telephony. The Company launches its new GSM Network in El Salvador. The operator is ranked eighth in Business Week magazine's "Information Technology 100", a global industry list based on financial indicators.

- The European Union's Trade Marks Office selects Telefónica Empresas as its technological partner. The EU's Research Framework Programme ranks Telefónica as the leading European Group in innovation and Telefónica I+D as the number one Spanish company in terms of participation. Elsewhere, nearly 700 residential users sign up for the pilot phase of Telefónica I+D's new-generation Internet service.
- In 2003, over 20,000 organisations and 14 and a half million people benefited from the more than 200 projects organised by the Telefónica Foundation, according to data collated in its annual social report for that year.
- The shareholders of Telefónica CTC Chile approve the sale of Telefónica Móvil de Chile to Telefónica Móviles.
- Atento México and Centroamérica take over management of the Institute of National Housing Fund's information and customer support service. The institute is a government agency responsible for channelling funding to housing for workers.
- Through its operators in Argentina, Brazil, Chile and Peru, Telefónica Latinoamérica's ADSL service reaches the 1,050,000 customer mark, thus strengthening its position as the leader in all the markets it operates in, boasting a 64% share of the broadband market.

AUGUST

- Brasilcel, a joint venture between Telefónica Móviles and Portugal Telecom providing mobile phone services in Brazil under the trade name Vivo, announces its intention to launch a public offering of part of the shares outstanding in some of its subsidiaries. These latest initiatives reflect Telefónica Móviles and Portugal Telecom's continued commitment to the Brazilian mobile phone market and to Vivo.
- Thanks to Terra and Telefónica Móviles, users can follow the Olympics by mobile phone for the first time in Spain.
- Following the approval of the Boards of Directors of both companies, Terra Networks and Daum Communications, the leading Internet portal company in Korea, sign a buy-and-sell agreement for all the shares in Lycos Inc., a subsidiary of Terra.
- Telefónica de España launches "Canguro Net Publicidad", a new service for blocking spam.
- Ancert, the Spanish notarial certification agency, reaches an agreement with Telefónica Empresas to deploy its private virtual network within a period of six months. The network will be one of the largest and most advanced in Spain and will allow the notarial profession to improve its internal processes and how it manages relations with Government and financial bodies.

SEPTEMBER

- Telefónica is listed on the European and global indices of the Dow Jones Sustainability Index (DJSI), comprised of sustainability leaders in all sectors.



- In Brazil, Terra and Telefónica both receive awards as “the most admired companies in Brazil”. Terra Networks and Google sign an agreement with a view to improving the quality of Terra’s search engine in all its portals in Spain and Latin America.
- Telefónica sells its 4.88% stake in Pearson in a deal worth €350m. It also signs an agreement with the Spanish Federation of Municipalities and Provinces (FEMP) to sponsor the exhibition “25 Years of Democratic Town and City Councils”. The agreement is but one feature of Telefónica’s support for government in promoting the development of the Information Society.
- The process to double the speed of all the Company’s ADSL lines in Spain at no extra cost to the customer gets underway, due for completion at the end of November. In Chile, Telefónica CTC Chile doubles the speed of Internet access for 100,000 broadband customers on the same day the initiative is announced. In the first half of the year more than 170,000 users accessed TdE’s videoconferencing service, Simulcom. The Company’s answerphone service handles over 40 million messages a month.
- Telefónica and the Community of Madrid sign an agreement to extend line 10 of Metronorte underground system and begin work on the construction of a metro station at the Company’s new head office in the Communication District. The agreement will lead to improved public transport infrastructures and access to the new business zone.
- Telefónica Soluciones is awarded NATO’s Facility Security Clearance Certificate, essential to negotiating or participating in

classified NATO projects and contracts. Telefónica Soluciones is the first company in the Telefónica Group to be awarded this certificate.

- The Autonomous City of Ceuta awards the contract for a global solution to develop the initiative, “Ceuta Ciudad Digital” (Ceuta: Digital City) to Telefónica Empresas.

OCTOBER

- Telefónica creates its Andalusia Advisory Council, chaired by Fernando de Almansa Moreno-Barreda, a Director of Telefónica and Chairman of its International Affairs Committee.
- Telefónica announces that it is the official sponsor of the Broadband World Forum Europe 2005, one of the biggest international events in the broadband industry.
- Telefónica International Wholesale Services and Singapore Telecom sign an agreement by which Telefónica Wholesale will provide Singapore Telecom with connections for its circuits in New York. The agreement will make the Group business division a key supplier in Europe and Latin America.
- Telefónica Móviles completes the 100% takeover of BellSouth’s mobile phone operators in Ecuador, Guatemala, Panama, Venezuela, Colombia, Peru, Nicaragua and Uruguay. The acquisitions mark the end of the second phase of purchases framed within the agreement signed between the Telefónica Group and BellSouth on 8 March. The takeover of BellSouth’s 10 mobile phone operators in Latin America will be completed in January 2005 with the acquisition of the remaining two: Movicom, BellSouth’s mobile



phone operator in Argentina; and BellSouth Comunicaciones (BellSouth Chile). Brasilcel, the joint venture between Telefónica Móviles and Portugal Telecom, reached its objectives with the public offerings of part of the shares outstanding in some of its subsidiaries.

- Telefónica Móviles España launches its Web Messenger service allowing SMS messages to be sent to fixed and mobile phones from a PC. Additionally, in conjunction with the Zaragoza City Council, it also unveils the "Ciudad Móvil" (Mobile City) project, a series of mobile telephony-based information services for citizens.
- The Executive Chairman of Telefónica, César Alierta, announces investments of more than \$2bn over a four-year period to the President of Argentina, Néstor Kirchner. At another meeting, this time with the President of Brazil Luis Inácio Lula da Silva, Alierta gives an overview of the Company's activities in the country since it commenced operations there in 1998 and confirms investments of some €700m per year over the next few years.
- Repsol YPF and Telefónica sign an agreement for the installation of Wi-Fi wireless Internet access at 40 service stations in Spain. These facilities will be available to customers 24 hours a day.
- For the fourth year running, Fonditel Pensiones wins several prizes for best pension fund provider and best pension plans at the annual awards organised jointly by Radio Intereconomía and Morningstar.
- Telefónica Unifón reaches the three million customer mark, and in the last month it handles over 100 million text messages. Vivo,

Telefónica Móviles' subsidiary in Brazil, secures its 25 millionth customer

- Telefónica de España cuts its fixed-to-mobile call rates by 10%. This latest reduction, added to the cuts in international rates in April, rounds off the Price Cap forecast for 2004.
- TPI broadens its offer of specialised directories targeted at professionals and the upper economic sectors, with the launch of a new vertical product: the NAN Hotel and Restaurant Guide.
- Researchers from Telefónica I+D and PT Inovação meet in Zaragoza to discuss the latest technologies within the framework of the 2nd Portuguese-Spanish Forum on Innovation in Telecommunications, FLEIT 2004, opened by César Alierta.

NOVEMBER

- Telefónica sets itself the objective to become the world's biggest and best integrated telecommunications group: the best in terms of customer orientation, innovation, operational excellence and leadership, and commitment to its employees; and the biggest with regard to growth and profitability for its shareholders, and to the market value of its operators. This is the vision set out by César Alierta in his closing speech at the Directors Summit in which he speaks of the need for the Company to undergo a process of transformation in order to reach its objectives.
- Telefónica proposes to distribute treasury stock to its shareholders at a ratio of 1:25. The shares originate from the treasury stock acquired by the Company on the market in line with its commitment to buyback this



stock in the medium-term for the period 2003/2006. The initiative is the first of its kind in the European telecommunications sector and will keep Telefónica at the forefront in terms of shareholder remuneration.

- Telefónica receives a visit from a high-ranking Chinese delegation headed by the Vice President of China's State Council, Zeng Peiyang. The visit coincides with Telefónica's decision to open a new office in Beijing.
- Telefónica Móviles collaborates in Spain with Fractus and Siemens to develop the first low-visual-impact antennae using fractal technology. FreeMove, the alliance formed by Orange, Telefónica Móviles, TIM (Telecom Italia Mobile) and T-Mobile for the mobile telephony sector, announces a new, simple and transparent price structure for multinationals that will enable customers to manage roaming costs better on business trips.
- Telefónica de España successfully completes the process to double the speed of its ADSL lines at no extra cost to users. It also launches the digital television service, Imagenio. With this new service, users can enjoy Imagenio's TV and Videoclub package without having to subscribe to the flat-rate, 24-hour Internet access ADSL service.
- In Latin America, Telefónica increases Internet access speed for users of its Speedy service in Brazil and Peru. In Chile, Telefónica CTC Chile now boasts nearly 200,000 customers connected to broadband via Speedy. This figure represents an increase of 89% on the previous year and accounts for 43% of the national broadband market.
- TPI launches the first multilingual online street directory of Spain – the first map

search engine available in seven different languages. In addition, TPI Edita (formerly Goodman Business Press) broadens its offer with two new free magazines in the health and beauty sector: Romantique&Chic and Wapa.

- Telefónica is one of the main sponsors of the Third International Language Conference, "Linguistic Identity and Globalisation", opened by King Juan Carlos of Spain in the city of Rosario, Argentina.
- Telefónica International Wholesale Services, the Telefónica Group international wholesale service supplier, and OTEGlobe, a Greek operator that manages voice services for carriers, sign a strategic partnership agreement to develop a variety of business opportunities.

DECEMBER

- According to the report "The Best Perceived Companies in Terms of Social Action 2004" published by the Business and Society Foundation, the Telefónica Group, MRW and Iberia are the three most valued companies in terms of commitment to social issues while conducting their business activity.
- Telefónica announces its sponsorship of the Prado.es programme, the Museum's new website which will provide visitors with essential information in at least eight languages. The Company also participates in the launch of the NEM (Networked Electronic Media) European industrial initiative to speed up the development of network multi-media broadband services.
- Telefónica Móviles España has already installed more than 2,500 third-generation



base stations serving 40% of the Spanish population. The network covers some 100 cities in all the country's provinces, providing mobile Internet access at a similar speed to broadband services and with the option of making video calls. TME announces that it will invest €1bn up to 2006 in the development of its plan to deploy third-generation infrastructures. It also announces the signing of an agreement to distribute Disney content for mobile phones. The agreement will allow the Walt Disney Internet Group to break into the Spanish mobile phone network.

- Telefónica de España closes 2004 with 345 Wi-Fi access points (Hotspots or ADSL WI-FI Zones), representing nearly a sevenfold increase on the number of coverage areas operational at the end of the previous financial year. In addition, TdE's text messages service exceeds 50 million messages (up 217%).
- The Fonditel Individual Pension Plan is recognised as Best Spanish Pension Fund by Investment & Pensions Europe (IPE).
- This year sees the Telefónica Foundation once again donating the cost of its traditional Christmas gifts to a social cause, in this case the creation of a hundred hospital classrooms in seven countries. It also offers free communication services over the Christmas period to the immediate families of Spanish missionaries and voluntary workers engaged in humanitarian work all over the Third World. The Company also contributed to the South East Asia earthquake disaster relief operation by providing two Movistar global emergency units and an emergency response unit specialising in telecommunications.

- Telefónica's online Christmas greeting is received by nearly 400,000 people, thus increasing the Company's profile in Spain: it is listed second on Google for searches of "felicitación navidad" ("Christmas greeting" in Spanish) for three days during the Christmas holidays.

06/02

Glossary

ACE. Spanish acronym for Electronic Certification Agency – Provides digital certification services for SET transactions. Includes Telefónica, Sermerpa, CECA and Sistemas 4B.

ADSL (Asymmetric Digital Subscriber Line). Transmission technology with a bandwidth which allows information to be sent at a rate of up to 2 Mbit/s.

AITS. Advanced Invoicing of Telecommunications Services.

Alquimia. Project designed to develop Telefónica's presence on the Internet as an integral operator and to use the Net as a special business and communications channel for customers.

ANAM. Automatic Network Answering Machine.

ARPU (Average Revenue Per User). Average monthly income per client per month for mobile telephone use. It includes income from the connection charge, monthly rental charge, traffic and income for outgoing roaming calls and interconnection.

ASP (Active Server Page). Special type of web page containing small programmes (also called scripts) executed in Microsoft Internet Information Servers before being sent to users for viewing as an HTML page. Files of this type have the suffix.asp.

AUTELSI. Spanish Association of Telecommunications and Information Society Users.

B2B (Business to Business). Electronic commerce between companies.

B2C (Business to Consumer). Electronic commerce between companies and end consumers.

B2E (Business to employee). Electronic commerce between companies and employees.

Backbone. Main 'artery' or network referring to transport traffic networks.

BACKUP. Copy of a programme or file saved for security purposes.

Bandwidth. Technical term to describe the difference in Hertz (Hz) between the highest and lowest frequency of a transmission channel.

Banner. Advert contained within a web page.

Blackberry. Trademark of a handheld data handling device to organise e-mail in real time, designed by Research in Motion Limited (RIM), and which Telefónica Móviles has incorporated as part of its services.

Bluetooth. A global wireless communication standard that enables data and voice connections between devices based on a radio frequency link.

CAPEX (Capital Expenditures). Investment in tangible and intangible assets.

Carrier. Telecommunications Operator mainly dedicated to transporting traffic, whether it be national or international.

Cash Flow. The cash generated by a company from its operations within a fixed space of time.

CDMA (Code Division Multiple Access). A type of modulation mainly used in mobile telephone systems.

Cicorp. Corporate information centre for financial analysis by Telefónica.

Ciphering. Treatment given to data to prohibit anyone except the person to whom they are addressed from reading them. There are several types of data ciphering in use which together form the security 'backbone' of a network.

Chat. Simultaneous communication between two or more users over the Internet, using short written messages.

Churn. Number of lost customers shown as a percentage. Calculated as the number of cancelled contracts from amongst the average number of users within the same period.

Communication District or District C. Project to relocate 14,000 of Telefónica's 19,000 Madrid-based employees to the company's new head office in the city (PAU de Las Tablas). The complex covers an area of 200,000 square metres, 20,000 of which will be set aside for shops and services.

Conference Call. Simultaneous multi-audio conversation between several users.

Content Delivery. Value-added service offering the 'intelligent' distribution of content, offered by Internet Data Centres.

CORE. Term used to describe essential or primary businesses.

CRM (Customer Relationship Management). Services aimed at managing customer relations, including tele-assistance, billing, organisation of databases and market research.

CUNE. Information management system that allows income statements to be prepared by

organisational areas, market segments and business lines/services in line with different standards, and which also allows us to meet our obligations with the Regulatory Body as regards the presentation (31 July) of cost accounting results.

Customer Commitment (CC). Telefónica Latinoamérica's customer-orientation programme.

DST. Digital Satellite Television.

DJIA (Dow Jones Industrial Average). Stock exchange index giving information on the behaviour of traditional industries in the United States.

DNS. Domain Name System.

Domain. Group of characters identifying a web site that may be accessed by users.

Download. Process of downloading information from an Internet server to a personal computer.

DVD (Digital Versatile Disc). Evolved version of the Compact Disc that allows films and other information to be stored in a high-quality digital format with multiple audio channels.

EBIT. Earnings Before Interest and Taxes.

EBITDA (Earnings Before Interests, Taxes, Depreciation and Amortisation). Gross result of business operations, calculated as operating income minus operating expenses.

EBITDA Margin. Gross operating costs divided by Operating Costs.

e-Business (electronic business). Intensive use of Internet technologies for running all processes within a company.

e-Commerce. Commercial exchange of goods and services using Information Technologies and Communication networks.

e-Company. Company which uses e-business in all its operations.

EDGE (Enhanced Data Rates for Global Evolution). Technology which increases the bandwidth for transmitting data via GSM and GPRS. One of its main advantages is that it may be added to existing networks.

EDI-Web. Generic term referring to a type of electronic document based on web technology and transferred via Internet.

e-entertainment. entertainment contents.

eEurope. Initiative by the European Commission to introduce the Information Society to all European citizens.

EIRIS (Ethical Investment Research Service). Leading European organisation in research into ethical corporate behaviour. Analyses over 2,800 companies throughout the world.

e-learning. Human resources training system using Internet technology.

e-procurement (achievement). Company developing a horizontal purchasing portal to facilitate purchasing of non-production goods and services offered by BBVA, Repsol, Iberia and Telefónica. Horizontal portal with payment facility and online financial platform.

e-SIF. Global collection system of financial and management information for Grupo Telefónica.

ETNO. European Telecommunications Network Operators' Association. Based in Brussels.

evalong. assessment by direct managers of students completing an online training course.

evatel. assessment by students of a training course they have received.

Extranet. Type of private Internet system (Intranet) that allows the user to connect to a selected number of outside users (customers, suppliers, partners etc.)

Factoring. Financial product whereby a company transfers the commercial credits derived from its sales to another entity. In turn, this entity offers financial and debt-collecting services.

FAQ. Frequently asked questions.

Flash. Technology used to design, illustrate and animate web pages.

Flat rate. Tariff or pricing system applied in general terms, according to criteria of the time of day when used instead of consumption.

Fractal. Technology that enables the size of the cylindrical surrounds housing mobile phone antennae to be reduced.

Free Cash Flow. Cash generated by a company from its operations within a certain period of time.

Free Float. Number of shares available for the share capital of a company which are in circulation and freely available for public purchase.

FTSE4Good Global Index. Index provider offering a complete series of stock market indices based on strict criteria linked to what is termed as socially responsible investment.

Generic Domain. Multi-national domains identified by a series of letters: ".com", ".org", ".edu", ".gov", ".biz", ".info", ".name", ".pro", ".aero", ".museum", or ".coop".

Goal: Customer. Programme run by Telefónica de España structured around four strategic themes: sales promotion, innovation, operational excellence and employees.

GPRS (General Packet Radio Service). Mobile telephone communication service based on the transmission of 'packets' with speeds of up to 114 Kbit/s and an Internet connection.

GSM (Global system for Mobile communication). Mobile telephone system for mobile communication developed in Europe thanks to collaboration between operators, Government bodies and private companies.

Hacker. Individual with extensive knowledge of the internal set-up of systems, computers or computer networks who considers it a challenge to test the security of systems.

Host. In Internet terms, 'host' initially refers to any computer with access to other computers in the network.

Hotspot. Point of access for Wi-Fi technology (wireless Internet connection).

HSDPA. Also referred to as 3.5G. Technology that enables UMTS networks to be adapted in order to download large files at speeds up to 14Mbps - almost 27 times faster than conventional ADSL connections.

HTML (HyperText Markup Language). Computer language used to write web pages accessed by Internet browsers.

HTTP (HyperText Transfer Protocol). Protocol used to transfer Internet documents.

IBEX 35. Spanish stock market index. Made up of the 35 leading stocks selected due to their size and trading frequency.

ICT. Information and Communication Technology.

Imagenio. Telefónica de España's digital interactive television service.

IMEI. The serial number of a mobile phone (similar to a car's chassis number). Prevents, for example, stolen mobile phones from being used.

i-mode. Packet transmission service which allows Internet connection via mobile telephones.

Incumbent. Dominant entity within a given market.

Info XXI. Initiative by the Spanish government to promote the Information Society. "The Information Society for one and all".

Information Society. The Information Society is a stage of social development characterised by the capacity of its members (individuals, companies and civil authorities) to obtain and share any type of information from any given location in the way they prefer.

Input. Internal consumption.

Internet. Digital network with packet switching, based on TCP/IP protocols.

Intranet. Internet-type network for private use.

IP Address. Address defined by Internet Protocol. Usually represented by a series of

numbers separated by decimal points, for example 193.127.88.345.

IPSat Network. Provides Internet access via satellite.

IPv6. Next Generation Internet Protocol. Provides faster connections, is easier to use and improves information access security.

ISDN (Integrated Service Digital Network). Network integrating voice services, data, video etc, using two 64 Kbit/s channels.

ISO. International Standards Organisation.

ISP (Internet Service Provider). Normally profit-making organisation which offers Internet to individuals and companies, as well as providing a series of services, such as website hosting, email services, etc.

IT. Information technology.

Java. Programming language developed by Sun for creating small-scale applications that may be downloaded to the network (called applets), capable of functioning on any type of platform using Internet navigators. Java makes it possible to add dynamic content to web pages.

JavaScript. Language developed by the Netscape Corporation. Although it is similar to Java, the main difference is that programmes are incorporated within the HTML file.

Joint Venture. Agreement between two companies to create a third.

LAN. Local Area Network. Network offering services to a maximum area of a few square kilometres, with transmission speeds of up to 100 megabits per second.

LCD. Liquid Crystal Display; used by new televisions with plasma screens.

Market Capitalisation. The total number of a company's shares multiplied by the price per share.

Marketplace. Internet websites designed for electronic commerce, acting as a meeting point between supply and demand within a virtual marketplace Internet.

MERCO (Spanish Corporate Ethics Monitor). This index publishes an annual list of the top 50 Spanish companies and agencies in terms of corporate prestige and image.

MMS. Multi-Media Messages via mobile telephone incorporating voice messages, images, video and audio.

MOU (Minutes of Usage). Average number of call minutes on air per mobile telephone customer per month. Minutes on air include both outgoing traffic (mobile-fixed phone, mobile-internal mobile, mobile-other mobile operators) and incoming traffic (fixed phone mobile and other mobile operators-mobile).

MPLS (Multiprotocol Label Switching). Technology that enables customers to connect all its offices together and provides more efficient, speedier communication.

Multidomestic. Local operations working alongside international operations. Used with reference to operators, indicating adaptation to the characteristics of local markets by multinational companies.

Multimedia. Digitised information combining different types of information, including text, graphics, static or moving images and audio.

NASDAQ (National Association of Securities Dealers). Computerised quotation system or electronic stock exchange (NASD Automated Quotation system) operating within the USA's stock exchange.

Navigator (Browser). Application to view Internet documents and 'surf' the Internet. Designed for ease of use without any previous knowledge of computers.

Olivencia Report. First report published in Spain (26.02.98) on good governance. Has now become the main code of good governance for listed companies.

OMA (Open Mobile Alliance). International forum created to promote the interoperability of mobile services.

Online. Connected to a network.

Openwave Download Fun. Software providing mobile telephones with multi-media services and contents via SMS and WAP messages.

Outsourcing. Method whereby a company contracts the services of another company to carry out the same type of business it offers, with the aim of reducing costs and improving services.

Palmtop. Small hand-held computer, usually identified with PDA agendas (Personal Digital Assistant).

Partner. Strategic member of a company or organisation.

Pay Per View / Pay Per Use. Type of broadcasting in which a quota must be paid to access the station's contents using a decoder.

PCMCIA. UMTS cards that provide access from a laptop to data services.

Personal Digital Assistant (PDA). Miniature device used as an electronic agenda, more commonly considered as a hand-held computer.

Ping (Packet Internet Grouper). Programme used to check if Internet addresses are available.

Portability. Service which all fixed and mobile telephone operators must offer to their customers, whereby they may change operator, free of charge, without having to change their telephone number.

POS. Public Offer for Sale of shares aimed at the general public.

PPE (Personal Protective Equipment). Equipment designed to protect against hazards threatening the safety of workers and which organisational methods and collective protection have been unable to eliminate.

Pre-allocation. Procedure whereby customers may choose to direct all of their calls (either metropolitan, provincial, inter-provincial, international and from fixed phones to mobiles) using an operator other than Telefónica using direct dialling, without having to dial a prefix.

Price-Cap. New system of maximum annual prices established by the relevant authority.

PROXY. Alternate proxy setting for the Internet.

PTT (Push to Talk). Technology allowing users to connect directly with other users by pressing a button on their handset.

Public Stock Offering. Unlike a POS (Public Offer of Sale), a Public Stock Offering can be subscribed free of charge.

R&D. Research and Development.

R&D and Innovation. Research & Development & Innovation.

Report. Amount that a buyer in a future trading market must pay in order to "double" their position in the following trading month.

RFID. Radio Frequency Identification.

Risk Capital. Capital dedicated to investments carried out by small companies in their early stages, when it is difficult to evaluate the way in which the company will perform in the mid and long term.

Roadshow. Presentations offered in different areas or countries by representatives of a company to inform about the economic and financial situation of the company or about specific areas of its work, prior to the launch of new products, etc.

ROAMING. A function in cellular telephony that allows the system to locate the terminals within it automatically. Provides cellular phone users with direct access to networks outside their providers' home service area.

ROCE (Rate of Return on Capital Employed). A general ratio that measures profitability in relation to the capital invested in a business. Defined as the quotient between NOPAT (Net Operating Profit After Tax: the difference between EBITDA-Amortisation-Taxes) and the Average Net Capital Invested.

SAC (Subscriber Acquisition Cost). Monthly cost for acquiring each mobile phone customer. Includes subventions for terminal costs, commissions for the sales network, and the 'welcome pack'.

SBP. SMEs, Businesses and Professionals.

Search Engine. (Information indexer; search system). Internet service allowing users to search for specific information in any server by typing in a series of words related to the subject in question.

SEC (Securities and Exchange Commission). The U.S. equivalent of the CNMV in Spain.

SMP. In Brazil, long-distance call service outside São Paulo.

SMS. Short Message Service offering GSM mobile telephone users the opportunity to send messages of up to 180 characters using a signalling channel.

Softphone. software specifically for making calls using Voice-over-IP service.

Spam or Spaming. The receipt of unsolicited e-mail sent en masse by companies or individuals.

SRC (Subscriber Retention Cost). Monthly cost of maintaining mobile telephone customers.

SSC (Shared Services Centre). An outsourcing support services provider for different companies.

Stakeholders (Interest Groups). Groups with which large companies maintain contact, either directly or indirectly, and who have a legitimate interest in the said companies: customers, shareholders, investors, employees, partners, the media, suppliers.

S&P (Standard and Poor's 500). New York Stock Exchange index which takes the 500 most important listed companies as its point of reference.

STOCK OPTIONS. Share options granted to company executives and employees in order to foster loyalty.

Streaming. The transmission of audio and video data allowing the user to not have to wait for the information to download completely, but instead to have it available as it is received.

Synergies. The convergence and sharing of resources between different areas or departments within the same system or organisation.

3G or Third Generation. Third generation mobile telephones. (See **UMTS**).

Takeover Bid. Operation in which a company makes an offer for a significant stake in the shares of another company listed on the stock exchange.

TCP/IP (Transmission Control Protocol/Internet Protocol). Family of protocols upon which Internet is based.

TDMA (Time Division Multiple Access). A method for assigning bandwidths in which each channel may access the bandwidth for a specific time period.

TDT (Terrestrial Digital Television). Digital TV platform using terrestrial transmission systems instead of satellites.

TIES. Pay package for company employees linked to shares and share options in the company.

Ubiquitous Viewer. Innovative service that allows PCs to be remotely operated using a mobile phone.

UMTS (Universal Mobile Telecommunications System). Standard for High-speed Broadband mobile telephone communications, developed by the ETSI (European Telecommunications Standards Institute).

URL (Uniform Resource Locator). Unified system for identifying network resources. Addresses of this type allow users to identify Internet sites, Gopher, FTP, Newsgroups, etc.

UWB. An emerging technology also known as Ultra-Wideband providing high bandwidth over short distances and at a low cost.

Video on Demand (VOD). Systems allowing viewers to request and view a specific programme at the time they require, freeze images, rewind or watch it in slow motion, etc.

VOIP (Voice access Over Internet Protocol). New term for telephony via Internet.

WAN. Connectivity between lines providing access to networks and the devices communicating with it.

WAP (Wireless Application Protocol). Protocol giving mobile telephone users interactive Internet access, viewing information on the telephone's screen.

Warrant. An instrument that gives the holder the right to buy one or more shares in a company at a fixed price and within a fixed timescale. Similar to call options but have a longer duration and are also traded on stock markets, whereas options are traded on derivatives markets.

Web. Internet information server. Also used to define web space as a whole.

Website. Group of web pages accessed using a single URL address.

Wi-Fi (Wireless Fidelity). Technology used in a network or wireless connection to enable data communication between devices located in the same coverage area (internal or external).

WiMAX. Wireless access technology providing greater coverage than Wi-Fi technology.

WML (Wireless Markup Language). Shortened version of HTML mark-up language for wireless telephone communications.

WORM. Programme that replicates itself once inside a system causing damage to the network.

WWW (World Wide Web). Widely extended information system, based on hypertext, containing information in a wide range of formats (text, graphics, audio, still or moving images) and is easily accessible by users using navigation programmes.

xDSL (Digital Subscriber Line). Technologies offering a wide bandwidth using a conventional pair cable originally installed for telephone services. ADSL is the system currently in use.

XML (eXtensible Markup Language). Language developed from the HTML language used for web pages to offer new possibilities for transferring information over the Internet. It is used as the basis for Edi-Web.

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07

Financial Information

Telefónica

07/01

Consolidated Annual Financial Statement
and Management Report



Raimundo Fdez. Villaverde, 65
28003 Madrid
España

Tel: +34 915 14 50 00
Fax: +34 915 14 51 80
+34 915 56 74 30
www.deloitte.es

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Stockholders of Telefónica, S.A.:

1. We have audited the consolidated financial statements of Telefónica, S.A. and companies composing the Telefónica Group (see Note 1) comprising the consolidated balance sheet as of December 31, 2004, and the related consolidated statement of income and notes to consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent Company's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. As required by Spanish corporate law, for comparison purposes the directors present, in addition to the 2004 figures for each item in the consolidated balance sheet and consolidated statements of income and of changes in financial position, the figures for 2003. Our opinion refers only to the 2004 consolidated financial statements. Our auditors' report dated February 26, 2004, on the 2003 consolidated financial statements contained an unqualified opinion.
3. In our opinion, the consolidated financial statements for 2004 referred to above present, in all material respects, a true and fair view of the net worth and financial position of Telefónica, S.A. and companies composing the Telefónica Group as of December 31, 2004, and of the results of their operations and of the funds obtained and applied by them in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards in Spain applied on a basis consistent with that of the preceding year.
4. The accompanying consolidated management report for 2004 contains the explanations which the directors of Telefónica, S.A. consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated management report is consistent with that contained in the consolidated financial statements for 2004. Our work as auditors was confined to checking the consolidated management report with the aforementioned scope, and did not include a review of any information other than that drawn directly from the accounting records of the consolidated companies.

DELOITTE, S.L.

Registered in ROAC under no. S0692

Javier Ares San Miguel
March 4, 2005

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25). In the event of a discrepancy, the Spanish-language version prevails.

TELEFÓNICA GROUP CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31
(Millions of euros)

ASSETS	2004	2003
A) FIXED AND OTHER NONCURRENT ASSETS	43,982.13	45,003.93
I. Start-up expenses	409.18	543.59
II. Intangible assets (Note 6)	8,430.02	7,673.16
Research and development expenses	1,256.97	1,189.92
Administrative concessions	7,872.63	6,603.09
Rights on leased assets	55.51	92.77
Other intangible assets	5,184.70	4,306.95
Accumulated amortization and allowances	(5,939.79)	(4,519.57)
III. Property, plant and equipment (Note 7)	23,348.14	24,315.78
Land and structures	6,626.27	6,071.16
Plant and machinery	2,089.89	2,385.42
Telephone installations	59,094.46	55,885.32
Furniture, tools and other items	3,067.04	2,831.18
Construction in progress	1,242.40	1,074.00
Advances on property, plant and equipment	9.05	7.21
Installation materials	264.91	185.66
Accumulated depreciation and allowances	(49,045.88)	(44,124.17)
IV. Long-term investments (Note 8)	11,794.79	12,471.40
Investments in associated companies	1,159.08	1,507.40
Other investments	518.52	492.37
Other loans	1,331.57	1,212.53
Long-term deposits and guarantees given	558.85	582.39
Tax receivables (Note 18)	8,567.17	9,029.48
Allowances	(340.40)	(352.77)
B) CONSOLIDATION GOODWILL (Note 5)	7,409.36	6,053.87
C) DEFERRED CHARGES (Note 9)	432.23	535.04
D) CURRENT ASSETS	11,642.62	10,482.36
I. Inventories	669.62	400.97
Inventories	704.05	451.17
Advances	23.42	1.38
Allowances	(57.85)	(51.58)
II. Accounts receivable	6,935.79	6,218.26
Trade receivables (Note 10)	6,383.30	6,266.17
Due from associated companies	77.68	80.37
Sundry accounts receivable	563.93	393.67
Employee receivables	45.80	48.90
Tax receivables (Note 18)	1,424.23	1,122.84
Allowances for bad debts (Note 10)	(1,546.68)	(1,685.75)
Allowances for sundry accounts receivable	(12.47)	(7.94)
III. Short-term investments (Note 8)	2,288.35	3,199.64
Loans to associated companies	344.44	316.14
Short-term investment securities	1,054.22	2,205.05
Other loans	1,005.43	692.18
Allowances	(115.74)	(13.73)
IV. Short-term treasury stock (Note 11)	690.18	133.46
V. Cash	855.02	336.42
VI. Accrual accounts	203.66	193.61
TOTAL ASSETS (A+B+C+D)	63,466.34	62,075.20

The accompanying Notes 1 to 25 and Exhibits I to VI are an integral part of these consolidated balance sheets.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25). In the event of a discrepancy, the Spanish-language version prevails.

TELEFÓNICA GROUP CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31
(Millions of euros)

STOCKHOLDERS' EQUITY AND LIABILITIES	2004	2003
A) STOCKHOLDERS' EQUITY (Note 11)	16,225.12	16,756.56
I. Capital stock	4,955.89	4,955.89
II. Additional paid-in capital	5,287.68	7,987.14
III. Revaluation reserves	1,357.86	1,357.86
IV. Other reserves of the Parent Company	9,326.14	9,204.69
Unrestricted reserves	7,840.62	8,413.26
Restricted reserves	1,485.52	791.43
V. Reserves at fully or proportionally consolidated companies	(591.88)	(1,956.68)
VI. Reserves at companies accounted for by the equity method	(835.89)	(599.93)
VII. Translation differences in consolidation	(6,151.97)	(6,395.99)
VIII. Income for the year	2,877.29	2,203.58
Income of the Parent Company and subsidiaries	3,258.30	2,449.07
Income attributable to minority interests (Note 12)	(381.01)	(245.49)
B) MINORITY INTERESTS (Note 12)	3,775.58	4,426.22
C) NEGATIVE CONSOLIDATION GOODWILL	4.97	11.42
D) DEFERRED REVENUES (Note 13)	328.97	657.97
E) PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 14)	7,574.21	7,688.23
F) LONG-TERM DEBT	16,003.71	18,495.42
I. Debentures, bonds and other marketable debt securities (Note 15)	9,319.47	12,408.71
Nonconvertible debentures and bonds	9,221.20	12,408.71
Other marketable debt securities	98.27	-
II. Payable to credit institutions (Note 16)	5,450.37	4,932.56
III. Other payables	373.55	346.57
Other payables	256.69	225.80
Notes payable	116.86	120.77
IV. Taxes payable (Note 18)	855.82	801.63
V. Uncalled capital payments payable	4.50	5.95
G) CURRENT LIABILITIES	19,344.92	13,848.86
I. Debentures, bonds and other marketable debt securities (Note 15)	5,539.67	3,242.54
Debentures	3,350.95	1,652.51
Other marketable debt securities	1,892.65	1,275.39
Interest on debentures and other debt securities	296.07	314.64
II. Payable to credit institutions	4,244.53	2,721.06
Loans and other accounts payable (Note 16)	4,169.80	2,659.20
Accrued interest payable	74.73	61.86
III. Payable to associated companies (Note 8)	36.20	41.47
IV. Trade accounts payable	5,665.41	5,308.60
Advances received on orders	78.31	53.86
Accounts payable for purchases and services	5,569.60	5,235.06
Notes payable	17.50	19.68
V. Other nontrade payables	3,314.55	2,117.02
Taxes payable (Note 18)	1,859.40	1,181.09
Other nontrade payables (Note 19)	1,455.15	935.93
VI. Accrual accounts	544.56	418.17
H) SHORT-TERM PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 14)	208.86	190.52
1. TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES (A+B+C+D+E+F+G+H)	63,466.34	62,075.20

The accompanying Notes 1 to 25 and Exhibits I to VI are an integral part of these consolidated balance sheets

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25). In the event of a discrepancy, the Spanish-language version prevails.

TELEFÓNICA GROUP CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31
(Millions of euros)

DEBIT	2004	2003
A) EXPENSES		
Decrease in inventories	(32.97)	136.29
Procurements and other external expenses	7,558.69	6,276.61
Purchases	3,384.22	2,482.46
Work performed by other companies	4,174.47	3,794.15
Personnel expenses (Note 20)	4,411.81	4,641.32
Depreciation and amortization expense	5,980.15	6,274.22
Property, plant and equipment (Note 7)	4,629.92	4,941.97
Intangible assets (Note 6)	1,187.04	1,205.41
Deferred charges	163.19	126.84
Variation in operating allowances	336.16	420.60
Variation in allowances for inventories	8.07	(1.01)
Variation in allowances for bad debts (Note 10)	318.98	380.82
Variation in other allowances	9.11	40.79
Other operating expenses	5,688.83	5,142.96
Outside services	5,082.47	4,558.45
Taxes other than income tax	519.16	524.23
Other operating expenses	87.20	60.28
I. OPERATING INCOME	7,235.25	6,327.90
Interest on payables to associated companies	0.01	0.01
Interest on accounts payable and similar expenses (Note 20)	1,619.10	1,946.50
Amortization of deferred interest expenses	39.71	41.70
Variation in investment valuation allowances	0.41	(47.99)
Exchange losses (Note 20)	111.98	339.74
II. FINANCIAL INCOME	-	-
Share in losses of companies accounted for by the equity method	104.34	246.98
Amortization of consolidation goodwill (Note 5)	433.53	444.11
III. INCOME FROM ORDINARY ACTIVITIES	5,562.75	4,612.16
Variation in fixed asset and investment valuation allowances (Notes 7 and 8)	32.71	100.29
Losses on fixed assets (Note 20)	49.71	55.27
Losses on disposal of investments in consolidated companies (Note 8)	33.23	39.66
Extraordinary expenses and losses (Note 20)	1,459.11	2,221.60
IV. EXTRAORDINARY INCOME	-	-
V. CONSOLIDATED INCOME BEFORE TAXES	4,397.01	3,362.50
Corporate income tax (Note 18)	653.03	(2.07)
Foreign taxes (Note 18)	485.68	915.50
VI. CONSOLIDATED INCOME FOR THE YEAR	3,258.30	2,449.07
Income attributed to minority interests (Note 12)	472.82	420.25
VII. INCOME FOR THE YEAR ATTRIBUTED TO THE PARENT COMPANY	2,877.29	2,203.58
<i>The accompanying Notes 1 to 25 and Exhibits I to VI are an integral part of these consolidated statements of income.</i>		

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25). In the event of a discrepancy, the Spanish-language version prevails.

TELEFÓNICA GROUP CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31
(Millions of euros)

CREDIT	2004	2003
B) REVENUES		
Net sales and services (Note 20)		
Variation in work-in-process	-	0.80
Capitalized expenses of Group work on fixed assets	474.31	530.32
Other operating revenues	381.71	288.94
Non-core and other current operating revenues	173.09	192.21
Subsidies	16.95	12.93
Overprovision for contingencies and expenses	191.67	83.80
I. OPERATING LOSS		
Revenues from equity investments	29.17	14.58
Other companies	29.17	14.58
Other financial revenues (Note 20)	389.85	369.77
Associated companies	49.52	33.00
Other companies	340.33	336.77
Exchange gains (Note 20)	168.39	834.91
II. FINANCIAL LOSS		
Share in the income of companies accounted for by the equity method	48.23	34.40
Reversal of negative consolidation goodwill	0.94	1.65
III. LOSS ON ORDINARY ACTIVITIES		
Gains on fixed asset disposals (Note 20)	81.50	224.22
Gains on disposals of investments in consolidated companies (Note 8)	65.39	407.96
Capital subsidies transferred to income for the year (Note 13)	94.90	53.78
Extraordinary revenues and income (Note 20)	167.23	481.20
IV. EXTRAORDINARY LOSS		
V. CONSOLIDATED LOSS BEFORE TAXES		
VI. VI. CONSOLIDATED LOSS FOR THE YEAR		
Loss attributed to minority interests (Note 12)	91.81	174.76
VII. LOSS FOR THE YEAR ATTRIBUTED TO THE PARENT COMPANY		

The accompanying Notes 1 to 25 and Exhibits I to VI are an integral part of these consolidated statements of income.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25). In the event of a discrepancy, the Spanish-language version prevails.

Telefónica, S.A. and subsidiaries composing the Telefónica Group

Notes to Consolidated Financial Statements for the year ended December 31, 2004

(1) INTRODUCTION AND GENERAL INFORMATION

Telefónica Group companies

Telefónica, S.A. and its subsidiaries and investees make up an integrated group of companies ("the Telefónica Group") operating mainly in the telecommunications, media and entertainment industries.

The Parent Company of this Group is Telefónica, S.A. ("Telefónica"), a corporation that was incorporated for an indefinite period of time on April 19, 1924. Its registered office is at calle Gran Vía 28, Madrid (Spain).

Exhibit I hereto lists the subsidiaries, associated companies and investees in which the Telefónica Group has direct or indirect holdings, their lines of business, their registered offices, their net worth and results at year-end, their gross book value, their contribution to the reserves of the Consolidated Group and the consolidation method used.

Corporate structure of the Group

Telefónica's basic corporate purpose, per Article 4 of its bylaws, is the provision of all manner of public and private telecommunications services, and all manner of ancillary or supplementary telecommunications services or the services derived therefrom. All the business activities that constitute the corporate purpose may be performed either in Spain or abroad and may be carried on either wholly or partially by the Company, or through stockholdings or other equity interests in other companies or legal entities with an identical or a similar corporate purpose.

The main groups of subsidiaries through which Telefónica carries on its corporate purpose and manages its business areas or basic lines of business are as follows:

- The wireline telephony business and the related supplementary services provided in Spain, centered at the Telefónica de España Group.
- The cellular telephony business is centralized in Spain and abroad at the Telefónica Móviles Group.
- The main business activity of the Telefónica Internacional Group is to make and manage investments in the wireline telephony industry in the Americas.
- Other businesses in the Telefónica Group are those headed up by Telefónica Publicidad e Información-TPI (the directories business), Terra Networks, S.A. (provider of services, content and portals for Internet access), Atento, N.V. (call center services) and Telefónica de Contenidos, S.A. (media, entertainment and content).

The business activities carried on by most of the Telefónica Group companies are regulated by various pieces of legislation, under which authorizations, concessions or licenses must be obtained in certain circumstances in order to be able to provide the various services.

Also, certain wireline and wireless telephony services are provided under regulated rate and price systems.

(2) BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) True and fair view

The accompanying consolidated financial statements of the Telefónica Group were prepared from the accounting records of Telefónica, S.A. and of each of the companies composing the Telefónica Group. The respective individual financial statements were prepared in accordance with the accounting principles and standards regulated in Spain by the Commercial Code as implemented by the Spanish National Chart of Accounts and in the applicable regulations in the various countries in which the companies composing the Consolidated Group are located. The accompanying consolidated financial statements are presented in accordance with Royal Decree 1815/1991, approving the rules for the preparation of consolidated financial statements and, accordingly, they give a true and fair view of the net worth, financial position, results of operations and funds obtained and applied in 2004.

b) Accounting policies

The consolidation methods applied were as follows:

- The companies over which effective control is exercised or in relation to which the Company has entered into agreements with the other stockholders were fully consolidated.
- The companies which are managed jointly with third parties were proportionally consolidated.
- The companies in which there is significant influence but not ownership of a majority of the voting rights in their governing bodies or joint management with third parties are accounted for by the equity method.
- The investees which are either not included in the foregoing points or which, although included, do not have a material impact on the consolidated financial statements are carried at the lower of cost or market.

In certain circumstances, at some of the Group's investees a qualified majority of the voting rights may be required to adopt certain resolutions, and this was taken into account, together with other factors, when selecting the consolidation method.

All material accounts and transactions between the consolidated companies were eliminated in consolidation. The margins included in transactions involving capitalizable goods or services by subsidiaries with other Telefónica Group companies were eliminated in consolidation.

In the case of Group companies whose accounting and valuation methods differed from those of Telefónica,

adjustments were made in consolidation in order to present the consolidated financial statements on a uniform basis with the financial statements of the Parent Company.

The consolidated statement of income includes the revenues and expenses of the companies that are no longer in the Group up to the date on which the related holding was sold or the company was liquidated, and those of the new companies included in the Group from the date on which the holding was acquired or the company was formed through year-end.

The equity of minority interests in the net worth and results of the fully consolidated subsidiaries is recorded under the "Minority Interests" and "Income/Loss Attributed to Minority Interests" captions, respectively (see Note 12).

In accordance with standard practice in Spain, the accompanying consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated subsidiaries and of the companies accounted for by the equity method to the Parent Company's accounts, since it is considered that such reserves will be used to finance these companies' operations and that those that may be distributed would not give rise to a material additional tax cost.

c) Comparative information and changes in the scope of consolidation

Comparative information

The figures in these consolidated financial statements and in the consolidated management report are expressed in millions of euros unless indicated otherwise.

There were no changes in the structure of the consolidated balance sheet and consolidated statement of income with respect to those presented in the previous year. Also, there were no changes in accounting principles with respect to 2003 with a significant effect.

Changes in the scope of consolidation

The main variations in the scope of consolidation in 2004 were as follows (the full detail of all the variations in 2004 and 2003 is included in Exhibit II):

Telefónica

Telefónica, S.A. acquired 52,820,862 shares of Portugal Telecom, S.G.P.S., S.A. for €475.14 million, giving rise to consolidation goodwill of €344.52 million. Additionally, on December 29, 2004, Portugal Telecom reduced capital by retiring 87,799,950 shares of treasury stock, representing 7% of capital stock. Following these transactions, Telefónica increased its direct holding in this company to 8.55%. The direct and indirect ownership interest of the Telefónica Group is 9.58%. This company continues to be accounted for by the equity method in the consolidated financial statements of the Telefónica Group.

Telefónica Móviles Group

In August 2004, Brasilcel N.V. and Telesp Celular Participações, S.A. (TCP) announced their intention to launch friendly tender offers for Tele Sudeste Celular Participações, S.A., Tele Leste Celular Participações, S.A., Celular CRT Participações, S.A. and Tele Centro Oeste Celular Participações, S.A. (TCO). These tender offers were effectively implemented in October.

The following tables show the percentages of ownership held by Brasilcel N.V. and TCP in these subsidiaries before the friendly tender offers and the resulting percentages of ownership after settlement of the shares purchased as a result of the offer:

Brasilcel	Percentage of Ownership before tender offers	Percentage of Ownership after tender offers
Tele Sudeste	86.7%	90.9%
Tele Leste	27.9%	50.6%
CRT	51.5%	67.0%

TCP	Percentage of Ownership before tender offers	Percentage of Ownership after tender offers
TCO	28.9%	50.6%

These tender offers gave rise to a cash payment of approximately 607 million reais for Brasilcel, N.V. and of 902 million reais for TCP.

At the end of June 2004, Brasilcel N.V. effectively acquired from NTT DoCoMo, Inc. and Itochu Corporation their ownership interests in Sudestecel Participações, S.A., a holding company controlling a bloc of shares in the operator Tele Sudeste Celular Participações, S.A. representing 10.5% of its capital stock, for €20.84 million. As a result of this transaction, Brasilcel, N.V. increased its controlling interest in Sudestecel Participações, S.A. to 100%. This company continues to be fully consolidated in the financial statements of the Brasilcel Group and this group, in turn, is proportionally consolidated in the consolidated financial statements of the Telefónica Group, in accordance with the agreements with Portugal Telecom as detailed in Note 22-d.

On July 23, 2004, a 100% holding in the Chilean company Telefónica Móvil de Chile, S.A. was acquired from the Chilean company Compañía de Telecomunicaciones de Chile, S.A., a subsidiary of Telefónica Internacional, S.A. The total amount paid for this acquisition was \$1,058 million. As a result of this transaction, the Telefónica Group increased its effective ownership interest in the capital stock of this company from 44.89% to 92.46%. This company continues to be fully consolidated in the consolidated financial statements of the Telefónica Group.

On March 5, 2004, Telefónica Móviles, S.A. reached an agreement with BellSouth Corporation ("BellSouth") for the acquisition of all the holdings owned by latter in the former's operators in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama.

The effective transfer of the shares of these companies was conditional, inter alia, upon the obtainment of the required regulatory authorizations in each country and on the approvals, if any, required from the minority stockholders. The shares of these operators were effectively transferred in 2004 and in January 2005: all the holdings of BellSouth in the operators located in Ecuador, Guatemala and Panama were transferred on October 14, 2004; those in the operators

located in Colombia, Nicaragua, Peru, Uruguay and Venezuela were transferred on October 28, 2004, that in the operator in Chile was transferred on January 7, 2005, and the holding in the Argentinian operator was transferred on January 11, 2005.

Under this agreement the aforementioned operators were valued at \$5,850 million and their net debt was taken over. The total acquisition cost for Telefónica Móviles, adjusted by the net debt of all the companies, amounted to €3,252.54 million (excluding Chile and Argentina).

In addition to acquiring the holdings owned by the BellSouth Group in the wireless operators in Latin America, in compliance with the commitments assumed under the share purchase agreement, Telefónica Móviles launched an offer for the acquisition of the minority interests in these companies, the purchase price in each case being equal to the price agreed with BellSouth.

Following are the values assigned to each transaction and the acquisition cost for Telefónica Móviles:

- Acquisition of a 100% holding in the operator Otecel, S.A. (Ecuador) for a total company value of \$833 million. The acquisition cost for Telefónica Móviles, adjusted for the company's net debt, was €663.43 million.
- Acquisition of a 100% holding in BellSouth Guatemala, S.A. for a total company value of \$175 million. The acquisition cost for Telefónica Móviles, adjusted for the company's net debt, was €92.54 million.
- Acquisition of a 99.57% holding in BellSouth Panamá, S.A. for a total company value of \$657 million. The acquisition cost for Telefónica Móviles, adjusted for the company's net debt, was €549.28 million.
- Acquisition of a 100% holding in Telcel, S.A. (Venezuela) for a total company value of \$1,195 million. The acquisition cost for Telefónica Móviles, adjusted for the company's net debt, was €1,223.98 million.
- Acquisition of a 100% holding in Telefónica Móviles Colombia, S.A. for a total company value of \$1,050 million. The acquisition cost for Telefónica Móviles, adjusted for the company's net debt, was €517.46 million.
- Acquisition of a 99.85% holding in Comunicaciones Móviles del Perú, S.A. for a total company value of \$210 million. The acquisition cost for Telefónica Móviles, adjusted for the company's net debt, was €7.70 million.
- Acquisition of a 100% holding in Telefonía Celular de Nicaragua, S.A. for a total company value of \$150 million. The acquisition cost for Telefónica Móviles, adjusted for the company's net debt, was €148.74 million.
- Acquisition of a 100% holding in Abiatar, S.A. for a total company value of \$60 million. The acquisition cost for Telefónica Móviles, adjusted for the company's net debt, was €49.42 million.

Telefónica de Contenidos Group

Telefónica, S.A. sold on the London Stock Exchange 38,853,403 Pearson Plc shares representing 4.84% of its capital stock for

approximately €350 million, giving rise to a loss of €33.23 million in the consolidated financial statements of the Telefónica Group.

T.P.I. Group

In 2004 Telefónica Publicidad e Información, S.A., the parent company of the group, acquired the remaining 49% holding in its Chilean subsidiary Impresora y Comercial Publiguías, S.A. for €65.6 million, thereby increasing its ownership interest to 100%. A 9% holding was acquired from the Chilean company Compañía de Telecomunicaciones de Chile, S.A., a Telefónica Group subsidiary. This company continues to be fully consolidated in the Telefónica Group.

Terra Group

On October 5, 2004, Terra Networks, S.A. and Daum Communications, Corp. reached an agreement for the sale of Lycos, Inc. after obtaining the required administrative authorizations and approval from the Antitrust Authorities in the United States. The sale price was set at \$108 million, giving rise to a gain of €26.17 million. On September 30, 2004, i.e before the sale of Lycos, Inc., and as part of the agreement for this transaction, Lycos, Inc. transferred assets amounting to €332.9 million to Terra Networks, S.A.

Telefónica Internacional Group

On July 8, 2004, Telefónica Internacional Chile S.A. acquired 3 million ADRs of Compañía de Telecomunicaciones de Chile S.A. (CTC), representing 12 million series A shares, equal to a 1.25% holding in this company, thereby increasing the Telefónica Group's total ownership interest to 44.89%. The price paid was US\$ 37.07 million. The company continues to be fully consolidated in the Telefónica Group.

Under a share repurchase program, the subsidiary Telefónica del Perú, S.A.A. acquired own shares in the market for 21.90 million new soles (approximately €5.3 million), thereby increasing the Telefónica Group's effective percentage of ownership from 97.21% to 98.19%. The company continues to be fully consolidated in the Telefónica Group.

In December the Brazilian company Telecomunicações de São Paulo, S.A. (TELESP) entered into an agreement for the purchase of all the shares (cuotas) of Santa Genovense Participações Ltd., a holding company owning all the cuotas of Atrium Telecomunicações, for 113.44 million Brazilian reais (approximately €31 million), giving rise to goodwill of €33.14 million. The company was fully consolidated in the consolidated financial statements of the Telefónica Group.

(3) PROPOSED DISTRIBUTION OF INCOME OF THE PARENT COMPANY

Telefónica, S.A. obtained income of €1,301.40 million in 2004.

The proposed distribution of 2004 income that the Company's Board of Directors will submit for approval by the Stockholders' Meeting is as follows: a) to appropriate 10% of income for the year (€130.14 million) to the legal reserve; b) to pay a fixed dividend of €0.23 gross per share for the Company's outstanding shares carrying dividend rights; and c) to appropriate the remainder to voluntary reserves.

	<i>Millions of euros</i>	
Distributable income	1,301.40	portion of said difference relating to minority interests, which is recorded under the "Minority Interests" caption on the liability side of the accompanying consolidated balance sheets.
Distribution to:		
Legal reserve	130.14	In accordance with the accounting standards in force in their respective countries, certain Group companies use accounting methods that include inflation adjustments, which consist of valuing monetary assets and liabilities at face value and adjusting the historical cost of nonmonetary assets and liabilities for the inflation from the date of inclusion of the asset or liability in the company's balance sheet to year-end.
Dividend (maximum distributable amount of €0.23/share for all the shares into which the Company's capital stock is divided (4,955,891,361 shares).	1,139.86	Therefore, the effect of the inflation for the year on the monetary assets and liabilities is included in the statement of income for the year under the "Exchange Losses" or "Exchange Gains" captions. The amounts thus adjusted are translated to U.S. dollars at the year-end exchange rates and the subsequent translation to euros is made by the year-end exchange rate method described in the preceding paragraphs.
Voluntary reserve	(minimum) 31.40	
Total	1,301.40	
<p>It is hereby stated that on February 23, 2005, the Company's Board of Directors resolved (see Note 23) to distribute a fixed interim dividend out of 2004 income of €0.23 gross for the Company's outstanding shares carrying dividend rights, up to a total amount of €1,139.86 million. This interim dividend will be paid on May 13, 2005. Consequently, the proposed dividend to be paid out of 2004 income will be fully settled through payment of the aforementioned interim dividend.</p>		
<p>(4) VALUATION STANDARDS</p> <p>The main valuation methods used in preparing the 2004 consolidated financial statements were as follows:</p>		
<p>a) Consolidation goodwill The accompanying consolidated balance sheets include consolidation goodwill, net of amortization, arising from the positive difference in consolidation between the amounts paid to acquire the shares of the subsidiaries consolidated or accounted for by the equity method and their underlying book values plus the unrealized gains allocable to these companies' assets at the acquisition date.</p> <p>The amortization periods are those for which the projected income attributable to the Group of the companies at which goodwill exists is at least equal to the unamortized amount of the goodwill relating to these companies. Generally speaking, this goodwill is amortized by the straight-line method over 20 years (see Exhibit III).</p> <p>Positive consolidation differences allocable to the assets of the acquired company give rise to an increase in the value of the related assets up to the limit of their market value, once the related appraisal has been performed.</p>		
<p>b) Translation methods (year-end exchange rate method) The financial statements of the Group companies abroad were translated to euros at the exchange rates ruling at year-end, except for:</p> <ol style="list-style-type: none"> 1. Capital stock and reserves, which were translated at historical exchange rates. 2. Income statements, which were translated at the average exchange rates for the year. <p>The exchange difference arising from application of this method is included under the "Stockholders' Equity - Translation Differences in Consolidation" caption in the accompanying consolidated balance sheets, net of the</p>		
<p>c) Start-up expenses Start-up expenses comprise mainly incorporation, capital increase and preopening expenses and expenses relating to initial public offerings. Preopening expenses include most notably direct costs incurred in the launch of various GSM digital telephony services and expenses incurred in connection with UMTS third-generation wireless services in Spain until these services start to be marketed (first quarter of 2004). These expenses are recorded at cost and are amortized on a straight-line basis over five years from the inception of activity.</p>		
<p>d) Intangible assets This caption in the accompanying consolidated balance sheets relates mainly to the following items:</p>		
<p>Research and development expenses These relate to the costs incurred in developing new products to be marketed or used for the Group's own network, which are generally amortized by the straight-line method over three years from the date of completion. Costs incurred in projects which are not viable for the future are charged to the consolidated statement of income for the year in which this circumstance becomes known.</p>		
<p>Administrative concessions This caption relates to the acquisition cost of the licenses for the provision of telephony services granted to the Group by various public authorities, and to the value assigned to the licenses held by certain companies at the time they were included in the Telefónica Group.</p>		
<p>Amortization starts to be taken when commercial operation of these licenses commences and continues to be taken over the term thereof based in most cases on the estimated capacity to generate revenues in each period.</p>		
<p>Rights on leased assets</p>		

The rights under financial lease contracts are recorded at the cost of the related assets, and the total debt for lease payments plus the amount of the purchase option is recorded as a liability. The difference between the two amounts, which represents the interest expenses on the transaction, is recorded as a deferred expense and is allocated to income each year by the interest method. The rights under the existing contracts, which relate mainly to computer hardware, are amortized on a straight-line basis generally over five years, which coincides with the years of useful life of the hardware.

Software licenses and developments

These items are recorded at cost and are amortized on a straight-line basis over three years.

Other intangible assets

This caption includes, among other items, the costs incurred in acquiring capacity and rights to use other operators' cables, mainly underwater cables. These rights are amortized over the duration of the rights acquired.

e) Property, plant and equipment

Property, plant and equipment are carried at cost revalued pursuant to the applicable enabling legislation (see Note 7). If the regulations applicable in a particular country so require, the property, plant and equipment are valued at cost adjusted for inflation (see Note 4-b).

Cost includes external costs plus internal costs comprising warehouse materials used, direct labor used in installation work and the allocable portion of the indirect costs required for the related investment. The latter two items are recorded as revenues under the "Capitalized Expenses of Group Work on Fixed Assets" caption.

The interest and other financial expenses incurred during the construction of fixed assets which lead to the start-up of a new activity, when the construction period exceeds one year, and the exchange differences arising over this period on long-term loans to finance these assets, are generally not capitalized. However, because of their specific nature, the interest expenses incurred in the construction of the Group's future office center (Distrito C), amounting to €1.7 million, were capitalized.

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.

Upkeep and maintenance expenses are expensed currently.

The Group records the necessary value adjustments to reduce the cost of each item of property, plant and equipment to its market value at each year-end, provided that the book value of the asset is not recoverable through the generation of sufficient revenues to cover all the costs and expenses, including depreciation.

An allowance is recorded for lasting decline in value that is deemed to be reversible. This allowance is deducted in the valuation of the asset in question; in this case the lower value is not maintained if the causes which prompted the value adjustment cease to exist.

If the decline in value of the assets is irreversible and differs from the result of systematic depreciation, the loss and the decline in value of the related asset are recorded directly.

The companies depreciate their property, plant and equipment by the straight-line method at annual rates based on the years of estimated useful life of the assets, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

Years of Estimated Useful Life

Buildings and structures	25 – 50
Plant and machinery	10 – 15
Telephone installations, networks and subscriber equipment	5 – 25
Furniture, office equipment and other	2 – 10

The increases in value resulting from revaluations are depreciated over the years of remaining useful life of the revalued assets.

f) Long- and short-term investments

Shareholdings which were not consolidated are recorded in the consolidated balance sheet at the lower of cost or market.

The market value was determined as follows:

1. Listed securities

The market value was taken to be the lower of average market price in the last quarter or market price at year-end.

2. Unlisted securities and investments in companies accounted for by the equity method:

The market value was taken to be the underlying book value at year-end plus the unrealized gains disclosed at the time of the acquisition and still existing at year-end.

Unrealized losses (cost higher than market value at year-end) are recorded under the "Allowances" caption.

g) Deferred charges

This caption in the accompanying consolidated balance sheets includes mainly the following items:

Supplementary pension payments to retired employees (shortfall)

These relate to the shortfall in the provisions recorded for the commitments assumed by Telefónica de España to retired employees as of June 30, 1992. Since then, the shortfall has been allocated to income over 15 years by the straight-line method, in accordance with the communication of March 1, 1993, received from the Spanish Accounting and Audit Institute (ICAC). On November 1, 1997, coverage of these commitments was externalized and on November 1, 2002, they were adapted to Private Insurance Law 30/1995, Law 50/1998 on Tax, Administrative, Labor and Social Security Measures, Royal Decree 1588/1999 approving the regulations on the instrumentation of employers' pension commitments to employees and beneficiaries (see Note 9), and Additional Provision Twenty-Five of Law 14/2000 on Tax, Administrative, Labor and Social Security Measures.

Debt arrangement expenses

These relate to long-term debt arrangement expenses and issuance premiums corresponding to debentures and bonds and preferred securities and are amortized by the interest method on the basis of the principal amounts outstanding.

Interest on long-term promissory notes

This relates to the difference between the face value and the effective value of the promissory notes issued at over one year. This interest is charged to income by the interest method.

Interest on financial lease contracts

This relates to the interest expenses on financial lease contracts, which are charged to income by the interest method (see Note 4-d).

Externalization of pension commitments

As a result of Telefónica de España's externalization of its pension commitments pursuant to Private Insurance Law 30/1995, Law 50/1998 on Tax, Administrative, Labor and Social Security Measures, Royal Decree 1588/1999 approving the regulations on the instrumentation of employers' pension commitments to employees and beneficiaries, and Additional Provision Twenty-Five of Law 14/2000 on Tax, Administrative, Labor and Social Security Measures for 2001, the differences arising due to the change in the actuarial assumptions needed to externalize the aforementioned commitments were recorded under the "Deferred Charges" caption (see Note 9). €12.60 million and €11.76 million were recorded in this connection in 2003 and 2004, respectively, under the "Extraordinary Expenses and Losses" caption in the consolidated statement of income (see Note 20).

h) Inventories

Warehouse materials for installation in investment projects and consumables and replacement parts are valued at the lower of weighted average cost, adjusted for the effect of inflation in the countries whose local legislation so requires (see Note 4-b), or market.

Obsolete, defective or slow-moving inventories have been reduced to realizable value. The allowance for decline in value of inventories is recorded on the basis of inventory age and turnover.

i) Treasury stock

Treasury stock is valued at the lower of cost, comprising the total amount paid for acquisition, or market. Since these shares were acquired without any prior resolution having been adopted by the Stockholders' Meeting to use them to reduce capital stock, it is assumed that they are intended for subsequent sale or, alternatively, for a possible capital reduction, and, accordingly, the market value is taken to be the lowest of average official market price in the last quarter of the year, year-end market price, or the related underlying book value. Where appropriate, provisions were recorded with a charge to the consolidated statement of income for the difference between the acquisition cost and the lower of the year-end market price or the average market price in the last quarter, and with a charge to reserves for the difference between the aforementioned value and the related underlying book value.

j) Capital subsidies

Capital subsidies are valued at the amount granted and are allocated to income on a straight-line basis over a maximum period of ten years, which does not differ materially from the estimated useful life of the subsidized assets.

Most of the aforementioned subsidies were granted to Telefónica de España and the conditions under which the subsidies were granted are being met (see Note 13).

k) Foreign currency transactions

Fixed-income securities and receivables and payables denominated in foreign currencies are translated to euros at the exchange rates ruling at the transaction date, and are adjusted at year-end to the exchange rates then prevailing.

Exchange differences arising on adjustment of foreign currency fixed-income securities and receivables and payables to year-end exchange rates are classified by currency and due date, and for this purpose currencies which, although different, are officially convertible are grouped together.

The positive net differences in each group of currencies are recorded under the "Deferred Revenues" caption on the liability side of the consolidated balance sheet, unless exchange losses in a given group have been charged to income in prior years, in which case the positive net differences are credited to period income up to the limit of the negative net differences charged to income in prior years.

The positive differences deferred in prior years are credited to income in the year in which the related accounts receivable and payable fall due or are repaid early, or as negative exchange differences for the same or a higher amount are recognized in each homogeneous group.

Exchange gains or losses arising from specific-purpose financing of foreign currency investments in investees to hedge the exchange risk to which these investments are exposed are recorded under the "Translation Differences in Consolidation" caption in the consolidated balance sheet.

These transactions are deemed to be hedging transactions when they meet certain requirements, most notably that the foreign currency in which the financing is denominated is the same as, or largely matches, the functional currency of the investment and of the flows generated by it, and that the timing of recognition of the anticipated revenues from dividends and management fees matches the loan repayment schedule.

l) Pension and other commitments to employees

At year-end the Group records in the consolidated balance sheet the provisions required to cover the accrued liability for the existing commitments that have not been externalized, based on actuarial calculations using an appropriate discount rate. The liabilities recorded under "Preretirements, Social Security Costs and Voluntary Severances" were calculated individually and are discounted to present value at a rate of 4%.

The Group's main commitments in this connection are detailed in Note 14.

m) Technical reserves

This caption relates mainly to the net level premium reserves, which represent the amount by which the present value of life insurance, pension and reinsurance commitments exceeds the net premiums to be paid by the policyholders to the subsidiaries Seguros de Vida y Pensiones Antares, S.A. and Casiopea Reaseguradora, S.A. These reserves are credited when the commitments covered are paid.

n) Accounts payable

Accounts payable are recorded at repayment value, except for zero-coupon debenture and bond issues, which are recorded in the consolidated balance sheet at issue value plus the related accrued interest (see Note 15).

o) Derivatives

Transactions whose purpose and effect is to eliminate or significantly reduce exchange, interest rate or market risk on asset and liability positions or on other transactions are treated as hedging transactions. The gains or losses arising during the life of these derivatives are taken to the consolidated statement of income using the same timing of recognition method as that used to recognize the gains or losses on the underlying hedged asset or transaction (see Note 17).

Transactions which, exceptionally, were not assigned to hedge risks, are not treated as hedging transactions. In transactions of this kind, the differences in market price are recorded for accounting purposes when the transactions are canceled or finally settled. However, if potential losses are anticipated at year-end, the related provision is recorded with a charge to the consolidated statement of income. Similarly, transactions aimed at reducing the exchange risk relating to the income contributed by Latin American subsidiaries are not treated as hedging transactions.

p) Corporate income tax and other taxes

These captions in the accompanying consolidated statements of income include all the debits and credits arising from the corporate income tax levied on the Spanish Group companies and similar taxes applicable to the Group companies abroad.

The expense for corporate income tax of each year is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, defined as those arising between taxable income and the book income before taxes that do not reverse in subsequent periods. The difference between the accrued tax expense and the tax paid is due to the above-mentioned deferral, to tax assets for tax credits not yet taken and to revenue and expense recognition timing differences giving rise to deferred tax assets and liabilities, provided that they have a certain reversal period (see Note 18).

Pursuant to an ICAC resolution of March 15, 2002, the Telefónica Group recorded the tax assets relating to the tax relief and tax credits not yet taken for tax purposes regarding which there is no doubt, in accordance with the accounting principle of prudence in valuation, that they can be deducted in the future (see Note 18). Tax credits for investment in fixed assets are deferred from when they are recognized over the average years of useful life of the assets for which the credits were earned.

q) Recognition of revenues and expenses

Revenues and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

The revenues from wireline telephony and other services are recognized on an accrual basis. These services are generally billed bimonthly. Unbilled revenues from the beginning of the billing cycle to the end of each month are estimated or recorded as soon as they are known. The differences between the estimated revenues and those subsequently billed are not material and are recognized in the following period as an addition to net sales.

In the wireless telephony business there are advertising campaigns based on customers obtaining points for the telephone traffic they generate. These points can be exchanged for discounts on the purchase of handsets, traffic or other types of services based on the number of points earned and the type of contract involved. The accompanying consolidated balance sheets include the related provision based on an estimate of the value of the points accumulated at year-end.

The "Accrual Accounts" caption on the liability side of the consolidated balance sheet includes the amount relating to purchases made by customers of the prepaid service for recharging or acquiring cards that at year-end had still not been earned and recorded as a revenue since the customers had not consumed the total amount of traffic relating to their cards.

As for the business activities performed by Group subsidiaries operating in the on-line travel agency industry, which bill the end customer for the total amount of the ticket, including taxes, and assume the credit risk or risk of nonpayment by the end customer, maintaining a minimum purchase commitment to the principal supplier or reserving the right to set the definitive price to be charged to the end customer, the full amount billed is recorded under the "Net Sales and Services" caption. In connection with these sales, the "Cost of Materials Used and Other External Expenses" caption includes all the cost of the products sold. If these conditions are not met, the commission earned by the Company is recognized under the "Net Sales and Services" caption. The sales thus recorded in 2004 and 2003 amounted to €25.66 million and €31.19 million, respectively.

In the directories line of business, advertising revenues and the associated costs are recognized when the advertisement is published, regardless of when the related monetary or financial flow arises. The revenues related to billings for advertising in unpublished guides are recorded under the liability "Accrual Accounts" caption, whereas the associated costs are recorded as "Inventories" until the guides are published.

In accordance with the accounting principle of prudence, only realized income is recorded at year-end, whereas foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known.

(5) CONSOLIDATION GOODWILL

The variations in the "Consolidation Goodwill" caption and in the related accumulated amortization in 2004 and 2003 were as follows:

	<i>Millions of euros</i>
Balance at 31-12-02	6,364.02
Additions	1,135.82
Amortization	(444.11)
Write-offs (Note 20)	(6.48)
Net retirements	(312.01)
Net transfers	(606.73)
Translation differences	(76.64)
Balance at 31-12-03	6,053.87
Additions	2,231.55
Amortization	(433.53)
Write-offs (Note 20)	(111.09)
Net retirements	(85.75)
Net transfers	(242.85)
Translation differences	(2.84)
Balance at 31-12-04	7,409.36

The goodwill arising on the acquisition of companies abroad is translated to euros at the exchange rates prevailing at the time the goodwill arises, except for goodwill arising on the acquisition of companies by foreign companies, which is recorded in local currency and is affected by exchange rate fluctuations. The resulting differences are recorded under the "Translation Differences in Consolidation" caption.

The detail of the balances of the goodwill and of the related accumulated amortization relating to each company and of the variations therein is shown in Exhibit III.

Per the estimates and projections available to the directors, the projected income attributable to the Group that will be earned by the companies at which goodwill had arisen at year-end is at least equal to the unamortized balance of the related goodwill in the related periods.

Based on these estimates and projections, in 2004 the existing estimates and projections were reviewed, and €111.09 million of goodwill was written off in accordance with the accounting principle of prudence in valuation, based on the analyses made of the projected cash flows for the following years (see Note 20). The goodwill written off in 2004 included most notably €101.51 million relating to the investment in Telefónica UK.

There were no material writeoffs in 2003.

2004

The main additions to consolidation goodwill in 2004 related to the following companies:

	<i>Millions of euros</i>
Olympic, Ltda.	501.85
Otecel, S.A.	397.44
Telcel, C.A.	376.24
Portugal Telecom S.G.P.S., S.A.	344.52
Telefónica Móviles Panamá	252.18
Brasilcel Group	111.68
Other companies	247.64
Total	2,231.55

The net retirements of goodwill in 2004 included most notably that relating to the divestment of Lycos, Inc. amounting to €48.66 million and of Pearson Plc. amounting to €189.49 million (see Note 2-c).

2003

The main additions to consolidation goodwill in 2003 related to the following companies:

	<i>Millions of euros</i>
Sogecable, S.A.	607.23
Tele Centro Oeste Celular Participações, S.A. (TCO)	227.67
Endemol France	112.10
Antena 3 de Televisión, S.A.	63.91
Terra Networks, S.A.	58.57
Other Companies	66.34
Total	1,135.82

The net retirements of goodwill in 2003 included most notably that relating to the divestment of Antena 3 de Televisión, S.A. amounting to €217.59 million (see Exhibit II). The most significant transfer arose from the exclusion of the holding in Uno-e Bank, S.A. from consolidation, amounting to €110.95 million (see Exhibit II).

In 2003 €504.65 million of goodwill were allocated as an addition to the net value of the licenses to operate wireless communication services nationally in Mexico. This amount was allocated after the related valuation had been completed, which is when the related amount was transferred to the "Administrative Concessions" account (see Note 6).

As indicated in Notes 6 and 7, the positive consolidation differences allocable to the assets of the companies acquired from BellSouth were allocated in 2004, on the basis of preliminary conclusions drawn from the valuation performed by independent appraisers. Once the allocation of price to all the assets and liabilities of the acquired companies is completed in 2005, the amounts of the recorded goodwill might be modified as a result of certain reclassifications to other captions in the consolidated balance sheet, even though it is considered that the amount of these reclassifications would not be material.

(6) INTANGIBLE ASSETS

The detail of the balances of the intangible asset accounts and of the variations therein in 2004 and 2003 is as follows:

Millions of euros

	Balance at 12-31-03	Additions	Retirements	Inclusion of Companies	Exclusion of Companies	Translation Differences	Transfers	Balance at 12-31-04
Cost								
Research and development expenses	1,189.92	67.27	(1.96)	-	-	0.06	1.68	1,256.97
Administrative concessions	6,603.09	9.93	(2.81)	1,244.69	-	(53.51)	71.24	7,872.63
Rights on leased assets	92.77	1.31	(1.91)	-	(14.27)	0.90	(23.29)	55.51
Software licenses and developments	3,492.73	322.06	(52.74)	151.10	(9.72)	17.95	235.49	4,156.87
Other intangible assets	814.22	193.48	(47.11)	370.06	(158.45)	4.46	(148.83)	1,027.83
Total intangible assets, gross	12,192.73	594.05	(106.53)	1,765.85	(182.44)	(30.14)	136.29	14,369.81
Accumulated amortization								
Research and development expenses	1,090.50	88.64	-	-	-	0.07	-	1,179.21
Administrative concessions	1,103.29	252.63	(2.81)	269.85	-	(10.76)	(11.91)	1,600.29
Rights on leased assets	33.37	14.93	(0.65)	-	(12.53)	(0.17)	(18.65)	16.30
Software licenses and developments	1,883.57	782.76	(46.57)	86.16	(6.96)	3.88	120.23	2,823.07
Other intangible assets	380.69	48.08	(34.52)	96.97	(100.53)	1.71	(79.86)	312.54
Total accumulated amortization	4,491.42	1,187.04	(84.55)	452.98	(120.02)	(5.27)	9.81	5,931.41
Allowances for decline in value	28.15	0.52	(3.11)	-	(8.45)	0.33	(9.06)	8.38
Intangible assets, net	7,673.16	(593.51)	(18.87)	1,312.87	(53.97)	(25.20)	135.54	8,430.02

Millions of euros

	Balance at 12-31-02	Additions	Retirements	Inclusion of Companies	Exclusion of Companies	Translation Differences	Transfers	Balance at 12-31-03
Cost								
Research and development expenses	1,179.15	73.32	(57.33)	-	-	(1.93)	(3.29)	1,189.92
Administrative concessions	6,350.20	0.12	(15.33)	8.30	-	(10.59)	370.39	6,603.09
Rights on leased assets	84.40	21.63	(4.55)	-	(9.27)	(4.24)	4.80	92.77
Software licenses and developments	3,131.19	533.05	(699.08)	16.90	(2.20)	(11.08)	523.95	3,492.73
Other intangible assets	1,190.64	181.76	(254.44)	16.46	(18.38)	(14.37)	(287.45)	814.22
Total intangible assets, gross	11,935.58	809.88	(1,030.73)	41.66	(29.85)	(142.21)	608.40	12,192.73
Accumulated amortization								
Research and development expenses	1,005.95	141.00	(56.69)	-	-	(0.51)	0.75	1,090.50
Administrative concessions	993.97	244.99	(4.06)	1.62	-	(37.98)	(95.25)	1,103.29
Rights on leased assets	29.92	16.33	(2.93)	-	(3.65)	(3.04)	(3.26)	33.37
Software licenses and developments	1,767.14	725.21	(685.12)	5.84	(1.12)	(25.49)	97.11	1,883.57
Other intangible assets	468.70	77.88	(148.96)	0.03	(0.46)	(25.57)	9.07	380.69
Total accumulated amortization	4,265.68	1,205.41	(897.76)	7.49	(5.23)	(92.59)	8.42	4,491.42
Allowances for decline in value	40.33	0.80	(4.89)	-	(0.08)	(3.02)	(4.99)	28.15
Intangible assets, net	7,629.57	(396.33)	(128.08)	34.17	(24.54)	(46.60)	604.97	7,673.16

The “Inclusion of Companies” column in 2004 includes most notably the addition of the assets relating to the companies acquired by Telefónica Móviles from BellSouth, which gave rise to an increase in gross cost and in accumulated amortization of €1,588.63 million and €451.52 million, respectively. The amount relating to the gross cost includes €1,006.73 million of addition to the value basically of licenses and customer portfolio, as a result of the allocation of the consolidation differences arising from the purchase in accordance with valuations performed by independent appraisers.

The most significant item in “Exclusion of Companies” in 2004 related to the deconsolidation of Lola Films, with a cost and accumulated amortization of €140.55 million and €83.20 million, respectively.

The additions in 2003 included most notably €316.69 million relating to Telefónica de España, basically due to the update of the software of exchanges. The additions at the Telefónica Móviles Group amounted to €149.33 million and related to investments in information and billing systems and in the development of new i-mode services.

The "Administrative Concessions" caption includes mainly the following items:

- A concession granted by the Peruvian State to Telefónica del Perú, S.A.A. when this company was acquired in April 1994 by Telefónica Internacional. This concession expires in 2019.
- Licenses to operate wireline and wireless communications services of the companies awarded in the privatization in July 1998 of the Telebras in Brazil. A portion of the price paid for these companies was allocated as an addition to the value of these assets when they were acquired. €76.06 million were recorded in 2004 as an addition to the net value of the licenses of Tele Centro Oeste Celular Participações, S.A. The term of these licenses is 27 years.
- DCS 1800 MHz license in Spain recorded at the amount paid to the Spanish Government plus the amount set aside to defray the costs relating to the radio spectrum cleaning process required for the implementation and development of these licenses.
- The amount attributable to the licenses to operate wireless communication services nationally in Mexico. This amount was allocated after the related valuation had been completed, which is when it was reclassified from the "Consolidation Goodwill" caption. The reclassified net balance of these licenses as of December 31, 2003, amounted to €504.65 million, and this amount is being amortized over the term of the licenses based on the estimated capacity of the licenses to generate revenues in each period (see Note 5).
- Licenses for the provision of UMTS services in Spain, Germany and Switzerland. In Spain, since the technology is not available and in accordance with the revenue and expense matching principle, these licenses will begin to be amortized on commencement of the operation of the related licenses and will be amortized over the license term. For the other countries, the initial acquisition cost was written down in 2002 and the carrying value reflects the current estimate of the realizable value of these businesses.
- Licenses to operate telecommunications services in countries where the companies acquired from BellSouth Corporation and in Chile through Telefónica Móvil Chile operate.

The terms of the licenses detailed above in connection with the wireless business range from 15 to 30 years.

The projections of the directors regarding business performance and the income to be generated by these licenses are at least equal to the unamortized balance of the licenses..

(7) PROPERTY, PLANT AND EQUIPMENT

The detail of the balances of property, plant and equipment accounts, of the related accumulated depreciation and of the variations therein in 2004 and 2003 is as follows:

Millions of euros

	Balance at 12-31-03	Additions	Retirements	Inclusion of Companies	Exclusion of Companies	Translation Differences	Transfers	Balance at 12-31-04
Cost								
Land and structures	6,071.16	192.71	(138.86)	234.44	(5.50)	(19.17)	291.49	6,626.27
Plant and machinery	2,385.42	52.05	(60.01)	121.01	(6.34)	(45.14)	(357.10)	2,089.89
Telephone installations	55,885.32	1,121.57	(1,163.00)	1,978.35	(1.01)	(87.56)	1,360.79	59,094.46
Furniture, tools and other items	2,831.18	178.31	(180.80)	186.12	(13.50)	(23.33)	89.06	3,067.04
Total property, plant and equipment in service	67,173.08	1,544.64	(1,542.67)	2,519.92	(26.35)	(175.20)	1,384.24	70,877.66
Construction in progress	1,074.00	1,334.08	(5.88)	70.38	-	(24.97)	(1,205.21)	1,242.40
Advances on property, plant and equipment	7.21	0.91	(0.04)	1.17	-	(0.41)	0.21	9.05
Installation materials	185.66	294.43	(4.68)	10.95	-	(2.54)	(218.91)	264.91
Property, plant and equipment, gross	68,439.95	3,174.06	(1,553.27)	2,602.42	(26.35)	(203.12)	(39.67)	72,394.02
Accumulated depreciation								
Structures	2,167.33	225.45	(49.20)	121.81	(1.18)	(9.72)	13.05	2,467.54
Plant and machinery	1,585.52	211.53	(29.61)	99.84	(6.30)	(46.78)	(185.35)	1,628.85
Telephone installations	38,360.03	3,837.87	(1,115.46)	1,520.22	(0.37)	(120.98)	173.72	42,655.03
Furniture, tools and other items	1,927.85	355.07	(170.14)	145.57	(8.34)	(15.75)	(35.80)	2,198.46
Total accumulated depreciation	44,040.73	4,629.92	(1,364.41)	1,887.44	(16.19)	(193.23)	(34.38)	48,949.88
Allowances for decline in value	83.44	19.89	(25.78)	8.56	-	(1.20)	11.09	96.00
Property, plant and equipment, net	24,315.78	(1,475.75)	(163.08)	706.42	(10.16)	(8.69)	(16.38)	23,348.14

Millions of euros

	Balance at 12-31-02	Additions	Retirements	Inclusion of Companies	Exclusion of Companies	Translation Differences	Transfers	Balance at 12-31-03
Cost								
Land and structures	6,159.15	22.93	(264.71)	15.38	(4.32)	(67.50)	210.23	6,071.16
Plant and machinery	3,739.81	55.43	(33.83)	16.32	(7.25)	(162.45)	(1,222.61)	2,385.42
Telephone installations	53,758.90	280.18	(722.61)	170.47	(0.34)	(766.85)	3,165.57	55,885.32
Furniture, tools and other items	3,132.06	132.27	(492.56)	23.95	(10.91)	(89.97)	136.34	2,831.18
Total property, plant and equipment in service	66,789.92	490.81	(1,513.71)	226.12	(22.82)	(1,086.77)	2,289.53	67,173.08
Construction in progress	986.15	2,342.47	(18.79)	9.22	(0.21)	(36.15)	(2,208.69)	1,074.00
Advances on property, plant and equipment	66.15	1.07	(0.19)	0.16	-	(5.08)	(54.90)	7.21
Installation materials	162.63	122.08	(8.94)	-	-	4.79	(94.90)	185.66
Property, plant and equipment, gross	68,004.85	2,956.43	(1,541.63)	235.50	(23.03)	(1,123.21)	(68.96)	68,439.95
Accumulated depreciation								
Structures	2,120.13	218.61	(88.99)	2.41	(2.18)	(17.35)	(65.30)	2,167.33
Plant and machinery	1,540.87	287.61	(26.47)	4.06	(5.53)	(194.35)	(20.67)	1,585.52
Telephone installations	35,217.52	4,016.14	(641.69)	76.32	(0.22)	(326.33)	18.29	38,360.03
Furniture, tools and other items	1,941.31	419.61	(424.53)	13.96	(5.45)	(72.15)	55.10	1,927.85
Total accumulated depreciation	40,819.83	4,941.97	(1,181.68)	96.75	(13.38)	(610.18)	(12.58)	44,040.73
Allowances for decline in value	85.37	19.84	(10.36)	-	-	(10.34)	(1.07)	83.44
Property, plant and equipment, net	27,099.65	(2,005.38)	(349.59)	138.75	(9.65)	(502.69)	(55.31)	24,315.78

The "inclusion of Companies" column in 2004 includes most notably the addition of the assets relating to the companies acquired by Telefónica Móviles from BellSouth, which led to increases in gross cost, accumulated depreciation and allowances of €2,586.91 million, €1,880.59 million and €8.56 million, respectively. As in the case of intangible assets, Telefónica Móviles is performing a valuation of the tangible fixed assets acquired as part of the purchase of the BellSouth operators in order to allocate to these assets the corresponding portion of the purchase price, up to the limit of their market value.

This valuation has disclosed asset overstatements amounting to €117 million, which are recorded as a reduction of the value of the assets acquired. Although this valuation had not been completed at the date of these consolidated financial statements, no significant differences are expected to arise with respect to the net book value of the recorded tangible and intangible assets.

The investments in 2003 and 2004 included most notably in the case of Telefónica de España additions of €1,084.26 million and €327.09 million, respectively, focused mainly on the deployment of the RIMA network (high performance IP network) and the launch of ADSL, in which a cumulative investment of €1,988.61 million has been made since the beginning in August 2001.

The additions at the Telefónica Móviles Group in 2003 amounted to €996.84 million and related mainly to the increase in and deployment of the capacities of the GSM and GPRS networks and the increase in the investment in the UMTS network. The additions at the Telefónica Internacional Group for investments in the year amounted to €504.48 million and related to both traditional and broadband (ADSL) investments.

The "Retirements" column of the various captions includes basically the dismantling of telephony plant of Telefónica de España (see Note 20) with a gross cost of €1,177.29 million in 2004 (€1,134.64 million in 2003).

The "Translation Differences" column includes both the effect of the variation in exchange rates on the beginning balances and the monetary adjustment applied by certain companies to their balances to adjust for inflation, in accordance with the accounting practices in their respective countries. The effect of exchange rates on the period variations is included in the appropriate column for each variation.

As of December 31, 2004 and 2003, the following items had been fully depreciated:

<i>Millions of euros</i>	12-31-04	12-31-03
Buildings and structures	365.11	251.94
Plant, machinery and tools	2,135.56	991.97
Telephone installations	21,847.68	19,068.16
Other tangible fixed assets	1,409.54	989.75
Total	25,757.89	21,301.82

Telefónica de España's fixed assets used to provide services currently regulated by the related license cannot be mortgaged without prior administrative authorization.

The Telefónica Group companies have taken out insurance policies to reasonably cover the possible risks to which their property, plant and equipment used in operations are subject with suitable limits and coverage. These policies include certain franchises for local and domestic long-distance networks and subscriber equipment.

On December 31, 1996, Telefónica de España revalued its property, plant and equipment pursuant to Royal Decree-Law

7/1996. The Company had previously revalued its assets pursuant to the enabling legislation specifically applicable to Telefónica de España. The net increase in value resulting from these revaluations is being depreciated over the years of remaining useful life of the revalued assets. The percentage of total assets represented by the revalued assets and the effect on the depreciation expense for the year in the accompanying consolidated balance sheet and statement of income are not material.

The detail, as of December 31, 2004, of the property, plant and equipment owned by consolidated Group companies located abroad is as follows:

	<i>Millions of euros</i>
Cost	30,688.56
Accumulated depreciation	(18,170.64)
Total	12,517.92

(8) LONG-TERM INVESTMENTS

The detail of the balances of the long-term investments and of the related investment valuation allowances as of December 31, 2004 and 2003, and of the variations therein in the years then ended, is as follows:

Millions of euros

	Investments in Associated Companies	Other Investments	Other Loans	Deposits and Guarantees	Tax Receivables (Note 18)	Allowances	Total
Balance at 12-31-02	2,081.19	932.03	2,225.26	160.77	9,679.42	(295.54)	14,783.13
Additions	419.43	21.57	1,005.17	533.22	874.01	(93.50)	2,759.90
Retirements	(47.38)	(528.68)	(607.54)	(118.29)	(1,627.84)	46.77	(2,882.96)
Inclusion of companies	-	-	8.15	0.48	3.94	-	12.57
Exclusion of companies	(17.68)	-	-	(2.53)	(0.42)	(5.47)	(26.10)
Translation differences	(108.04)	(25.79)	(6.21)	5.12	(25.32)	12.69	(147.55)
Losses	(212.58)	-	-	-	-	-	(212.58)
Dividends	(31.62)	-	-	-	-	-	(31.62)
Transfers	(575.92)	93.24	(1,412.30)	3.62	125.69	(17.72)	(1,783.39)
Balance at 12-31-03	1,507.40	492.37	1,212.53	582.39	9,029.48	(352.77)	12,471.40
Additions	138.77	18.72	323.51	41.34	958.65	(65.96)	1,415.03
Retirements	(185.13)	(113.38)	(105.12)	(64.44)	(1,342.14)	17.31	(1,792.90)
Inclusion of companies	-	0.05	0.57	1.80	54.21	-	56.63
Exclusion of companies	-	-	(3.54)	-	-	16.25	12.71
Translation differences	8.30	1.82	(24.38)	6.30	(0.74)	(1.47)	(10.17)
Losses	(56.11)	-	-	-	-	-	(56.11)
Dividends	(29.98)	-	-	-	-	-	(29.98)
Transfers	(224.17)	118.94	(72.00)	(8.54)	(132.29)	46.24	(271.82)
Balance at 12-31-04	1,159.08	518.52	1,331.57	558.85	8,567.17	(340.40)	11,794.79

The additions to and retirements from the "Investments in Associated Companies" and "Other Investments" accounts reflect the amount of the investments detailed in the variations in the consolidated Group as of December 31, 2004 and 2003, described in Exhibit II.

The "Other Loans" caption includes mainly the investment of the net level premium reserves of the Group's insurance companies, mainly in fixed-income securities and long-term deposits amounting to €702.65 million and €676.93 million as of December 31, 2004 and 2003, respectively, which earned average returns in 2004 of between 3.68% and 5.17%. The "Short-Term Investments - Short-Term Investment Securities" caption in the consolidated balance sheet as of December 31, 2004, includes €576.28 million (€559.10 million in 2003) which also relate to short-term investments made by the Group's insurance companies to cover commitments, which are accounted for as "Technical Reserves" (see Note 14). The maturity schedule for these financial assets is established on the basis of the projections of payments to be made for the commitments acquired.

Noteworthy in connection with the balances receivable from associated companies as of December 31, 2004 and 2003, is the financing granted to Sogecable, S.A. in accordance with the commitments assumed in relation to the integration of the satellite platforms, as indicated in Note 22-b. Thus, the "Long-term Investments - Other Loans" and "Short-term Investments - Loans to Associated Companies" captions include €230.38 million and €24.46 million, respectively, of loans to this company (€222.49 million and €9.27 million as of December 31, 2003). These were also long-term balances of €66.64 million receivable from Medi Telecom and of €314.27 million receivable from Ipse 2000 at 2004 years end.

In connection with the investment in Ipse 2000, the net exposure as of December 31, 2004, including financing granted, amounted to €136 million. Although this company has an imbalanced financial position, it is considered that no additional allowance is required because of the business opportunities allowed by the regulatory framework in Italy (assignment or sale of radio spectrum) and of the opportunity for optimizing and using the accumulated tax losses.

The "Receivable from Associated Companies" and "Payable to Associated Companies" captions include most notably €52.07 million and €15.89 million, respectively, relating to Brasilcel Group companies. €10.55 million of the "Receivable from Associated Companies" caption and €0.44 million of the "Payable to Associated Companies" relate to Medi Telecom. The latter caption also includes a balance of €11.71 million payable to Amper.

The "Deposits and Guarantees" account includes mainly €467.68 million to cover guarantees. These deposits will decrease as the respective obligations they are guaranteeing are reduced.

The "Tax Receivables" caption includes the long-term deferred tax assets and other tax assets, which are grouped together under the "Long-Term Investments" caption on the asset side of the consolidated balance sheet in accordance with an ICAC Resolution on Valuation Standard 16 of the Spanish National Chart of Accounts, and the tax credits recognized in the year (see Note 18).

In 2004 the Telefónica Group sold the following investments in various companies with the results detailed below:

<i>Millions of euros</i>	<i>Percentage of Capital Stock Sold</i>	<i>Gain (Loss)</i>
Subsidiaries and associated companies		
Lycos, Inc	100%	26.17
Telefónica Móvil de Chile, S.A.	7.54%	14.33
Tecnología y S.V.A., S.A.	100%	10.77
Radio Móvil Digital	99.99%	10.23
Pearson Plc.	4.84%	(33.23)
Other		3.89
Net gain		32.16

The Group and associated companies listed on stock markets are as follows:

- Telefónica, S.A.
- Telefónica Móviles, S.A.
- Telefónica Publicidad e Información, S.A.
- Terra Networks, S.A.
- Sogecable, S.A.
- Amper, S.A.
- Lycos Europe, N.V.
- Compañía de Telecomunicaciones de Chile, S.A. (CTC Chile)
- Telefónica de Argentina, S.A.
- Telefónica de Perú, S.A.A.
- Compañía Anónima Nacional de Teléfonos de Venezuela, C.A. (CANTV)
- Portugal Telecom, S.A.
- Telecomunicações de São Paulo, S.A. (Telesp)
- Tele Sudeste Celular Participações, S.A.
- Telesp Celular Participações, S.A.
- Tele Centro Oeste Celular Participações, S.A. (TCO)
- Tele Leste Celular Participações, S.A.
- Celular CRT Participações, S.A.
- Infonet Services Corporation
- Telefónica Móviles El Salvador, S.A. de C.V.
- Telefónica Data Brasil Holding, S.A.
- Telefónica Mundo, S.A. (188 Telefónica Mundo)
- Telefónica Móviles Argentina, S.A.
- Telefónica Holding de Argentina, S.A.
- Telefónica Data Argentina, S.A.
- Telefónica Empresas Perú, S.A.A.
- Telefónica Móviles Perú Holding, S.A.A.
- Comunicaciones Móviles de Perú, S.A.A.
- Multiholding Corporation, S.A.

Short-term investments

This caption in the accompanying consolidated balance sheet as of December 31, 2004, includes basically the following items:

- The investment in short-term assets of Telefónica's cash surpluses, which amounted to €184.61 million (€1,287.03 million in 2003), and the investments made with the net level premium reserves of the Group's insurance companies, which amounted to €576.28 million, as indicated above (€559.10 million in 2003).
- The investments relating to the Telefónica Móviles Group recorded under the "Other Loans" caption, which amounted to €528.68 million (€300.34 million in 2003).

(9) DEFERRED CHARGES

The breakdown of the balance of this caption and the amortization schedule are as follows:

Millions of euros

	Maturity						Subsequent Years	Balance at 12-31-04	Balance at 12-31-03
	2005	2006	2007	2008	2009				
Supplementary pension payments to retired employees (shortfall) (Note 4g)	61.58	61.59	30.80	-	-	-	153.97	263.07	
Debt arrangement expenses	16.99	12.92	7.48	5.35	4.25	7.21	54.20	64.69	
Interest on long-term promissory notes	7.00	7.05	7.13	7.27	7.42	8.61	44.48	51.60	
Interest on financial lease contracts	0.73	0.60	0.51	0.45	0.47	3.44	6.20	6.41	
Externalization of commitments (Note 4g)	10.44	8.91	7.47	5.96	4.73	7.95	45.46	57.22	
Other deferred charges	40.81	25.59	13.06	12.34	11.35	24.77	127.92	92.05	
Total	137.55	116.66	66.45	31.37	28.22	51.98	432.23	535.04	

(10) TRADE RECEIVABLES

The detail of the balances of this caption as of December 31, 2004 and 2003, is as follows:

Millions of euros

	Balance at 12-31-04	Balance at 12-31-03
Trade receivables billed	4,364.05	4,547.42
Other receivables	136.19	65.63
Services billed	4,500.24	4,613.05
Unbilled services	1,883.06	1,653.12
Trade receivables	6,383.30	6,266.17
Allowance for bad debts	(1,546.68)	(1,685.75)
Net balance	4,836.62	4,580.42

The “Unbilled Services” account includes the connection, monthly and meter service charges not yet billed by the Group operators. This amount arises because these companies’ subscriber billing schedules do not coincide with December 31 (see Note 4-q).

The balance of the public-sector trade receivables in the countries in which the Group operates amounted to €483.58 million as of December 31, 2004 (€387.85 million as of December 31, 2003).

In 2004 the provisions to the allowance for bad debts amounted to €318.98 million (€380.82 million in 2003).

(11) STOCKHOLDERS' EQUITY

The detail of the balances of equity accounts and of the variations therein in 2004 and 2003 is as follows:

Millions of euros

	Balance at 12-31-02	Distribution of 2002 Income	Other Variations	Distribution of Dividends	Variations in Capital Stock	Balance at 12-31-03	Distribution of 2003 Income	Distribution of Dividends	Other Variations	Balance at 12-31-04
Capital stock	4,860.66	-	-	-	95.23	4,955.89	-	-	-	4,955.89
Additional paid-in capital	11,670.02	(1,516.22)	(247.74)	(1,653.15)	(265.77)	7,987.14	-	(951.64)	(1,747.82)	5,287.68
Revaluation reserves	2,870.90	(1,316.67)	-	-	(196.37)	1,357.86	-	-	-	1,357.86
Unrestricted Reserve for treasury stock	4,816.37	2,621.05	975.84	-	-	8,413.26	(136.13)	(972.53)	536.02	7,840.62
Other restricted ireserves	334.56	-	(201.10)	-	-	133.46	-	-	556.72	690.18
Consolidation ireserves	657.97	-	-	-	-	657.97	137.37	-	-	795.34
Translation differences in consolidation	3,870.14	(5,364.96)	(1,061.79)	-	-	(2,556.61)	2,202.34	-	(1,073.50)	(1,427.77)
Income (Loss) for the year	(6,507.82)	-	111.83	-	-	(6,395.99)	-	-	244.02	(6,151.97)
Total	16,996.00	-	1,780.62	(1,653.15)	(366.91)	16,756.56	-	(1,924.17)	1,392.73	16,225.12

The "Other Variations" column relating to the "Unrestricted Reserves" and "Consolidation Reserves" accounts relates mainly to the dividends paid to the Parent Company by its subsidiaries. Also, in 2004 and 2003 it includes in the "Additional Paid-in Capital" account the provision recorded to reduce the carrying value of the shares of treasury stock to their underlying book value. Lastly, the "Consolidation Reserves" account included in 2003 €80.45 million arising as a result of the capital reduction carried out by Terra Networks, S.A. in order to reduce the value of its treasury stock to its underlying book value.

a) Capital stock

As of December 31, 2004, Telefónica, S.A.'s capital stock amounted to €4,955,891,361, and consisted of 4,955,891,361 fully paid common shares of a single series and of €1 par value each, all recorded by the book-entry system and traded on the Spanish computerized trading system ("Continuous Market") (in the selective "Ibex 35" Index), on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York, London, Paris, Frankfurt, Tokyo, Buenos Aires, São Paulo and Lima Stock Exchanges.

On June 15, 2001, the Stockholders' Meeting of Telefónica, S.A. resolved to authorize the Board of Directors to increase the Company's capital, at one or several times within a maximum period of five years from that date, under the terms provided by Article 153.1 b) of the Spanish Corporations Law (authorized capital) up to a maximum of €2,274.68 million, by issuing for this purpose the related new common shares, be they redeemable or of any other type permitted by the Law, with a fixed or variable premium, with or without preemptive subscription right and, in all cases, with disbursements for the new shares issued in the form of monetary contributions. As of December 31, 2004, the Board of Directors had not made use of this authorization.

Furthermore, on April 12, 2002, the Stockholders' Meeting resolved to approve two successive capital increases at the Company with a charge to unrestricted reserves, each for an amount equal to 2% of the subscribed and paid-in capital stock, through two successive issues of new shares that would be assigned totally free of charge to the Company's stockholders at a ratio of one new share for every 50 shares held by them, and empowered the Board of Directors accordingly to execute the resolution in question within one year from the date on which it was adopted. These capital increases were carried out during the first few months of 2003, as indicated below.

Also, on April 11, 2003, the Stockholders' Meeting empowered the Board of Directors to issue fixed income securities at one or several times within a maximum period of five years from that date. The fixed-income securities issued can be debentures, bonds, promissory notes or any other kind of fixed-income security, both simple and, in the case of debentures and bonds, exchangeable for shares of the Company or of any of the Group companies and/or convertible into shares of the Company. As of December 31, 2004, the Board of Directors had not exercised these powers, except in relation to the approval of two programs to issue corporate promissory notes for 2004 and 2005.

Also, on April 30, 2004, the Stockholders' Meeting resolved to authorize the Board of Directors to derivatively acquire treasury stock, for a consideration, up to the limits and pursuant to the terms and conditions established by the Stockholders' Meeting, within a maximum period of 18 months from that date. However, it established that in no case could the par value of the shares acquired, added to that of the treasury stock already held by Telefónica, S.A. and any of its controlled subsidiaries, exceed 5% of the capital stock of Telefónica.

As of December 31, 2004 and 2003, the Telefónica Group companies held the following shares of the Parent Company, Telefónica, S.A.:

	Euros per Share (*)				
	Number of Shares	Acquisition	Market Price	Market Value	%
Treasury stock at 12-31-04	207,245,179	11.83	13.228	2,741.44	4.18179
Treasury stock at 31-12-03	40,532,869	10.39	10.847	439.66	0.81787

(*) As indicated in Note 4-i, a drop in the market value of the shares to below acquisition cost would lead to the recording of additional provisions with a charge to consolidated income, but would not affect the total amount of consolidated equity.

In 2004 the Company acquired for a consideration 166,712,310 shares of treasury stock for €2,031.05 million.

The consolidated balance sheets as of December 31, 2004 and 2003, include the acquisition cost of the shares of treasury stock (€2,452.31 million and €421.26 million, respectively) net of allowances of €1,762.13 million and €287.80 million, respectively, the provisions to which were recorded, in accordance with current accounting regulations (see Note 4-i), with a cumulative charge to unrestricted reserves in respect of the amount by which cost exceeds the underlying book value. The allowance released with a credit to 2003 consolidated income amounted to €159.95 million, as a result of the positive performance of the share price in the period, which enabled the Group to release the provisions recorded in prior years in which the market price of the share was lower than cost (see Note 20).

The Company has recorded the related restricted reserve for the amount of these shares of treasury stock. Also, in 2004 and 2003 it recorded provisions of €1,474.33 million and €448.84 million, respectively, with a charge to the "Unrestricted Reserves" caption to reflect the shares of treasury stock at their underlying book value (see Note 4-i).

Variations in capital stock and additional paid-in capital in 2004

The variations in 2004 in the "Capital Stock" and "Additional Paid-in Capital" captions were as follows:

		<i>Millions of euros</i>		
	Date	Number of Shares	Capital Stock	Additional Paid-in Capital
Balance at 12-31-03				
Cash dividend	04/30/04	4,955,891,361	4,955.89	7,987.14
Restricted reserve for treasury stock	-	-	-	(951.64)
Valuation of treasury stock	-	-	-	(556.72)
Balance at 12-31-04		4,955,891,361	4,955.89	5,287.68

In 2004 the Company did not perform any capital increase or reduction transaction.

On April 30, 2004, the Stockholders' Meeting resolved to pay a cash dividend out of 2003 income consisting of the payment of €0.20 for each Company share outstanding. This dividend was paid on May 14, 2004, and the total amount paid was €972.53 million.

Also on April 30, 2004, the Stockholders' Meeting approved the distribution of a portion of the additional paid in capital recorded in the Company's balance sheet, through the payment of €0.20 for each Company share outstanding, with a charge to the "Additional Paid-in Capital" caption. This amount was paid on November 12, 2004, and the total amount paid was €951.64 million.

Variations in capital stock and additional paid-in capital in 2003

The variations in 2003 in the "Capital Stock" and "Additional Paid-in Capital" captions were as follows:

			<i>Millions of euros</i>	
	Date	Number of Shares	Additional Capital Stock	Paid-in Capital
Balance at December 31, 2002		4,860,661,286	4,860.66	11,670.02
Capital increase at no cost to stockholders	02/12/03	97,213,225	97.21	-
Capital increase at no cost to stockholders	04/11/03	99,157,490	99.16	-
Retirement of treasury stock	06/05/03	(101,140,640)	(101.14)	(265.77)
Cash dividend	jul.-oct./03	-	-	(1,233.15)
Dividend in kind		-	-	(420.00)
Restricted reserve for treasury stock		-	-	(247.74)
Allocation of 2002 loss		-	-	(1,516.22)
Balance at December 31, 2003		4,955,891,361	4,955.89	7,987.14

The capital increases and reductions formalized in 2003 were as follows:

- On February 12, 2003, the notarial deed of formalization and execution of a capital increase at Telefónica S.A. was executed. This capital increase, for a par value of €97,213,225 was carried out with a charge to unrestricted reserves through the issuance of an equal number of new common shares of the Company, of €1 par value each, which were assigned to the Company's stockholders free of charge at a ratio of one new share for every 50 shares held by them. Following registration of the aforementioned public deed at the Mercantile Registry, the new shares were admitted to listing on official markets from February 27, 2003.
- On April 11 2003, the notarial deed of formalization and execution of a capital increase at Telefónica S.A. was executed. This capital increase, for a par value of €99,157,490, was carried out with a charge to unrestricted reserves through the issuance of an equal number of new common shares of the Company, of €1 par value each, which were assigned to the Company's stockholders free of charge at a ratio of one new share for every 50 shares held by them. Following registration of the aforementioned public deed at the Mercantile Registry, the new shares were admitted to listing on official markets from May 2, 2003.
- On June 5, 2003, the deed of capital reduction formalizing the implementation by the Company's Board of Directors of the resolution adopted by the Stockholders' Meeting on April 11, 2003, was executed. Capital was reduced through the retirement of treasury stock previously acquired by the Company pursuant to the authorization of the Stockholders' Meeting. As a result, 101,140,640 shares of treasury stock of Telefónica S.A. were retired and the Company's capital stock was reduced by a par value of €101,140,640. Article 5 of the bylaws in relation to the capital stock figure, which from that date was set at €4,955,891,361, was reworded accordingly. At the same time, pursuant to Article 167.3 of the Spanish Corporations Law, and in order to render null and void the right of opposition provided for in Article 166 of the Corporations Law, it was decided to record a reserve for retired capital stock for an amount equal to the par value of the retired shares, which can only be used if the same requirements as

those applicable to the reduction of capital stock are met. The retired shares were excluded from official listing on June 18, 2003.

In addition, on April 11, 2003, the Stockholders Meeting resolved to distribute a portion of the additional paid-in capital recorded in the Company's balance sheets, through the payment of €0.25 per share for each of the Company's outstanding shares. The related charge was made to the "Additional Paid-in Capital" account. This amount was paid in two installments, the first of €0.13 per share on July 3, 2003, and the second of €0.12 per share on October 15, 2003. The total amount paid amounted to €1,233.17 million.

Also, on April 11, 2003, the Stockholders' Meeting approved the distribution in kind of a portion of the additional paid in capital, for a total amount of up to €420,003,360, through the distribution to the stockholders of Telefónica S.A. of shares representing up to 30% of the capital stock of Antena 3 de Televisión S.A. This distribution, which was carried out in November 2003, was subject to the condition precedent, already fulfilled in the year, that the Spanish National Securities Market Commission (CNMV) approved the admission to listing of the shares of the aforementioned company (see Exhibit II).

b) Legal reserve

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Otherwise, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

c) Revaluation reserves

The balance of the "Revaluation Reserves" caption arose as a result of revaluations made from 1946 to 1987 and of the revaluation made pursuant to Royal Decree-Law 7/1996.

The detail as of December 31, 2004 and 2003, of the balance of the revaluation reserves, which amounted to €1,357.86 million, and of the variations therein in 2004 and 2003 is as follows:

	<i>Millions of euros</i>
Revaluations made from 1946 to 1987	4,478.76
Revaluation made pursuant to Royal Decree-Law 7/1996	1,357.40
Amounts used	
Capital increases from 1977 to 1986	(447.68)
Transfer to provisions in 1982	(113.16)
Single tax on revaluation, Royal Decree-Law 7/1996	(40.72)
Other variations from 1981 to 1986	(15.45)
Amount used in 1998	(1,795.07)
1999 capital increase	(188.42)
Capital increase on January 25, 2001	(86.82)
Capital increase on April 3, 2001	(89.20)
Balance at 12/31/01	3,059.64
Capital increase on February 13, 2002	(93.44)
Capital increase on April 12, 2002	(95.30)
Balance at 12/31/02	2,870.90
Capital increase on February 12, 2003	(97.21)
Capital increase on April 11, 2003	(99.16)
Amounts used to offset 2002 losses	(1,316.67)
Balance at 12/31/03 and 12/31/04	1,357.86

d) Consolidation reserves

The detail of the consolidation reserves as of December 31, 2004, and of the variations therein in 2004 is as follows:

Millions of euros

	Balance at 12/31/03	Increase	Decrease	Balance at 12/31/04
Fully consolidated companies	(1,956.68)	2,843.44	(1,478.64)	(591.88)
Companies accounted for by the equity method	(599.93)	34.40	(270.36)	(835.89)
Total	(2,556.61)	2,877.84	(1,749.00)	(1,427.77)

The detail of the consolidation reserves as of December 31, 2003, and of the variations therein in 2003 is as follows:

Millions of euros

	Balance at 12/31/02	Increase	Decrease	Balance at 12/31/03
Fully consolidated companies	4,402.65	799.10	(7,158.43)	(1,956.68)
Companies accounted for by the equity method	(532.51)	9.00	(76.42)	(599.93)
Total	3,870.14	808.10	(7,234.85)	(2,556.61)

e) Translation differences in consolidation

The translation differences relate mainly to the effect of exchange rate fluctuations on the net assets of the companies located abroad after elimination of intercompany balances and transactions (see Note 4-b). This caption also includes the exchange differences resulting from specific-purpose foreign-currency financing transactions relating to investments in investees and which hedge the exchange risk on these investments.

Following the exclusion of an investee from consolidation, the translation differences contributed by this investee through the date of sale are transferred to the "Consolidation Reserves" caption.

The detail of the contribution made by the Group companies to the translation differences in consolidation is shown in Exhibit I.

f) Legislation regulating the sale of holdings

Law 62/2003 on Tax, Administrative, Labor and Social Security Measures, based on the judgment of the European Court of Justice of May 13, 2003, amended the administrative authorization system contained in Law 5/1995 on the legal regime applicable to the disposal of public shareholdings in certain companies, to which certain of the corporate transactions and agreements of Telefónica S.A., Telefónica Móviles S.A., Telefónica Móviles España, S.A.U. and Telefónica de España, S.A.U. are subject pursuant to Royal Decree 8/1997.

The reform introduces a new model for administrative involvement, replacing the system of prior authorization with that of subsequent notification. The cases that must be notified were also reduced.

Specifically, the sale or encumbrance of shares without notification is permitted, provided that there is no change in control, in relation to shares representing up to 50% of the capital stock of (I) Telefónica de España, S.A.U. owned by

Telefónica, S.A.; (II) Telefónica Móviles, S.A. owned by Telefónica, S.A.; and (III) Telefónica Móviles España, S.A.U. owned by Telefónica Móviles, S.A.

Additionally, the notification system still applies to the direct, indirect or triggered acquisition, even through third-party trusts or interposed third parties, of shares of Telefónica S.A. or of Telefónica Móviles S.A. when they result in the disposal of at least 10% of the capital stock. However, cases constituting mere financial transactions that do not have as their objective the obtainment of the control and/or management of these companies are excluded.

Also, the disposal or encumbrance of certain strategic assets located in Spain by Telefónica de España and Telefónica Móviles España continue to be subject to the aforementioned notification system, except when these transactions are carried out between Group companies.

€142.06 million relating to the inclusion in the consolidated financial statements of Tele Centro Oeste Celular Participações, S.A. and €240.38 million relating to the inclusion of Antena 3 de Televisión, S.A. (see Exhibit II). As indicated in Exhibit II, the latter investment was subsequently excluded from consolidation, giving rise to a reduction of €244.39 million in the balance of the "Minority Interests" caption.

(12) MINORITY INTERESTS

This caption relates to the equity of minority stockholders in the net worth and results for the year of the fully consolidated Group companies. The variations in 2004 and 2003 in the balances of this caption in the consolidated balance sheets were as follows:

	<i>Millions of euros</i>
Balance at 12/31/02	5,612.93
Capital contributions and inclusion of companies	396.06
Income for the year	245.49
Variation in translation differences	(60.87)
Acquisitions and exclusion of companies	(1,452.21)
Dividend paid	(309.66)
Other variations	(5.52)
Balance at 12/31/03	4,426.22
Capital contributions and inclusion of companies	25.47
Income for the year	381.01
Variation in translation differences	3.62
Acquisitions and exclusion of companies	(10.00)
Dividend paid	(1,082.97)
Other variations	32.23
Balance at 12/31/04	3,775.58

The detail of the balances of this caption and of the variations relating to the main Group companies is shown in Exhibit IV.

2004

The most significant variations in minority interests in 2004 were those relating to the distribution of dividends by Telefónica Empresas CTC Chile, S.A., Terra Networks, S.A. and Telesp Participações, S.A..

2003

Noteworthy in 2003 was the effect of the tender offer for Terra Networks, S.A. shares that led to a reduction of €1,207.42 million in the balance of "Minority Interests", and this amount is included in the "Acquisitions" account in the accompanying table (see Exhibit II). Also worthy of mention in relation to "Capital Contributions and Inclusion of Companies" are the

(13) DEFERRED REVENUES

The detail of the balances of this caption in the accompanying consolidated balance sheets and of the variations therein in 2004 and 2003 is as follows:

Millions of euros

	Capital Subsidies	Exchange Gains	Accrual of Investment Tax Credit (Note 18)	Other	Total
Balance at 12/31/02	238.07	3.46	157.06	481.87	880.46
Additions	1.81	42.15	33.99	116.50	194.45
Transfers and other variations	0.34	(5.35)	(3.56)	(34.32)	(42.89)
Allocation to income	(53.78)	(38.16)	(47.38)	(234.73)	(374.05)
Balance at 12/31/03	186.44	2.10	140.11	329.32	657.97
Additions	10.08	26.28	32.92	19.27	88.55
Transfers and other variations	0.55	3.92	0.02	(22.54)	(18.05)
Allocation to income	(94.90)	(23.33)	(74.84)	(206.43)	(399.50)
Balance at 12/31/04	102.17	8.97	98.21	119.62	328.97

The "Other" caption included €64.70 million as of December 31, 2003, relating to the revenue to be collected in the five years following 1999 for the future deduction at Telesp of amortization of goodwill, which is tax deductible at that company and was written off at 2004 year-end.

In 2000, as a result of various changes in the conditions of the liabilities for pensions and other welfare benefits to Telesp employees, the liability recorded in this connection was reassessed. This reassessment disclosed an overprovision in 2000 which was reflected in this caption and the impact of which on the statement of income was deferred over future years. The prevailing conditions are analyzed periodically until the company is able to assess the final resolution of certain matters. In line with the trend in prior years, in 2004 this company's commitments to its retired employees decreased sharply and the plans for medical assistance to this group of employees were modified to provide benefits adapted to these retirees' requirements, which entailed a much lower cost for the company than the former plan in force. Because of these matters, which were disclosed in independent experts' reports, the outstanding balance of this liability was eliminated since the reasons which gave rise to its recording in 2000 ceased to exist in the last few years. The balance outstanding of €48.50 million was recorded as an extraordinary revenue in the accompanying statement of income (see Note 20).

This caption also includes €101.31 million and €103.20 million as of December 31, 2004 and 2003, respectively, relating to the amounts collected by Telefónica de España and Emergia from other operators for the use of underwater cable systems.

Capital subsidies

The detail of the capital subsidies not yet allocated to income is as follows:

Millions of euros

Grantor	12-31-04	12-31-03
Official agencies, autonomous community governments, provincial and municipal governments, etc	13.78	33.99
EU-		
STAR Programme	-	1.99
ERDF Programme	0.80	3.58
ERDF 94/95 Operating Programme	84.18	141.48
Other	3.41	5.40
Total	102.17	186.44

(14) PROVISIONS FOR CONTINGENCIES AND EXPENSES

The detail of the balances of the provisions for contingencies and expenses and of the variations therein in 2004 and 2003 is as follows:

Millions of euros

	Balance at 12/31/02	Period Provisions	Amounts Used	Inclusion of Companies	Transfers and Other	Balance at 12/31/03	Period Provisions	Amounts Used	Inclusion of Companies	Transfers and Other	Balance at 12/31/04
Group insurance	9.04	0.73	(0.85)	-	2.50	11.42	1.83	(1.24)	-	-	12.01
Provisions for preretirements social security costs and voluntary severance	1,134.02	1,436.78	(300.72)	-	24.96	2,295.04	720.58	(370.97)	-	9.71	2,654.36
Technical reserves (Note 4.m)	3,287.25	13.30	(449.94)	(0.16)	-	2,850.45	122.05	(553.68)	-	-	2,418.82
Provision for pension funds of other companies	122.10	43.37	(96.90)	-	1.35	69.92	32.09	(33.09)	36.45	(19.40)	85.97
UMTS provision	2,298.97	8.84	(101.89)	-	(968.81)	1,237.11	14.57	(4.47)	-	(95.10)	1,152.11
Other provisions	1,163.53	497.07	(429.38)	18.43	(25.36)	1,224.29	202.36	(216.14)	(3.37)	43.80	1,250.94
Total	8,014.91	2,000.09	(1,379.68)	18.27	(965.36)	7,688.23	1,093.48	(1,179.59)	33.08	(60.99)	7,574.21

The main provisions and commitments to employees recorded under this caption in the accompanying consolidated balance sheets are as follows.

Group life insurance (internal allowance for survivorship benefits)

Serving employees who did not join the pension plan continue to be entitled to receive survivorship benefits at the age of 65. Telefónica de España has recorded a provision to cover these commitments, based on the actuarial calculations made under the following assumptions: GRM/F-95 mortality table and an assumed interest rate of 4%. Most of these commitments were externalized in 2002.

Provisions for preretirements, early retirements, social security costs and voluntary severance of Telefónica de España employees

In order to adapt to the competitive environment, in prior years Telefónica implemented preretirement, early retirement and technology renewal plans in order to adapt its cost structure to the new environment and took certain strategic decisions relating to its sizing and organization policy.

The provisions under this caption as of December 31, 2004 and 2003, include the commitments arising from the Special Agreement with the Social Security System, amounting to €377.98 million and €537.25 million, and the income commitments to employees who have taken voluntary severance, amounting to €337.62 million and €388.91 million, respectively.

Also, on July 29, 2003, the Ministry of Labor and Social Affairs approved a labor force reduction plan for Telefónica de España that envisages the termination of up to 15,000 employment contracts in the period from 2003 to 2007, through voluntary, universal and non-discriminatory programs. The approval of the labor force reduction plan was announced on July 30, 2003.

Within the framework regulated by the labor force reduction plan, in 2004 and 2003 the Company approved a total of 2,417 and 5,489 requests for voluntary severance, for which provisions amounting to €674.70 million and €1,372.29 million, respectively, were recorded with a charge to the "Extraordinary Expenses and Losses" caption in the consolidated statement of income, of a total recorded at consolidated level by the various Group companies of €908.03 million and €1,593.41 million, respectively (see Note 20). The outstanding balances as of December 31, 2004 and 2003, were €1,869.69 million and €1,334.45 million, respectively.

Technical reserves

This caption includes the reserves recorded by the Group's insurance companies. As indicated in various sections of these notes to consolidated financial statements, in November 2002, pursuant to the legislation in force, several of Telefónica de España's commitments to its employees were externalized to the Group company Seguros de Vida y Pensiones Antares, S.A. As of December 31, 2004 and 2003, the main items and amounts included under the "Technical Reserves" caption were as follows:

Millions of euros

12/31/04 | 12/31/03

Supplementary pension payments		
for retired personnel (a)	515.77	547.98
Group life insurance (b)	135.58	125.43
Preretirements and early retirements (c)	1,552.09	1,966.01
Other technical reserves	215.38	211.03
Total	2,418.82	2,850.45

- a) On July 8, 1992, Telefónica de España reached an agreement with its employees whereby it recognized supplementary pension payments for employees who had retired as of June 30, 1992, equal to the difference between the pension payable by the social security system and that which would be paid to them by ITP (Institución Telefónica de Previsión). Once the

aforementioned supplementary pension payments had been quantified, they became fixed, lifelong and non-updateable. 60% of the payments are transferable to the surviving spouse recognized as such as of June 30, 1992, and to underage children. The resulting underprovision on that date was recorded under the "Deferred Charges" caption and is being charged to income from that date by the straight-line method over 15 years, the estimated average remaining life of the retired employees (1992-2007) (see Note 9)

- b) See section above on "Group Life Insurance".
- c) Reserves relating to the insurance policies taken out to cover the retirement and preretirement of employees who availed themselves of the labor force reduction plans implemented by Telefónica de España in the past and which were externalized.

The companies that still have these commitments calculated the amounts to be provisioned at 2004 year-end using actuarial assumptions pursuant to current legislation, including most notably the ERM/F-2000 mortality tables and a floating interest rate of between 2.80% and 4% for the most significant amounts, based on the related hire dates.

Provision for the pension funds of other companies

The subsidiary Telecomunicações de São Paulo, S.A. (Telesp) had various pension plan, medical insurance and life insurance commitments to its employees. In 2000, this company and other companies which were formerly included in the Telebras telecommunications system in Brazil entered into negotiations with their employees. The negotiations ended in October 2000 with the conversion of the former defined-benefit pension plan into a new defined-contribution pension plan and the elimination of the life insurance plan. Substantially all the serving employees of these companies availed themselves of the new plan. As indicated in Note 13, in 2004, due mainly to the significant decrease in the medical benefit commitments to the retired employees of Telesp, the future payment obligations recorded at 2003 year-end in this connection were reduced significantly. Consequently, the liability recorded as of December 31, 2004, for this item, which amounted to €12.3 million, relates to the accrued commitments to be covered through future payments, net of the value of the assets covering them (€22.58 million in 2003).

Also worthy of note in this connection as of December 31, 2004, are the commitments acquired by Telefónica de Argentina and CTC Chile amounting to €10.10 million and €22.00 million, respectively (€17.52 million and €22.64 million, respectively, in 2003).

The variations in the "Other" column in 2004 and 2003 relate mainly to translation differences.

UMTS provisions

In relation to the value adjustments to UMTS licenses in 2002, this caption includes most notably a provision of €2,371.46 million recorded in 2002. The balance of this caption, net of the amounts used in 2002, 2003 and 2004, was €1,237.11 million at 2003 year-end and €1,152.12 million at 2004 year-end.

The transfers related to the reduction of the equity-method amount corresponding to the investment in Ipse 2000, after the company had recorded these effects in its net worth.

Other provisions

The balance of this caption as of December 31, 2004, includes various provisions recorded by the Telefónica Group companies, including most notably €47.6 million at the Telefónica Internacional subgroup relating to provisions for severance costs for the employees' years of service at the respective companies, in accordance with the legislation applicable in each country or with the contractual agreements entered into (€65.00 million as of December 31, 2003), and €150.61 million at Telefónica de España relating to the accrued amount of long-service bonuses paid to personnel after 25 years of service (€158.12 million in 2003).

Also, certain Group companies, mainly those in the Endemol Group, when investing in other companies make payment of part of the pacted price, conditional upon compliance by the acquired company with some related future goal, in most cases increased revenues, the obtainment of income, etc. Since a part of the acquisition price is therefore not fixed, each year the necessary estimates are made, considering the variables which might be pending ratification with the sellers, to evaluate the possible liabilities inherent to these transactions and the related goodwill. As of December 31, 2004, the amounts provisioned in this connection, €319.22 million and €15.60 million, were recorded under the long-term "Provisions for Contingencies and Expenses" and "Short-Term Provisions for Contingencies and Expenses" captions, respectively (€282.45 million and €70.44 million, respectively, as of December 31, 2003).

As of December 31, 2004 and 2003 this caption included €382.44 million relating to the debit balance with the minority stockholder of Group 3G UMTS Holding GmbH.

Lastly, the "Other Provisions" caption in 2004 and 2003 includes, inter alia, the provisions recorded (or used) by the Group companies to cover the risks inherent to the realization of certain assets, the contingencies derived from their respective business activities and the risks arising from commitments acquired in other transactions.

**(15) DEBENTURES, BONDS AND OTHER MARKETABLE
DEBT SECURITIES**

The variations in the years ended December 31, 2004 and 2003, in the balances relating to debentures, bonds and other marketable debt securities were as follows:

Millions of euros

	Non-Convertible Euro	Non-Convertible Foreign Currency	Promissory Notes and Paper	Total
Balance at 12/31/02	6,161.50	7,246.20	1,898.20	15,305.90
New issues	2,650.00	354.52	3,383.88	6,388.40
Redemptions, conversions and exchanges	(277.77)	(865.07)	(3,772.39)	(4,915.23)
Adjustments and other variations	68.46	(1,276.62)	(234.30)	(1,442.46)
Balance at 12/31/03	8,602.19	5,459.03	1,275.39	15,336.61
New issues	-	567.86	3,793.55	4,361.41
Redemptions, conversions and exchanges	(1,318.78)	(499.15)	(3,077.76)	(4,895.69)
Adjustments and other variations	96.77	(335.77)	(0.26)	(239.26)
Balance at 12/31/04	7,380.18	5,191.97	1,990.92	14,563.07
Maturity				
Long term	5,124.62	4,096.58	98.27	9,319.47
Short term	2,255.56	1,095.39	1,892.65	5,243.60
Unmatured accrued interest	296.07			296.07

Debentures and bonds

The main issues in 2004 were as follows:

Issues of Telefónica de Argentina, S.A.:

	Date	Face Value (Millions)	Currency	Maturity	Interest Rate
Marketable debentures	05/05/04	163.26	ARP	05/06/05	8.05%
Marketable debentures	10/28/04	134.85	ARP	10/28/05	8.25%
Marketable debentures	10/28/04	65.15	ARP	05/02/06	Floating BADLAR+2.4% (*)

(*) Maximum rate of 15% and minimum rate of 7%

Issues of Telesp Celular Participações, S.A.:

	Date	Face Value (Millions)	Currency	Maturity	Interest Rate
Marketable debentures	09/01/04	1500,00	BRL	09/01/07	103.5% CDI (*)

(*) Tipo de interés de referencia del mercado de Brasil.

Emisiones de Telefónica de Perú, S.A.A. bajo los programas de bonos:

	Date	Face Value (Millions)	Currency	Maturity	Interest Rate
3rd Bond Program T. Perú (2nd-Series A)	04/20/04	30,00	New Soles	04/20/07	5.3125%
3rd Bond Program T. Perú (3rd)	06/30/04	30,00	New Soles	12/30/07	8.1250%

The main issues in 2003 were as follows:

Under the EMTN program of Telefónica Europe, B.V.:

	Date	Face Value (Millions)	Currency	Maturity	Interest Rate
EMTN Issue	02/03/03	100.00	Euros	02/03/05	Floating EONIA + 0.47%
EMTN Issue	02/14/03	1,500.00	Euros	02/14/13	5.125%
EMTN Issue	02/14/03	500.00	Euros	02/14/33	5.875%
EMTN Issue	10/06/03	100.00	Euros	10/17/05	Floating EONIA + 0.23%
EMTN Issue	10/27/03	100.00	Euros	10/27/05	Floating EURIBOR + 0.14%
EMTN Issue	11/05/03	50.00	Euros	05/05/05	Floating EONIA + 0.17%
EMTN Issue	11/27/03	100.00	Euros	11/27/06	Floating EURIBOR + 0.18%
EMTN Issue	12/11/03	200.00	Euros	12/11/06	Floating EURIBOR + 0.18%

Issues of Telefónica de Argentina, S.A.:

	Date	Face Value (Millions)	Currency	Maturity	Interest Rate
Marketable debentures	08/07/03	189.70	USD	11/01/07	11.875%
Marketable debentures	08/07/03	220.00	USD	11/07/10	9.125%
Marketable debentures	08/07/03	148.14	USD	08/01/11	8.85%

These issues of Telefónica Argentina, S.A. relate to offers to exchange marketable debentures which were restructured during 2003 and which represented net additions of €147.49 million.

Issues of Telesp Celular Participações, S.A.:

	Date	Face Value (Millions)	Currency	Maturity	Interest Rate
Marketable debentures	06/24/03	75	USD	12/22/04	6.75%
Marketable debentures	08/11/03	250	BRL	08/01/08	104.6% CDI

Issues of Telefónica de Perú, S.A.A. under the bond programs:

	Date	Face Value (Millions)	Currency	Maturity	Interest Rate
2nd Bond Program T. Perú (8th)	03/14/03	75.00	New Soles	03/14/05	6.5%
2nd Bond Program T. Perú (8th-Series B)	04/22/03	15.00	New Soles	04/22/05	6.1875%
2nd Bond Program T. Perú (9th)	04/14/03	21.00	USD	01/14/05	2.4375%
3rd Bond Program T. Perú (1st)	11/24/03	50.00	New Soles	11/24/10	VAC + 5% (a)
6th Bond Issue T. Perú	06/18/03	70.00	New Soles	06/18/05	5.1875%
7th Bond Issue T. Perú	08/20/03	63.19	New Soles	08/20/08	7.9375%
8th Bond Issue T. Perú	08/20/03	16.84	USD	02/20/09	3.8125%
9th Bond Issue T. Perú	07/07/03	20.00	USD	07/07/07	3.125%

(a) VAC: Inflation (adjustment factor).

The detail of the debentures and bonds is shown in Exhibit V.

Corporate promissory notes

The features of the main corporate promissory note issue program as of December 31, 2004, were as follows::

Millions of euros

Limit Outstanding	Addressed to	Face Value	Method of Sale
2,000	Participating entities	1,000 100,000	Monthly auctions Specific transactions

The average interest rate on the outstanding position as of December 31, 2004, was 2.24%.

Commercial paper

The features of Telefónica Europe, BV's commercial paper issue program are as follows:

Millions of euros

Limit Outstanding	Addressed to	Face Value	Method of Sale
2,000	Investors	500,000 USD 500,000 EUR 100,000,000 JPY 100,000 GBP	Specific transactions Specific transactions Specific transactions Specific transactions

The average interest rate on the outstanding position as of December 31, 2004, was 2.24%.

Also, as of December 31, 2004, Telefónica del Perú, S.A.A. had a commercial paper issue program with a maximum outstanding limit of US\$ 180 million or its equivalent in local currency. As of that date US\$ 151.8 million had not been used, and the remaining US\$ 28.2 million, or its equivalent in local currency, had been drawn down through specific transactions at an interest rate as of December 31, 2004, of 4.55%.

Telesp has a local bond program, with a maximum limit outstanding of 3,000 million reais, which provided for the issue, up to this amount, of commercial paper and local bonds, at any maturity date, with interest in reais at fixed rates, floating rates (CDI) or tied to other indices, for example inflation (GPI – M or CPI – A). A first tranche of 1,500 million reais had been used at the end of 2004 and 1,500 million reais are still available for use.

(16) PAYABLE TO CREDIT INSTITUTIONS

The detail of the accounts payable to credit institutions is as follows:

Millions of euros

	Balance at 12/31/04			Balance at 12/31/03		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Corporate promissory notes	4.70	-	4.70	6.92	99.65	106.57
Loans and credits	2,629.13	2,756.36	5,385.49	988.76	2,815.97	3,804.73
Foreign currency loans	1,535.97	2,694.01	4,229.98	1,663.52	2,016.94	3,680.46
Total	4,169.80	5,450.37	9,620.17	2,659.20	4,932.56	7,591.76

As of December 31, 2004, the average interest rates on the corporate promissory notes, loans and credits and foreign currency loans were 13.52%, 3.05% and 3.89%, respectively. These percentages do not include the effect of the hedging arranged by the Group.

The most significant financial transactions in 2004 and 2003 were as follows:

	Amount (Millions)	Currency	Date	Maturity
ABN Amro Bank N.V.	377.08	USD	11/26/04	11/15/10
Drawdown against Citibank syndicated loan	500.00	Euro	07/06/04	07/06/09
Drawdown against Citibank syndicated loan	760.00	USD	07/06/04	07/06/09
Santander Overseas Bank	273.93	USD	10/28/04	10/28/05
JBIC (Telesp) loan	29,762.50	Yen	01/23/03	07/23/09

On July 6, 2004, Telefónica arranged a syndicated loan of €3,000 million with several Spanish and foreign banks. This syndicated loan matures in five years (July 6, 2009) and bears interest of EURIBOR/LIBOR plus a spread that will be based on the Company's credit rating. The commitments and obligations of the parties are those ordinarily assumed in syndicated financing transactions. Banco Bilbao Vizcaya Argentaria, S.A. and Caja de Ahorros y Pensiones de Barcelona ("La Caixa") acted, together with other institutions, as underwriters and lead managers.

On November 26, 2004, Telefónica, S.A. and several branches of ABN Amro Bank N.V. entered into a credit facility agreement amounting to US\$ 377.08 million, secured by the export credit agencies of Finland ("Finnvera") and Sweden ("EKN"), bearing fixed interest of 3.26% and with final maturity on November 15, 2010. This financing will cover up to 85% of the purchases of network equipment to be made by Telefónica Móviles Group companies from Ericsson and Nokia.

Santander Overseas Bank granted financing for US\$273.93 million to Telefónica Móviles's subsidiary in Colombia to refinance this company's debt at a floating interest rate tied to three-month Libor plus a spread of 0.125%. This financing was secured by Telefónica, S.A.

In December 2004, CTC Chile renegotiated a US\$ 200 million syndicated loan from several international banks which matured

in February and August 2005. The company extended the maturity date to December 21, 2009, and reduced the applicable interest rate from Libor plus a spread of 112.5 basis points to Libor plus a spread of 40 basis points, thus adapting it to current market conditions.

On April 9, 2003, Compañía de Telecomunicaciones de Chile (CTC) completed the renegotiation of the US\$ 225 million syndicated loan granted on February 7, 1996, of which US\$ 168 million were outstanding at 2003 year-end. The renegotiation will mainly enable the maturity to be extended to April 2008. The repayments will be made in three installments: US\$ 60 million on April 9, 2006, US\$ 75 million on April 9, 2007 and US\$ 33 million on April 9, 2008, and the interest rate will be Libor plus a spread based on the current risk classification.

The main repayments made in 2004 and 2003 were as follows:

	Amount (Millions)	Currency	Date
Early repayment of BSCH syndicated loan (Tranche A)	120.00	Euro	01/30/04
Repayment of BSCH syndicated loan (Tranche A)	254.25	Euro	02/19/04
Early repayment of BSCH syndicated loan (Tranche B) (1)	1,500.00	Euro	02/27/03
BBK loan	100.00	Euro	10/28/03
Alcatel loan(2)	166.78	USD	12/15/03
Qualcomm loan(2)	363.19	USD	Several
BSCH loan	200.00	Euro	12/30/03

(1) €1,145 million were repaid on that date by Telefónica S.A. and the remaining €355 million were repaid by Telefónica Europe B.V.

(2) These are the main repayments of accounts payable to the suppliers of Telefónica Móviles México. The amount of the Qualcomm loan is the overall figure for the year, which is broken down into three payments, the largest of which amounted to the US\$ 281.27 million and was repaid on June 13, 2003.

In 2003 Telefónica, S.A. made two early repayments of the syndicated loan, totaling €1,200 million, that was arranged in 1999 with several financial institutions: the first, amounting to €70 million, was made on October 30 and the second, amounting to €200 million, was made on December 30. Both repayments were made to Banco Santander Central Hispano (BSCH). In 2004 the two repayments detailed in the foregoing table were made, both to BSCH.

In 2003 Compañía de Telecomunicaciones de Chile (CTC) made an early repayment of the syndicated loan, amounting to US\$ 120 million, that was arranged on April 17, 2001, with JP Morgan Chase. The repayment was made in two installments: the first on April 23, amounting to US\$ 90 million, and the second on June 27, amounting to US\$ 30 million.

The claimability of certain financing arranged by various Telefónica Group companies is subject to compliance with certain financial covenants. All the covenants were being complied with at the date of preparation of these consolidated financial statements.

The scheduled maturities for repayment of the debt as of December 31, 2004, were as follows:

Millions of euros

	2005	2006	2007	2008	2009	Subsequent Years	Total
Corporate promissory notes	4.70	-	-	-	-	-	4.70
Loans and credits	2,629.13	756.49	245.51	134.90	528.35	1,091.11	5,385.49
Foreign currency loans	1,535.97	474.30	315.13	749.42	811.04	344.12	4,229.98
Total	4,169.80	1,230.79	560.64	884.32	1,339.39	1,435.23	9,620.17

As of December 31, 2004, the Telefónica Group had financing sources of various types exceeding €7,500 million and the possibility of negotiating the maturity dates of various of the existing financing commitments and, accordingly, any need of the Group arising from its short-term commitments is adequately covered.

Foreign currency loans

The detail of the foreign currency loans as of December 31, 2004 and 2003, is as follows:

Outstanding Balance (in Millions)

Currency	Foreign Currency		Euros	
	12-31-04	12-31-03	12-31-04	12-31-03
US dollars	4,540	3,711	3,305.50	2,806.09
Brazilian reais	877	1,061	242.52	290.86
Argentine pesos	191	52	47.06	14.21
Colombian pesos	90,172	-	27.77	-
Yen	45,488	47,083	351.55	348.63
Chilean pesos	125,363	84,266	165.48	112.36
New soles	363	219	81.21	50.19
Pounds sterling	-	20	0.06	29.46
Mexican pesos	109	269	7.13	18.96
Other currencies	-	-	1.70	9.70
Total for the Group	-	-	4,229.98	3,680.46

(17) DERIVATIVES

In 2004 the Group continued to use derivatives both to limit interest rate and exchange risks on unhedged positions and to adapt its debt structure to market conditions.

As of December 31, 2004, the total outstanding balance of derivatives transactions was €38,659.70 million (€30,915.29 million as of December 31, 2003), of which €24,428.19 million related to interest rate risk and €13,996.04 million to exchange risk (€13,342.11 million and €16,535.60 million as of December 31, 2003, respectively) (see Exhibit VI).

Most of the derivatives transactions are assigned directly to individual asset or liability positions in the consolidated balance sheet. Also, there is a transaction portfolio hedging other financial risks of the Group. The net financial gain obtained in 2004 in relation to these latter transactions amounted to €70.00 million (net revenue of €322.18 million in 2003).

(18) TAX MATTERS

Pursuant to a Ministerial Order dated December 27, 1989, since 1990 Telefónica, S.A. has filed consolidated tax returns with certain Group companies. 54 companies formed the consolidated tax Group in 2004.

Deferred tax assets and liabilities

The detail as of December 31, 2004 and 2003, of the Telefónica Group's deferred tax assets and liabilities, and of the variations therein in 2004 and 2003, is as follows:

Millions of euros

	Deferred and Other Tax Assets		Deferred Tax Liabilities		
	Short Term	Long Term	Short Term	Long Term	Intercompany Long Term
Balance at December 31, 2002	310.10	9,336.43	131.56	1,584.07	45.39
Reversal	(209.54)	(1,118.82)	(11.02)	(484.32)	(6.08)
Arising in the year	356.33	608.55	11.58	87.70	2.84
Net international variations	26.10	(30.74)	-	(496.85)	-
Inclusion/Exclusion of companies and other	35.52	29.68	30.55	(21.11)	6.33
Balance at December 31, 2003	518.51	8,825.10	162.67	669.49	48.48
Reversal	(333.29)	(1,394.04)	(52.27)	(71.26)	(4.42)
Arising in the year	241.97	748.56	18.38	119.64	18.64
Net international variations	29.83	0.24	-	7.81	-
Inclusion/Exclusion of companies and other	(9.72)	41.44	(0.26)	(10.95)	6.40
Balance at December 31, 2004	447.30	8,221.30	128.52	714.73	69.10

The balance of the "Long-Term Investments - Tax Receivables" caption, which amounts to €8,567.17 million (see Note 8), includes, in addition to the deferred and other tax assets shown in the foregoing table, an amount of €345.87 million (€204.38 million as of December 31, 2003) relating to tax credits recorded as indicated below.

The "Long-Term Debt – Taxes Payable" caption amounting to €855.82 million includes the deferred tax liabilities shown in the foregoing table, together with €71.99 million relating to long-term obligations to public authorities.

The deferred intercompany taxes relate to the differences arising from the elimination of unrealized gains on intercompany transactions, plus the cumulative differences between the net tax payable reported in the Telefónica Group's consolidated corporate income tax return and the sum of the net tax charges per the individual corporate income tax returns of the Telefónica Group companies.

Taxes payable and tax receivables

The detail of the "Other Nontrade Payables - Taxes Payable" and "Accounts Receivable - Tax Receivables" captions as of December 31, 2004 and 2003, is as follows:

Millions of euros

	Balance at 12/31/04	Balance at 12/31/03
Taxes payable		
Tax withholdings	115.54	101.95
Indirect taxes payable	828.18	485.37
Corporate income tax	398.15	109.43
Accrued social security taxes	172.95	172.13
Deferred tax liabilities	128.51	162.67
Other	216.07	149.54
Total	1,859.40	1,181.09

Millions of euros

	Balance at 12/31/04	Balance at 12/31/03
Tax receivables		
Tax withholdings and installment payments	224.35	198.40
Income tax refunds receivable	97.96	10.48
Taxes, surcharges and other payments recoverable	2.68	15.63
Deferred tax assets and other short-term tax credits	447.30	518.51
Indirect taxes refundable	644.47	370.01
Other	7.47	9.81
Total	1,424.23	1,122.84

Reconciliation of the income per books to the taxable income for corporate income tax purposes and determination of the tax expense

The reconciliation of the income per books to the taxable income for corporate income tax purposes as of December 31, 2004 and 2003, and the determination of the corporate income tax expense and the net tax payable for the two years are as follows.

Millions of euros

	2004	2003
Income per books	4,397.01	3,362.50
Permanent differences	(722.36)	(422.15)
Timing differences	400.52	(634.03)
Offset of tax losses	(338.65)	(358.74)
Taxable income	3,736.52	1,947.58
Gross tax payable	1,209.74	465.68
Tax credits and tax relief	(76.09)	(457.29)
Unrecorded prior years' tax assets	15.91	222.62
Corporate income tax payable (receivable)	1,149.56	231.01
Tax effect of timing differences and deferred revenues	(29.67)	112.20
Other items	18.82	570.22
Accrued corporate income tax	1,138.71	913.43

The permanent differences arose mainly as a result of the amortization of consolidation goodwill (see Note 5) and the results assignable to associated companies, and of events that gave rise to tax bases that are not included in the consolidated statement of income, such as translation differences, etc.

The main timing differences arose as a result of the investment valuation provisions recorded by individual companies for the amounts yet to be allocated to income in connection with their equity investments, and of the effect of retirement and early retirement plans, which are tax deductible based on the payment schedule rather than when the related provisions are recorded.

The Telefónica tax Group has €519.81 million (€449.27 million in 2003) of unused tax credits relating to 1999 through 2004. This amount includes €345.87 million recorded under the "Long-Term Investments – Tax Receivables" caption relating to tax credits recognized for accounting purposes in accordance with an ICAC resolution dated March 15, 2002 (see Note 4-p), mainly in connection with reinvestment of extraordinary income and research and development expenses (€161.22 million as of December 31, 2004). The tax credits not recognized in the consolidated balance sheet relate mainly to those arising from export activities.

The tax losses available for carryforward in Spain at the main Group companies total €18,140.23 million, of which €15,848.57 million, €1,128.38 million and €633.42 million were incurred in 2002, 2001 and 2000, respectively, and can be offset within 15 years. €12,780.97 million of these tax losses were capitalized, giving rise to a tax asset of €4,473.34 million, which was recorded under the "Long-Term Investments - Tax Receivables" caption and includes the projected offset of tax losses against the taxable income generated in 2004 which is detailed in the table above.

In the 2002 corporate income tax return a negative adjustment of €2,137.24 million was made in relation to Telefónica Móviles, S.A. as a result of the transfer of certain holdings acquired in prior years whose market value differed from the book value at which they were recorded (underlying book value) because Telefónica Móviles, S.A. applied the

provisions of Article 159 of the Corporations Law. No accounting effect for this adjustment was recorded, since the stance adopted by the authorities differs from that of the company. Also, as of December 31, 2004, the Terra Networks Group had unrecognized tax losses amounting to €2,911.54 million.

The Telefónica Group companies not domiciled in Spain reported tax assets of €156.81 million relating to tax losses recorded for accounting purposes. They also had €1,172.16 million of tax credits relating to tax losses which were not recorded in the consolidated balance sheet.

In connection with the sale of the holding in Lycos Inc. (see Note 2-c), Terra Networks, S.A. recognized a tax asset amounting to €272 million in 2004 which was included in the total tax asset of €306 million recognized in 2004. This tax asset arose from the difference between the sale price of Lycos Inc. shares for €89 million and the value at which the capital increase for the acquisition of this company was recorded, net of the adjustments (mainly provisions to the investment valuation allowance) which had already been tax deductible prior to the sale.

Additionally, the company is considering the possibility of reporting a higher tax loss for 2004, for an amount of up to €7,418 million, as a result of using as the acquisition value for tax purposes that which would result from taking the market value of the Lycos Inc. shares received, rather than the book value at which they were recorded, in conformity with Article 159 of the Spanish Corporations Law. However, in view of the opposite stance upheld by the tax authorities in their replies to the requests for tax rulings on similar cases and of the uncertainties prevailing about the final decision that may be adopted, no effect for accounting purposes was recognized in this connection in the consolidated financial statements.

On September 25, 2002, tax audits commenced at several of the companies included in tax Group 24/90 of which Telefónica, S.A. is the parent company. The taxes subject to review are corporate income tax (for the years from 1998 to 2000) and VAT and tax withholdings and prepayments relating to personal income tax, tax on income from movable capital, property tax and nonresident income tax (1998 to 2001). Although the tax audits have not yet been completed, the final outcome of the tax assessments signed under protest for approximately €135 million is not expected to disclose the need to record significant liabilities in the consolidated financial statements of the Telefónica Group.

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, based on each country's tax legislation, taking into account their respective statute-of-limitations periods. In Spain, as a result of the tax audit currently in progress, the tax Group has the following years open for review: the years since 2002 for tax withholdings and prepayments relating to personal income tax, tax on income from movable capital, property tax, nonresident income tax and VAT; and the years since 2001 for corporate income tax (since 2001 and 2000, respectively, for the other Spanish companies).

In the other countries in which the Telefónica Group has a significant presence, the years open for review by the relevant authorities are generally as follows:

- The last five years in Argentina, Brazil, Mexico, Colombia, Uruguay and the Netherlands.
- The last four years in Peru, Guatemala and Venezuela.
- The last three years in Chile, El Salvador and the U.S.

The tax audit of the open years is not expected to give rise to additional material liabilities for the Group.

(19) CURRENT LIABILITIES - OTHER NONTRADE PAYABLES

The detail of the balances of the "Current Liabilities - Other Nontrade Payables" caption in the consolidated balance sheets as of December 31, 2004 and 2003, is as follows::

Millions of euros	Balance at 12/31/04	Balance at 12/31/03
Group company dividends payable	141.63	137.54
Short-term payables to fixed asset suppliers	390.48	66.80
Guarantees and deposits	45.66	66.78
Compensation payable	443.13	330.70
Other nonfinancial nontrade payables	434.25	334.11
Total	1,455.15	935.93

(20) REVENUES AND EXPENSES

Sales and services

The detail, by business line, of net sales and services is as follows:

Millions of euros

	12-31-04	12-31-03
Wireline telephony business in Spain	10,955.77	10,695.42
Móviles business	12,054.14	10,428.28
Wireline telephony business in Latin America	6,883.44	6,744.93
Telefónica Contenidos business	1,219.13	1,378.48
Directorios business	628.13	589.30
Terra Networks business	539.16	545.09
Atento business	611.73	492.96
Instrumentality companies and other	803.66	788.82
Group revenues before the elimination of intercompany sales	33,695.16	31,663.28
Intercompany sales	(3,373.26)	(3,263.44)
Total revenues from Group operations	30,321.90	28,399.84

Personnel expenses

The detail of the personnel expenses is as follows:

Millions of euros

	12-31-04	12-31-03
Compensation	3,203.37	3,368.59
Provisions to the pension allowance and other commitments to employees	106.23	115.45
Accrual for the cost of the loyalty-building programs tied to share market price	1.20	14.63
Employee welfare expenses and other	1,101.01	1,142.65
Total	4,411.81	4,641.32

Inclusion in the general social security system

Since January 1, 1992, Telefónica de España and its employees, who were formerly covered by a company employee welfare system, have been contributing to the general social security system. As a result of the inclusion of serving employees in the social security system, Telefónica de España must make additional contributions to the social security system until the year 2016, based on the serving employees' effective contribution bases applicable at any time in that period. These contributions consist of the payment of 2.2% of the base salary, and the related amount is recorded under the "Personnel Expenses – Employee Welfare Expenses and Other" caption. €24.17 million were recorded in this connection in 2004 (€27.16 million in 2003).

Supplementary pension plan for employees

Various Telefónica Group companies have arranged a defined-contribution pension plan pursuant to Legislative Royal Decree 1/2002 approving the revised Pension Plans and Funds Law. Under this plan, contributions of between 6.87% and 4.50% of the participating employees' regulatory base salary (based on each employee's respective hire date and the company in question) are made to the plan. The obligatory contribution of the participant is generally a minimum of 2.2% of the employee's regulatory base salary. The system used is an individual and financial capitalization system.

As of December 31, 2004, 42,446 Group employees were covered by the pension plans managed by the subsidiary Fonditel Entidad Gestora de Fondos de Pensiones, S.A. The contributions made by the various companies in 2004 amounted to €93.55 million (€105.72 million in 2003).

Number of employees

Following is a detail of the Telefónica Group's average number of employees in 2004 and 2003, together with the headcount as of December 31 of those years. The employees shown for each subgroup include the Telefónica Group companies with similar activities in order to present the employees by business.

	12-31-04	12-31-03		
	Average	Year-end	Average	Year-end
Telefónica, S.A.	668	622	791	767
Telefónica de España Group	37,281	36,425	42,537	38,464
Telefónica Móviles Group	14,071	19,797	13,240	13,093
Telefónica Internacional Group	25,951	25,905	27,079	25,762
Directories Group	2,898	2,876	2,778	2,787
Telefónica de Contenidos Group	5,520	5,860	6,487	4,638
Atento Group	62,429	74,829	48,171	54,394
Terra Networks Group	1,997	1,584	2,273	2,229
Other	6,004	5,656	6,108	6,154
Total	156,819	173,554	149,465	148,288

The figures in the foregoing table relate to the consolidated companies.

Also, the Group company Telefónica de España has filed various appeals for judicial review against the Government in connection with the monetary claim relating to healthcare services provided in the years from 1999 to 2003 (inclusive). The company has recorded an account receivable of €90.47 million in this connection. Also, proceedings have been instigated by or against the regulator, some of which are being conducted in the administrative jurisdiction and others before the courts.

Compensation systems tied to share market price

At 2004 year-end Telefónica only had one compensation system tied to the market price of its shares: the TIES Program is aimed at all the serving personnel of Telefónica and of most of its Spanish and foreign subsidiaries.

The other compensation system tied to the market price of Telefónica shares ended in September 2003. The so-called TOP Plan was aimed exclusively at executive personnel of Telefónica, S.A. and of several Group companies including the executive directors of Telefónica, S.A. This Plan was implemented by Telefónica on June 28, 1999, and was approved by the Company's Stockholders' Meeting on April 7, 2000.

In view of the fact that when the aforementioned TOP Plan expired after the last opportunity for beneficiaries (participants) to exercise the Telefónica, S.A. stock options held by them the exercise prices were substantially higher than the market price of the shares at that time, the option-holders did not exercise the options which, accordingly, expired.

The subsidiaries Telefónica Móviles S.A. and Terra Networks, S.A. have also established their own compensation systems tied to the market price of their respective shares.

In November 2003 the stock option plan of the subsidiary Telefónica Publicidad e Información, S.A. (TPI) expired.

This plan, which was aimed at the company's executives (including the Executive Director) and employees, was implemented in 1999 and was approved by the aforementioned company's Stockholders' Meeting on April 17, 2000. In view of the fact that when the aforementioned plan expired with the last opportunity for the beneficiaries to exercise the TPI stock options held by them the exercise prices were higher than the market price of the shares at that time, the option-holders did not exercise the options which, accordingly, expired.

In October 2003 TPI extended to 2008 year-end the irrevocable call option right on 7,212,147 TPI shares that the company had arranged with Caja de Ahorros y Pensiones de Barcelona (La Caixa).

On June 28, 2004, the Board of Directors of TPI, following the issuance of a favorable report by the Appointments and Compensation and Best Practice Corporate Governance Committee, resolved to notify La Caixa of its intention to exercise the call option right on all the above-mentioned shares (7,212,147 shares), and to treat the shares so acquired under the system applicable to treasury stock; i.e. the shares shall be either (i) specifically assigned to the implementation of a new Stock Option Plan, if any, which shall be approved by the next Stockholders' Meeting of the Company, or, (ii) in the absence of this plan, retired at the time of the aforementioned Meeting. These shares were acquired on July 9, 2004.

Lastly, there is a program of options on Telefónica, S.A. shares targeted at the employees of Endemol (the EN-SOP Program).

Following is a detailed account of the main features of each of the aforementioned compensation systems currently in force:

a) Telefónica, S.A. stock option plan targeted at all the employees of certain Telefónica Group companies ("TIES Program")

On February 23, 2000, the Board of Directors of Telefónica, S.A. approved the establishment of a new compensation system tied to the market price of the Company's shares, with the grant of options on Company shares, known as the TIES Program. This Program is aimed at all the employees of Telefónica, S.A. and its Spanish and foreign subsidiaries who meet the requirements established in the rules governing the Program and who are not participating in any other similar employee stock or stock option plan.

In order to achieve the purposes of the Program, on April 7, 2000, the Stockholders' Meeting of Telefónica, S.A. approved two capital increases with disapplication of preemptive subscription rights, for a par value of €1,197,880 and €31,504,244, respectively, through the issuance of 1,197,880 and 31,504,244 new common shares, respectively, of €1 par value each, with additional paid-in capital of 400% of the par value.

Telefónica, S.A. duly registered separate prospectuses for the aforementioned capital increases, which were verified by the CNMV on November 16, 2000, and February 16, 2001, respectively. It was clearly explained therein which options could be exercised in each tranche, and the procedures for exercising and settling these options.

The main features of the TIES Program are as follows:

1. Number of shares offered for initial acquisition by the beneficiaries: 1,197,880.

2. Issue price: €5.

3. Maximum number of shares under option assigned to beneficiaries: 31,504,244. This figure, which is the maximum amount necessary to cover the total rights carried by the shares initially assigned, also includes a reserve for new beneficiaries of the Program equal to 4.5% of the initial beneficiaries.

4. Method of assignment of shares under option: depends on the appreciation of Telefónica, S.A. shares with respect to an initial reference value to be set by the Board of Directors and on the number of shares of Telefónica, S.A. initially acquired. The initial reference value was set at €20.5 per share.

5. Exercise price: €5.

At its meeting on June 28, 2000, the Board of Directors of Telefónica, S.A. resolved to commence implementation of the TIES Program (the features and general terms of which had been established on February 23, 2000, by the Board of Directors' meeting that approved the creation of the Program), and established the requirements to be met by the employees of the subsidiaries of Telefónica, S.A. in order to become beneficiaries of the TIES Program.

Subsequently, on November 29, 2000, the Board of Directors of Telefónica, S.A. adapted to the date on which the Program was ultimately launched the conditions and requirements to be met by the employees of the companies participating in the Program in order to become beneficiaries of the Program and the reference value initially set.

On February 14, 2001, the notarial deed of formalization and execution of the first capital increase at Telefónica indicated above was executed. The par value of the capital was increased by €1,123,072, through the issuance of an equal number of common shares with additional paid-in capital of €4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by the beneficiaries of the TIES Program.

On February 20, 2001, the notarial deed of formalization and execution of the second capital increase to cater for the TIES Program was executed. The par value of the capital was increased by €31,504,244, through the issuance of an equal number of common shares with additional paid-in capital of €4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by BBVA (50%) and La Caixa (50%).

On December 31, 2004, 72,298 persons were participating in the TIES program, holding a total of 29,792,427 purchase options on Telefónica, S.A. shares.

February 15, 2005 was the third and the last Exercise Date under the Program but there were no exercisable options at that date since the initial reference value was higher than the market value of the Company shares. Consequently, all the unexercised options expired and were cancelled for all purposes and the TIES Program was thus terminated and the shares which were acquired in the past as the initial assignment to participate in the Program ceased to be covered by it.

Lastly, in February 2005, in accordance with a report issued by the Board of Directors on the resolutions adopted by the Stockholders' Meeting on April 7, 2000, in connection with item IX on the agenda (relating to the establishment of the TIES Program), Telefónica, S.A. acquired 34,760,964 shares classified as treasury stock. A proposal will foreseeably be submitted for approval by the next Stockholders' Meeting of the Company to reduce capital with the consequent retirement of these shares.

b) Telefónica Móviles, S.A. stock option plan ("MOS Program")

On October 26, 2000, the Special Stockholders' Meeting of Telefónica Móviles, S.A. authorized the establishment of a corporate stock option plan for the executives and employees of Telefónica Móviles, S.A. and its subsidiaries and, in order to facilitate coverage of the Company's obligations to the beneficiaries of the plan, resolved to increase the capital stock of Telefónica Móviles, S.A. by €11,400,000 through the issuance of 22,800,000 shares of €0.50 par value each.

Subsequently, on June 1, 2001, the Stockholders' Meeting of Telefónica Móviles, S.A. introduced certain modifications and clarifications of the stock option plan with a view to making it more attractive and a more efficient mechanism for the motivation and loyalty-building of its beneficiaries.

Lastly, on September 21, 2001, the Board of Directors of Telefónica Móviles S.A. resolved to develop and establish, in conformity with the aforementioned resolutions of the Stockholders' Meetings on October 26, 2000 and June 1, 2001, the terms and conditions of the stock option plan. The main features of this plan are as follows:

1. The plan is open to all the executive directors, executives (including general managers or similar) and employees who on December 1, 2001, were working for companies in which Telefónica Móviles, S.A. directly or indirectly, during the term of the plan (i) has a holding with voting rights of over 50%, or (ii) has the right to appoint over 50% of the members of the Board of Directors.

Without prejudice to the above, the MOS Program envisaged the possibility of awarding new options at dates subsequent to its initial implementation. In order to carry this out, following the issuance of a report by the Appointments and Compensation Committee, the Board of Directors resolved to assign options to both the employees of the new companies which, when joining the Telefónica Móviles Group, met the aforementioned requirements and the employees hired by companies already participating in the MOS Program. Similarly, the Board resolved that employees could join the plan until December 31, 2003. Consequently, new beneficiaries joined the plan in 2002 and 2003. In 2003 certain companies were excluded from the MOS Program because they ceased to comply with the requirements to remain in it.

2. There are three types of option:
 - Type-A options, with an exercise price of €11.
 - Type-B options, with an exercise price of €16.5.
 - Type-C options, with an exercise price of €7.235.

Each beneficiary of the Program will receive an equal number of type-A and type-B options and a number of type-C options equal to the sum of the type-A and type-B options received.

3. The executive directors and executives who are beneficiaries of the MOS Program must place a deposit on one share of Telefónica Móviles, S.A. for every 20 options assigned to them.

4. Each option, regardless of type, will entitle its holder to receive one share of Telefónica Móviles, S.A.

5. The options may be exercised at a rate of one-third each year from the day after the day on which two, three and four years have elapsed from the option grant date (January 2, 2002). The first exercise period commenced on January 2, 2004. The second period commenced on January 3, 2005.

6. At the exercise date, the options may be settled, at the beneficiary's request, either (i) through delivery of shares of Telefónica Móviles, S.A., once the beneficiary has paid the option exercise price, or (ii) cashless for cash.

The first phase of the Program commenced on January 2, 2002. The second phase of the plan, which included the companies and new employees who fulfilled the requirements envisaged in the plan, commenced on June 1, 2002, and finished on December 31, 2003. The total number of beneficiaries of the MOS Program was 7,575 as of December 31, 2004. Of these beneficiaries, one is an executive director of Telefónica Móviles, S.A. and ten are general managers or similar executives. 11,137,144 options had been assigned as of December 31, 2004.

In 2004, in the second exercise period, 778 employees exercised a total of 79,823 options. Of these employees, two beneficiaries opted for the cashless system and the remainder for the cashless for cash system. The amount received by these beneficiaries upon the exercise of their options was €109 thousand. Additionally, 859 employees, owning a total of 1,681,928 options, left the program as a result of early settlement or voluntary withdrawal. €844 thousand were paid in this connection in 2004.

In order to provide coverage for the MOS Program, on September 21, 2001, the Board of Directors resolved to carry out the capital increase approved by the Special Stockholders' Meeting on October 26, 2000. Since not all the shares comprising the capital increase were subscribed, the company issued 21,445,962 shares of €0.50 par value each, which were subsequently subscribed and paid by BBVA (50%) and La Caixa (50%).

On September 27, 2001, Telefónica Móviles, S.A., on the one hand, and BBVA and La Caixa, on the other, entered into the related share subscription and call option contracts under which the two aforementioned financial institutions granted Telefónica Móviles, S.A. a call option on each of the shares subscribed in order to enable Telefónica Móviles, S.A. to meet its commitments to the beneficiaries of the MOS Program, as described earlier.

The implementation of the MOS Program and the capital increase to provide coverage for the Program were notified to

the CNMV and published in the Abridged Prospectus, which was verified and registered in the CNMV's Official Register on November 2, 2001.

c) Terra Networks, S.A. stock option Plan

The Terra Networks, S.A. stock option Plan was approved by the Stockholders' Meeting on October 1, 1999, and implemented by Board of Directors' resolutions adopted on October 18, 1999, and December 1, 1999.

The Plan provides, through the exercise of the stock options by their holders, for the ownership by the employees and executives of the Terra-Lycos Group companies of a portion of the capital of Terra Networks, S.A. up to a maximum of 14,000,000 shares.

In order to cover the stock option plan as approved, on October 5, 1999, Banco Zaragozano, S.A., Caja de Ahorros y Pensiones de Barcelona and Terra Networks, S.A. entered into a contract under which these entities granted to Terra Networks, S.A. an irrevocable call option on 14,000,000 issued shares, which could be exercised at any time prior to April 30, 2004.

The approval and implementation of this compensation system were notified to the CNMV and were made public through the complete information memorandum verified and registered in the CNMV Official Register on October 29, 1999, and in the Prospectus presented to the Securities and Exchange Commission (SEC) in the U.S.

On December 1, 1999 and June 8, 2000, the Board of Directors, pursuant to the powers granted to it by the Stockholders' Meeting, implemented the first phase of the plan by granting options to employees of the Terra Group. The main features of these options are as follows:

1. Each of the stock options under the Plan entitles the holder (employee or executive) to acquire one share of Terra Networks, S.A. at an exercise price of €11.81 per share.
2. Duration of four years and three months (therefore, it ended on February 28, 2004), and the options could be exercised at a rate of one-third of those granted each year from the second year onwards.
3. The exercise of the options is conditional upon the beneficiary remaining a Terra-Lycos Group employee.

In 2001 the Board of Directors implemented the second phase of the Terra Networks, S.A. stock option plan, which was approved by the Stockholders' Meeting on June 8, 2000, and launched pursuant to a resolution adopted by the Board of Directors on December 22, 2000, at the recommendation of the Appointments and Compensation Committee based on a proposal of its Chairman, through the assignment of options to executives and employees who were already beneficiaries of the stock option plan, in addition to the assignment of options to new employees who had joined the Terra-Lycos Group at that date.

The main features established by the Board of Directors for this assignment were as follows:

1. Each of the stock options under the Plan entitles the holder to acquire one share of Terra Networks, S.A. at an exercise price of €19.78 per share.
2. The duration of the Plan was modified by a resolution adopted by the Stockholders' Meeting on June 8, 2000, and was set at six years with a two-year grace period. The options can be exercised at a rate of one-quarter of those granted each year from the third year through the sixth year.
3. The exercise of the options is conditional upon the beneficiary remaining a Terra Group employee.
4. Options were granted to one executive director and four general managers and persons of a similar category, and this was duly notified to the CNMV on December 29, 2000.

On February 21, 2001, the Board of Directors resolved to modify the resolution adopted on December 22, 2000, in respect of the duration and method of accrual of the stock options. Accordingly, the period for the exercise of the options assigned was set at five years, and the options may be exercised at a rate of one-quarter each year from the end of the first year.

In 2001, at the recommendation of the Appointments and Compensation Committee, the Board of Directors approved, each quarter (specifically at its meetings on May 10, July 25 and November 6), the assignment of options to new company employees, and set the exercise price at the market price of the shares during the related quarter and with the same terms and conditions as regards exercise period and duration as those envisaged for the second phase of the Plan.

On June 7, 2001, the Stockholders' Meeting of Terra Networks, S.A. resolved to partially modify the resolution relating to the stock option plan which was ratified and approved by the Stockholders' Meeting on June 8, 2000, as regards the extension of the stock option Plan to executives and directors, and extended the option exercise period to ten years from that in which they were granted, stipulating that the options could be partially exercised each year during this period. At the date of preparation of these consolidated financial statements, the Board of Directors had not yet extended the option exercise period.

Also, in 2002, at the recommendation of the Appointments and Compensation Committee, the Board of Directors approved at its meetings on January 30, July 25 and September 26 the assignment of options to new company employees, and set the exercise price at the market price of the shares during the related quarter and with the same terms and conditions as regards exercise period and duration as those envisaged for the second phase of the Plan. In addition, on February 25, 2002, the assignment of further options was approved by the Board of Directors.

In June 2002 it was decided to confine assignments of options to new hires recruited from that date onwards for professional categories 1 and 2.

As of December 31, 2003, options on 6,438,696 shares had been assigned to Terra-Lycos Group employees, executives and directors, of which 1,555,554 relate to the first phase of the Plan and the remainder to the second phase. The weighted average stock option exercise price is €14.70.

As of December 31, 2003, the Terra-Lycos Group's executives and directors held 1,185,252 stock options under the Terra Networks, S.A. stock option Plan, the weighted average exercise price of which is €19.03.

On April 28 and 29, 2004, Terra Networks, S.A. entered into respective contracts with La Caixa and Barclays Bank (which took over Banco Zaragozano and succeeded it on all its rights and obligations), respectively, to extend the contracts executed on October 5, 1999; the term of the contract with La Caixa was extended through April 30, 2006, and that of the contract with Barclays Bank through July 15, 2004.

On June 22, 2004, the Stockholders' Meeting of Terra Networks, S.A. resolved, in connection with item IV on the agenda relating to the "Reduction of capital stock through the retirement of shares of treasury stock, with disapplication of the creditors' right to contest, and delegation of power in connection with the funding of Option Plans", to delegate powers on the Board of Directors of Terra Networks, S.A., in connection with the funding of the Option Plans of Terra Networks, S.A., so that it may decide, if necessary or appropriate in view of the performance of the share market price, to eliminate such funding or to keep the unfunded status or, as appropriate, to establish any other funding system to cater for the obligations arising from the Option Plans, thus extending the power conferred under the resolution adopted by the Stockholders' Meeting on October 1, 1999, in relation to item two on the agenda.

On July 15, 2004, in compliance with the aforementioned contract dated October 5, 1999, and with the extension dated April 29, 2004, Terra Networks, S.A. purchased from Barclays Bank, as an over-the-counter transaction, the 7,000,000 shares owned by the latter in the capital stock of Terra Networks, S.A. These shares were classified as treasury stock and will be retired, if so decided at the Stockholders' Meeting.

On July 22, 2004, the Board of Directors of Terra Networks, S.A., after obtaining a favorable report from the Audit and Control Committee, resolved to reduce by €2 the exercise price of the Terra Networks, S.A. stock options granted to the beneficiaries of the Terra Group's Stock Option Plans, on or after the date of dividend payment with a charge to additional paid-in capital approved by the Stockholders' Meeting of Terra Networks, S.A., i.e. July 30, 2004.

As of December 31, 2004, options on 3,118,870 shares had been assigned to Terra Group employees and executives, all of which relate to the second phase of the Option Plan since the rights relating to the first phase expired in April. The weighted average stock option exercise price is €14.21.

As of December 31, 2004, the Terra Group's executives held 650,000 stock options under the Terra Networks, S.A. stock option Plan, the weighted average exercise price of which is €16.37.

As of December 31, 2004, there were no directors of Terra Networks, S.A. owning stock options.

d) Terra Networks, S.A. stock option Plan resulting from the acquisition of the stock option plans of Lycos, Inc.

Under the agreements entered into for the acquisition of Lycos, Inc., it was agreed to exchange options on the shares of Lycos, Inc. for options on the shares of Terra Networks, S.A.

On June 8, 2000, the Stockholders' Meeting of Terra Networks, S.A. resolved to acquire the stock option Plans of Lycos, Inc., provided that the two companies merged.

On October 25, 2000, the Board of Directors of Terra Networks, S.A. approved (I) the exchange of options on Lycos, Inc. shares existing prior to the conclusion of the transaction for options on Terra Networks, S.A. shares; (II) the transfer to Citibank NA (Agent Bank) of all the options on Lycos, Inc. shares for their early exercise; and (III) the entering into of a contract between Terra Networks, S.A. and the Agent Bank in connection with the new Terra Networks, S.A. stock option Plan.

As a result of the exchange of Lycos, Inc. stock options for Terra Networks, S.A. stock options, the employees, executives and directors of Lycos, Inc. received call options on 65,540,249 shares of Terra Networks, S.A. owned by the Agent Bank.

On June 7, 2001, the Stockholders' Meeting of Terra Networks, S.A. resolved to partially modify the resolution relating to the stock option Plan, which was ratified and approved by the Stockholders' Meeting on June 8, 2000, as regards the obligations arising from the assumption of the Lycos, Inc. stock options by Terra Networks, S.A., following the exchange of shares between the latter and Lycos, Inc., which may be covered with Terra Networks, S.A. shares held by Citibank, NA, as a result of the exchange of Lycos, Inc. shares held by Citibank, NA to cover the stock options of the employees and executives of Lycos, Inc.

On December 16, 2003, the Board of Directors of Terra Networks, S.A., pursuant to the powers granted to it by the Stockholders' Meetings on June 8, 2000 and April 2, 2003, approved the acquisition by Terra Networks, S.A. of 26,525,732 shares of Terra Networks, S.A. owned by Citibank, N.A. as Agent Bank of the option Plans assumed by the Company at the time of the integration of Lycos, Inc. These shares still covered the stock options of the employees of Lycos, Inc. outstanding as of that date

As of December 31, 2003, the employees, executives and directors of Lycos had exercised 16,216,587 options, and 19,272,198 options remained outstanding, at a weighted average price of US\$ 20.77.

As of December 31, 2003, the directors and executives held stock option rights on 9,090,776 options, derived from the Lycos, Inc. stock option Plans set up prior to the acquisition of Lycos, Inc. by Terra Networks, S.A. The weighted average exercise price of the stock options is US\$ 23.05.

Also, as of December 31, 2003, the Board members who hold or have held executive posts in the Terra-Lycos Group held 8,717,026 options on Terra Networks, S.A. shares derived from the Terra Networks, S.A. and Lycos, Inc. stock option Plans at a weighted average exercise price of €18.40.

On June 22, 2004, the Stockholders' Meeting of Terra Networks, S.A. resolved, inter alia, to reduce capital stock by €53,052,804 for the purpose of retiring 26,526,402 shares of treasury stock. The resolution expressly stated that 26,507,482 of the shares to be retired had been acquired by Terra Networks, S.A. from Citibank N.A. and were classified as treasury stock to fund the obligations arising from Lycos Inc.

stock option plans taken over by Terra Networks, S.A. under section D) of the resolution adopted by the Stockholders' Meeting on June 8, 2000, in connection with item five on the agenda (in the revised version approved by the Stockholders' Meeting on June 7, 2001).

Also, under the aforementioned capital reduction resolution the Board of Directors of Terra Networks, S.A. was expressly empowered to decide, if necessary or appropriate in view of the performance of the share market value, to eliminate such funding or to keep the unfunded status or, as appropriate, to establish any other funding system to cater for the obligations arising from the Option Plans of Lycos, Inc.

On July 22, 2004, the Board of Directors of Terra Networks, S.A., after obtaining a favorable report from the Audit and Control Committee, resolved to reduce by €2 the exercise price of the Terra Networks, S.A. stock options granted to the beneficiaries of the Terra Group's Stock Option Plans, on or after the date of dividend payment with a charge to additional paid-in capital approved by the Stockholders' Meeting of Terra Networks, S.A., i.e. July 30, 2004.

On July 31, 2004, Terra Networks, S.A. and the Korean company Daum Communications executed the contract for the sale of all the Lycos, Inc. shares. The transaction was finally implemented on October 5, 2004, after obtaining the required administrative authorizations and, specifically, approval from the U.S. Antitrust Authorities.

Under the sale contract, Terra Networks, S.A. undertook to continue to assume the obligations arising from the stock option Plans of Terra Networks, S.A. vis-à-vis the beneficiaries of Lycos, Inc., although Lycos, Inc. would be authorized to perform, for the account and at the expense of Terra Networks, S.A., any action which might be necessary or appropriate in connection with the exercise of the options by the beneficiaries.

As of December 31, 2004, Lycos' employees, executives and directors had exercised a total of 1,089,238 options at a weighted average exercise price of US\$ 20.39, and 10,863,239 options remained outstanding.

e) Telefónica, S.A. stock option plan aimed at employees of Endemol ("EN-SOP Program")

In order to fulfill the commitments assumed by Telefónica, S.A. in the acquisition of the Dutch company Endemol (in mid-2000), and in order to establish a competitive compensation system similar to that in place at other companies in the industry in which Endemol operates, on April 25, 2001, the Standing Committee of the Board of Directors of Telefónica, S.A. approved the establishment of a Telefónica, S.A. stock option plan targeted at the employees of Endemol Entertainment N.V. (Endemol) and its subsidiaries (Endemol Group), known as the EN-SOP Program.

This Program consists of the grant to the beneficiaries (all the Endemol Group's permanent employees on January 1, 2001, who are not participating in another similar stock or stock option plan), effective January 1, 2001, 2002, 2004 and 2004, of a variable number (based on the various wage and functional categories) of purchase options on Telefónica, S.A. shares. The duration of the options will be four years from the grant date, and the options may be exercised at a rate of one-half each year three and four years after the related grant date.

The total number of options to be delivered each year will be determined by dividing €27,500,000 by the annual reference value of the Telefónica, S.A. shares, which will be taken to be the arithmetic mean of the closing prices of the Telefónica, S.A. shares on the Spanish Continuous Market for the last five trading days prior to that on which the Board of Directors of Telefónica, S.A. holds the meeting calling the Annual Stockholders' Meeting.

The option exercise price will be the related annual reference value, and the exercise terms will be the customary terms in programs of this nature. The beneficiaries must remain uninterruptedly permanent employees of Endemol until the options are exercised, without prejudice to the regulation of cases of early settlement of the options in certain cases in which the employment relationship is interrupted prior to the exercise of the options.

The options may be settled through the acquisition by the beneficiary of the underlying shares or, alternatively, by the cashless or cashless for cash system.

In order to cover each annual grant of options, it was provided that Telefónica: (i) would increase capital by the amount necessary to cater for the delivery of the shares derived from the exercise of the options by the beneficiaries or, alternatively, (ii) would acquire on the market the related purchase options on Telefónica, S.A. shares.

Accordingly, in order to cover the annual grant of options in 2001, on June 15, 2001, the Stockholders' Meeting of Telefónica, S.A. approved a capital increase at Telefónica, S.A. of €1,425,624, through the issuance of an equal number of common shares with additional paid-in capital of €18.2898 per share, and granted the necessary powers to the Board of Directors to carry out the capital increase, with express powers, where appropriate, to not carry it out.

As a result of the significant change in stock market conditions in the second half of 2001, on September 26, 2001, the Board of Directors decided not to implement the aforementioned capital increase approved by the Stockholders' Meeting, and decided that, instead of the capital increase, the annual grant of options for 2001 under the EN-SOP Program would be covered through the acquisition on the market of purchase options on Telefónica, S.A. shares.

Under the EN-SOP Program, in 2001 1,281,040 purchase options on Telefónica, S.A. shares were delivered to the employees of the Endemol Group (with the distribution agreed on by the Appointments and Compensation Committee of the Board of Directors of Telefónica, S.A., the governing body responsible for this as established when the resolution to set up this Program was adopted), at an exercise price of €19.2898 per share (annual reference value). In 2001, 972 persons were participating in the Program.

With respect to the application of the EN-SOP Program in 2002, in order to cover the annual grant of options in 2002, on April 12, 2002, the Stockholders' Meeting of Telefónica, S.A. resolved to increase capital at Telefónica, S.A. by €2,180,809 euros, through the issuance of an equal number of new common shares with additional paid-in capital of €11.61 per share, and granted the necessary powers to the Board of

Directors to carry out the capital increase, with express powers, where appropriate, to not carry it out.

As in 2001, on December 18, 2002, the Board of Directors of Telefónica, S.A. decided not to implement the aforementioned capital increase approved by the Stockholders' Meeting, and decided that, instead of the capital increase, the annual grant of options for 2002 under the EN-SOP Program would be covered, where necessary, with Telefónica, S.A. shares previously acquired in the securities market.

Under the EN-SOP Program, in 2002 1,933,504 purchase options on Telefónica, S.A. shares were delivered to the employees of the Endemol Group at an exercise price of €12.61 per share (annual reference value). In 2002 977 persons were participating in the Program.

With respect to the application of the EN-SOP Program in 2003, which the Standing Committee of the Board of Directors of Telefónica, S.A. decided on December 17, 2003, will be covered with Telefónica, S.A. shares previously acquired in the securities market, 2,767,084 purchase options on Telefónica, S.A. shares were delivered to the employees of the Endemol Group at an exercise price of €9.03 per share (annual reference value). 1,048 persons were participating in the Program in 2003.

Lastly, with respect to the application of the EN-SOP Program in 2004, which the Standing Committee of the Board of Directors of Telefónica, S.A. decided on December 22, 2004, will be covered with Telefónica, S.A. shares previously acquired in the securities market, 2,246,732 purchase options on Telefónica, S.A. shares were delivered to the employees of the Endemol Group at an exercise price of €12.24 per share (annual reference value). 947 persons were participating in the Program in 2004.

Interest on accounts payable and similar expenses and revenues from other equity investments and loans

The detail of the "Interest on Accounts Payable and Similar Expenses" and "Revenues from Other Equity Investments and Loans" captions is as follows:

Millions of euros

12/31/04 | 12/31/03

Debentures, bonds and other marketable debt securities	946.34	946.95
Loans and credits	382.84	907.67
Other	289.92	91.88
Total financial expenses	1,619.10	1,946.50
Associated companies	49.52	33.00
Other companies	340.33	336.77
Total other financial revenues	389.85	369.77

Exchange differences

The detail of the exchange gains and losses allocated to the consolidated statements of income is as follows:

Millions of euros

12/31/04 | 12/31/03

Exchange losses	(111.98)	(339.74)
Exchange gains	168.39	834.91
Exchange differences	56.41	495.17

Of these total exchange differences, the most significant amount relates to the revaluation of the debt denominated in foreign currency at the Argentine companies, as a result of the depreciation or appreciation of the Argentine peso. Accordingly, exchange differences were recorded which had a net positive impact of €134.36 million in 2003 and a net negative impact of €10.58 million in 2004.

In view of the different evolution of the exchange rates of the U.S. dollar and the Brazilian real against the euro, in 2003 U.S. dollar-denominated debt obtained initially to specifically finance investments denominated in foreign currencies was cancelled. This had a positive impact of €267.51 million on the "Exchange Differences" caption.

Extraordinary revenues

The detail of the extraordinary revenues is as follows:

Millions of euros

	12-31-04	12-31-03
Indemnity payments for breach of contract	11.54	27.45
Adjustment of pension commitments	-	70.34
Insurance settlement consortium	-	2.83
Corporate restructuring of the wireless business in Brazil	14.36	14.68
Sale of treasury stock	-	7.12
Provisions for treasury stock	-	159.95
Allocation of deferred revenues to income (Note 13)	48.50	74.34
Other extraordinary revenues earned in the year	92.83	124.49
	167.23	481.20

The “Other Extraordinary Revenues Earned in the Year” account includes the extraordinary revenues earned by all the Group companies, the amounts of which taken individually were not material.

Extraordinary expenses and losses*Millions of euros*

	12-31-04	12-31-03
Provision for contingencies	85.16	79.83
Extraordinary provisions for preretirements (Note 14)	908.03	1,593.41
Write-off of goodwill (Note 5)	111.09	6.48
Court claims	117.37	45.93
Fines, penalties and litigation	98.59	103.31
Externalization of commitments (Note 4-g)	11.76	12.60
Other extraordinary expenses	127.11	380.04
	1,459.11	2,221.60

Bidland Systems Inc. and TI Capital Management, LLC reached a final agreement with Katalyx, Inc. and Telefónica, S.A. to resolve in court the two claims filed by the former alleging noncompliance with certain contractual obligations for the creation of a joint venture. Under this agreement, the damages initially sought were reduced to \$38 million and each party undertook to bear its respective lawyers' fees. This amount, equal to €30.62 million, was recorded under the “Court Claims” caption.

With respect to the arbitral award in connection with the complaint submitted by the Radio Blanca Group to Uniprex (an Antena 3 de Televisión, S.A. Group company), on May 21, 2003, Telefónica, S.A. and Kort Geding, S.L. entered into an agreement whereby the former sold to the latter a 25.1% holding in the capital stock of Antena 3 de Televisión, S.A. This agreement contains a covenant whereby the seller undertakes to reduce the sale price by an amount equal to 25.1% of the possible adverse economic impact arising from the content of the award relating to the arbitration between Uniprex and Radio Blanca. Uniprex filed an appeal with the Provincial Appelate Court against the arbitral award rendered on March 15, 2004. No decision has yet been handed down in

this connection. The accompanying consolidated financial statements include an extraordinary expense of €31.44 million, which is recorded under the “Court Claims” caption, and the use of provisions amounting to €15 million.

The “Other Extraordinary Expenses” caption includes extraordinary expenses of a very diverse nature incurred by numerous Telefónica Group companies.

Gains and losses on fixed assets

The “Gains on Fixed Asset Disposals” caption includes €39.27 million relating to the gain obtained from the disposal of real estate, performed mainly by Telefónica de España and Inmobiliaria Telefónica (€202.95 million in 2003).

This caption also includes negative net amounts of €15.38 million and €19.15 million as of December 31, 2004 and 2003, respectively, recorded as a result of the dismantling of Telefónica de España's plant for network digitalization (see Note 7).

(21) DIRECTORS' COMPENSATION AND OTHER BENEFITS AND OTHER DISCLOSURES**a) Directors' compensation and other benefits**

The compensation of Telefónica, S.A.'s directors is governed by Article 28 of the bylaws, which states that the amount of the compensation to be paid by the Company to its directors shall be that determined by the Stockholders' Meeting for this purpose and this amount shall remain in force until the Stockholders' Meeting resolves to change it. The Board of Directors is responsible for setting the exact amount to be paid within the stipulated limits and distributing it among the directors. In this connection, on April 11, 2003, the Stockholders' Meeting set the maximum gross annual amount to be paid to the Board of Directors at €6 million, which includes a fixed payment and attendance fees for attending the Board of Directors advisory committee or control committee meetings. In 2004, the Appointments and Compensation and Best Practice Corporate Governance Committee reviewed, in accordance with Article 25.b.5 of the Rules of the Board of Directors, the compensation system for the Company's directors, which had not been revised since March 1997. As a result, the Committee submitted a proposal to the Board of Directors to change the compensation system in view of the long period of time elapsed since it had been set up (1997). On September 29, 2004, the Board of Directors resolved to revise the fixed annual amount to be paid as compensation to the members of the Board of Directors and of its Standing Committee and the amount of the attendance fees for attending the meetings of the other Board Committees, and to establish a fixed annual amount to be paid as compensation to the members of these Board Committees, all within the maximum limit set by the Stockholders' Meeting on April 11, 2003.

Therefore, the compensation of Telefónica's directors in their capacity as members of the Board of Directors and/or of the Standing Committee and the advisory and control committees consists of a fixed amount payable monthly and attendance fees for attending the meetings of the Board's advisory or control committees. Additionally, executive directors receive the appropriate amounts for discharging their executive duties as stipulated in their respective contracts.

In 2004 the members of the Board of Directors of Telefónica, S.A. earned the following total compensation for discharging their duties as such: €3,707,904.71 of fixed monthly payments (including the compensation earned as members of the Boards of Directors or of the advisory or control committees of other Telefónica Group companies) and €166,828.32 of attendance fees for attending the Board of Directors advisory committee meetings (including the attendance fees for attending Board of Directors advisory committee meetings of other Telefónica Group companies).

In their capacity as Company executives the executive directors César Alierta Izuel, Antonio J. Alonso Ureba, Luis Lada Díaz, Mario E. Vázquez and Antonio Viana-Baptista, earned the following compensation: €6,558,265.38 of salaries and variable compensation; €129,412.46 of compensation in kind, which include life insurance premiums; and €44,500.00 of contributions paid by the Company, as sponsor, to pension plans.

The breakdown of the compensation and benefits received by Telefónica's directors in 2004 is as follows:

Board of Directors: annual amount of the fixed payment received by each director (in euros):

Position	2004
Chairman	127,613.94
Deputy Chairmen	162,689.82
Directors (1):	
Executive directors	97,613.94
Nominee directors	97,613.94
Independent directors	97,613.94

(1) Additionally, one director, who is not resident in Spain, receives an additional annual payment of €52,639.14 because his experience and work in relation to Latin America are of special interest to the Company

Standing Committee. amount of the fixed payment received by each director who is a member of the Standing Committee (in euros)

Position	2004
Chairman	65,075.88
Deputy chairman	65,075.88
Directors	65,075.88

The directors do not receive any attendance fees for attending meetings of the Board of Directors or of the Standing Committee.

Other committees of the Board of Directors.

a) Fixed amount received by each director who is a member of any of the Board committees, based on the position held, for October, November and December 2004 (in euros):

Position	2004
Chairman	5,000.00
Vocales	2,500.00

b) Total annual amounts paid in 2004 for attending meetings of the advisory and control committees of the Board of Directors, received by the directors who are members thereof taken as a whole (in euros):

Committees	2004
Audit and Control	Attendance fee per meeting (through 09/30/04): 858.61 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 11 Total received: 38,258.30
Appointments and Compensation and Best Practice	Attendance fee per meeting (through 09/30/04): 858.61
Corporate Governance	Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 9 Total received: 33,889.42
Human Resources and Corporate Reputation	Attendance fee per meeting (through 09/30/04): 858.61 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 5 Total received: 16,161.93
Regulation	Attendance fee per meeting (through 09/30/04): 858.61 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 10 Total received: 30,922.20
Service Quality and Commercial Service	Attendance fee per meeting (through 09/30/04): 858.61 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 5 Total received: 12,727.49
International Matters	Attendance fee per meeting (through 09/30/04): 858.61 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 2 Total received: 7,727.49

Executive directors: total amounts received by the executive directors César Alierta Izuel, Antonio J. Alonso Ureba, Luis Lada Díaz, Mario E. Vázquez and Antonio Viana-Baptista taken as a whole for the items indicated below (in euros):

	2004
Salaries	3,337,526.82
Variable compensation	3,220,738.56
Compensation in kind	129,412.46
Contributions to pension plans	44,500.00

Additionally, it should be noted that the nonexecutive directors do not receive and did not receive in 2004 any compensation in the form of pensions or life insurance, and they do not participate in the compensation plans linked to share market price.

The Company does not grant and did not grant in 2004 any advances, loans or credits to the directors, or to its top executives, thus complying with the requirements of the Sarbanes-Oxley Act passed in the U.S. which is applicable to Telefónica as a listed company in that market.

Lastly, the five Company directors who are members of the Catalonia and Andalusia advisory committees (set up in April and October 2004, respectively) received a total amount of €48,750.00 in 2004.

b) Detail of the equity interests in companies engaging in an activity that is identical, similar or complementary to that of the Company and the performance of similar activities by the directors for their own account or for the account of others

Pursuant to Article 127 ter. 4 of the Spanish Corporations Law, introduced by Law 26/2003, which amends Securities Market Law 24/1988, and the revised Spanish Corporations Law, in order to reinforce the transparency of listed corporations, following is a detail of the companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the corporate purpose of Telefónica, S.A., in which the members of the Board of Directors own equity interests, and of the functions, if any, that they discharge thereat:

Owner	Investee	Activity	% of Ownership	Function
D. Isidro Fainé Casas	Terra Networks, S.A.	Telecommunications	< 0.01%	-
D. José Fernando de Almansa Moreno Barreda	Lucent Technologies, Inc.	Telecommunications	< 0.01%	-
D. Maximino Carpio García	Telefónica Móviles, S.A.	Telecommunications	< 0.01%	Director
D. Miguel Horta e Costa	Portugal Telecom, SGPS, S.A.	Telecommunications	< 0.01%	Executive Chairman
D. Luis Lada Díaz	Telefónica Móviles S.A.	Telecommunications	< 0.01%	Director
	Sogecable S.A.	Television, telecommunications and audiovisual production services	< 0.01%	Director
D. Antonio Massanell Lavilla	Telefónica Móviles S.A.	Telecommunications	< 0.01%	Director
D. Enrique Used Aznar	Amper, S.A.	Telecommunications equipment supplier	0.39%	Chairman
D. Antonio Viana Baptista	Portugal Telecom, SGPS, S.A.	Telecommunications	< 0.01%	Director
	PT Multimedia-Serviços de Telecomunicações e Multimedia, SGPS, S.A.	Internet	< 0.01%	-
	Telefónica Móviles, S.A.	Telecommunications	< 0.01%	Executive Chairman

(1) If the holding is less than 0.01% of the capital stock, "< 0.01%" is shown.

Also, pursuant to the aforementioned Law, set forth below are the activities carried on, for their own account or for the account of others, by the various members of the Board of Directors that are identical, or similar or complementary to the activity that constitutes the corporate purpose of Telefónica, S.A.:

Name	Activity Carried On	Type of Arrangement under which the Activity is Carried on	Company through which the Activity is Carried on	Positions Held or Functions Performed at the Company
D.José Antonio Fernández Rivero	Internet and e-commerce	For account of others	Adquira España, S.A.	Chairman
D.José Fernando de Almansa Moreno-Barreda	Telecommunications	For account of others	Telefónica Móviles, S.A.	Director
	Telecommunications	For account of others	Telefónica del Perú, S.A.A.	Director
	Telecommunications	For account of others	Telefónica de Argentina, S.A.	Director
	Telecommunications	For account of others	Telecomunicaciones de São Paulo, S.A.	Director
D. Maximino Carpio García	Telecommunications equipment supplier	For account of others	Abengoa, S.A.	Member of Advisory Committee
	Telecommunications	For account of others	Telefónica Móviles, S.A.	Director
D.Alfonso Ferrari Herrero	Telecommunications	For account of others	Compañía de Telecomunicaciones de Chile, S.A.	Director
	Telecommunications	For account of others	Telefónica de Perú, S.A.A.	Director
D. Miguel Horta e Costa	Telecommunications	For account of others	Portugal Telecom, SGPS S.A.	Executive Chairman
	Telecommunications	For account of others	PT Comunicações, S.A.	Executive Chairman
	Telecommunications	For account of others	PT Multimédia-Serviços de Telecomunicações e Multimédia, SGPS, S.A.	Chairman
	Telecommunications	For account of others	PT Móveis-Serviços de Telecomunicações e Multimédia, SGPS, S.A.	Chairman
	Telecommunications	For account of others	TMN-Telecomunicações Móveis Nacionais, S.A.	Chairman
	Telecommunications	For account of others	PT Sistemas de Informação, S.A.	Chairman
	Telecommunications	For account of others	PT Corporate-Soluções Empresariais de Telecomunicações e Sistemas, S.A.	Chairman
	Telecommunications	For account of others	PT Compras - Serviços de Consultoria e Negociação, S.A.	Chairman
	Telecommunications	For account of others	PT Investimentos Internacionais - Consultoria Internacional, S.A.	Chairman
D. Luis Lada Díaz	Telecommunications	For account of others	Telefónica Móviles, S.A.	Chairman
	Television, telecommunications and audiovisual production services	For account of others		Director
D. Antonio Massanell Lavilla	Telecommunications	For account of others	Sogecable, S.A.	Director
D. Enrique Used Aznar	Telecommunications equipment provider	For account of others	Telefónica Móviles, S.A.	Director
	Telecommunications	For account of others	Amper, S.A.	Chairman
	Telecommunications	For account of others	Telecomunicaciones de São Paulo, S.A.	Director
	Telecommunications	For account of others	Telefónica de Perú, S.A.A.	Director
	Telecommunications	For account of others	Terra Networks, S.A.	Director
	Telecommunications	For account of others	Telefónica Internacional, S.A.	Director
D. Mario Eduardo Vázquez	Telecommunications	For account of others	Telefónica de Argentina, S.A.	Director
	Telecommunications	For account of others	Telefónica Holding de Argentina, S.A.	ViceChairman
	Telecommunications	For account of others	Compañía Internacional de Telecomunicaciones, S.A.	ViceChairman
	Telecommunications	For account of others	Telefónica Móviles Argentina, S.A.	Chairman
	Telecommunications	For account of others	Telefónica Comunicaciones Personales, S.A.	Chairman
	Telecommunications	For account of others	Radio Móvil Digital Argentina, S.A.	Chairman
	Telecommunications	For account of others	Radio Servicios S.A.	Chairman
	Telecommunications	For account of others	Telinver, S.A.	Chairman
	Telecommunications	For account of others	Katalyx Argentina, S.A.	Chairman
	Telecommunications	For account of others	Katalyx Food Service Argentina, S.R.L.	Manager
	Telecommunications	For account of others	Katalyx Cataloguing Argentina, S.R.L.	Manager
	Telecommunications	For account of others	Katalyx Construction Argentina, S.R.L.	Manager
	Telecommunications	For account of others	Katalyx Transportation Argentina, S.R.L.	Manager
	Internet and e-commerce	For account of others	Adquira Argentina, S.A.	Chairman
	Internet and e-commerce	For account of others	Terra Networks Argentina, S.A.	ViceChairman
	Telecommunications	For account of others	Telefónica Data Argentina, S.A.	Chairman
D. Antonio Viana Baptista	Telecommunications	For account of others	Telefónica Móviles, S.A.	Executive Chairman
	Telecommunications	For account of others	Telefónica Internacional, S.A.	Director
	Telecommunications	For account of others	Telefónica Móviles España, S.A.	Director
	Telecommunications	For account of others	Telefónica de Argentina, S.A.	Director
	Telecommunications	For account of others	Brasilcel, N.V.	Director
	Telecommunications	For account of others	Portugal Telecom, SGPS, S.A.	Director
	Telecommunications	For account of others	Telefónica de España, S.A.	Director

(2) Only shown if the activity is carried on as an employee and, therefore, is carried on through a company.

Pursuant to Article 114.2 of the Spanish Corporations Law, also introduced by Law 26/2003, it is hereby stated that in the fiscal year to which these consolidated financial statements refer, the directors, or persons acting on their behalf, did not perform any transactions with Telefónica or any other company in the Telefónica Group other than in the course of the Company's ordinary operations or in conditions other than normal market conditions.

(22) OTHER INFORMATION

a) Litigation

Telefónica, S.A. and its Group companies are party to several lawsuits which are currently in progress in the law courts and the arbitration courts of the various countries in which the Telefónica Group is present.

Based on the reports of counsel engaged to act in the lawsuits of Telefónica, S.A., it is reasonable to consider that the adverse outcome of any of these as yet unresolved lawsuits will not materially affect the Telefónica Group's economic and financial position or solvency. These lawsuits include most notably the following:

- 1 A proceeding contesting the resolutions adopted by the Special Stockholders' Meeting of Telefónica, S.A. on February 4, 2000.

The stockholder Javier Sotos García, who owns 300 shares of the Company, filed a complaint contesting the resolutions adopted by the Special Stockholders' Meeting on February 4, 2000, based on the purported contravention of the rules regulating the holding of the Meeting and on the purported contravention of the rules for disapplication of preemptive rights of subscription in capital increases.

On May 8, 2003, Court of First Instance no. 33 handed down a judgment wholly dismissing the complaint filed by the plaintiff stockholder, holding that it was inappropriate to rule on the voidness or voidability of the resolutions adopted by the Special Stockholders' Meeting of Telefónica, S.A. on February 4, 2000, and awarding the costs of the proceeding against the plaintiff. On July 26, 2003, an appeal was filed by the latter at the Madrid Provincial Appellate Court. On December 11, 2003, Telefónica, S.A. filed a reply brief contesting the appeal. On January 18, 2005, the appeal hearing was held. On February 9, notice was given of the judgment by the Provincial Appellate Court dismissing the appeal filed by Javier Sotos and awarding costs against the appellant. On February 18, notice was given of the filing of a pleading by Javier Sotos García preparing an extraordinary appeal against procedural infringements and a cassation appeal against the judgment of the Madrid Provincial Appellate Court on January 24, 2005.

- 2 A proceeding contesting certain resolutions adopted by the Annual Stockholders' Meeting of Telefónica, S.A. on June 15, 2001.

The aforementioned stockholder, Javier Sotos García, also filed a complaint contesting some of the resolutions adopted by the Company's Annual Stockholders' Meeting on June 15, 2001.

The aforementioned complaint is based on the purported infringement of the contesting stockholder's right to information and on the purported contravention of the legal rules for disapplication of preemptive rights of subscription in capital increases.

On January 23, 2004, the Company was notified that the proceeding had been stayed until such time as either the parties apply for its resumption or the instance lapses.

Based on the opinion of its legal counsel, the Company is convinced that the outcome of the aforementioned court proceeding will be wholly satisfactory for the Company.

- 3 Complaint filed by IDT against Telefónica, S.A., Terra Networks, S.A. and Lycos, Inc.

International Discount Telecommunications Corporation (IDT) filed a complaint at the New Jersey State Courts in the U.S. against Telefónica, S.A., Terra Networks, S.A., Terra Networks U.S.A., Inc., and Lycos, Inc.

This complaint is based on the purported breach of the joint venture agreement entered into between IDT and Terra Networks, S.A. in October 1999, on the purported nonperformance of the obligations under the agreement to terminate the joint venture agreement, on purported fraud and contravention of the legislation governing the purchase and sale of securities (Federal Securities Exchange Act) and, lastly, on purported fraudulent concealment of information.

The lawsuit is currently for an unspecified amount, without prejudice to the possibility of the claim by the plaintiff for damages being specified and quantified in the course of the proceeding.

Subsequently, IDT added a new claim to the complaint alleging that Telefónica was liable, as a control person, for the fraud alleged against Terra in its negotiations with IDT that led to the termination agreement. Telefónica has filed objections against this claim.

The defendants have filed an answer and, in turn, Terra Networks S.A. has filed a counterclaim.

In October 2002 the New Jersey State Court decided to dismiss the part of the complaint relating to certain purported breaches of the joint venture agreement, which also resulted in the exclusion of Terra Networks, U.S.A., Inc. from the proceeding.

On July 2, 2003, in light of the evidence taken, Terra Networks, S.A., Lycos, Inc. and Telefónica, S.A. filed pleadings seeking summary trial to determine the claims and have others dismissed. In turn, IDT has petitioned to have the counterclaim filed by Terra Networks, S.A. dismissed.

On September 1, 2004, the Court confirmed the decision in September 2002 granting IDT leave to file a third complaint against Telefónica, S.A.

Terra Networks, S.A. and Telefónica, S.A. have filed answers refuting the allegations of IDT in the third complaint.

On September 27, 2004, Telefónica, S.A. filed a motion to have the third complaint declared inadmissible for want of personal jurisdiction. The Court has not yet ruled on the motion.

On September 30, 2004, the Court ruled on two of the motions filed by the defendants in July 2003. In particular, the Court accepted the motion to have the complaint against Lycos declared inadmissible, but refused the request by Terra for summary trial.

The Court has not ruled on the other motions filed by Terra.

Based on the opinion of its legal counsel, the Company considers that it has a sound defense against the claims filed against it and, accordingly, Telefónica is confident that the outcome for Telefónica of the litigation arising from IDT's complaint should not be adverse but, if it were, considers that the economic and financial impact on the Telefónica Group should not be material.

4 Sistemas e Instalaciones de Telecomunicación, S.A.U. (Sintel)

As a result of the voluntary bankruptcy proceeding being conducted at Madrid Court of First Instance no. 42, case number 417/2001, which is the continuation of the petition for Chapter 11-type insolvency filed by the director of Sintel on June 8, 2000, two criminal proceedings have commenced which affect Telefónica, S.A.

Under the bankruptcy order, *inter alia*, the effects of the bankruptcy were backdated to June 8, 1998. As a result of the backdated effects of the bankruptcy pursuant to the order, the bodies in the bankruptcy sent Telefónica a payment demand for €22.87 million, which represented the total amount paid by Sintel, since they considered null and void as a matter of law the involvement of Sintel in the contract dated December 30, 1998, in which a debt of €21.35 million was recognized by reason of the sale of the shares of Sintel to Mastec Internacional, S.A. and the amounts paid by Sintel, which in the aforementioned contract appeared as a joint and several guarantor for the fulfillment of these payment obligations.

Telefónica filed an ancillary complaint in which it proposes that the effects of the bankruptcy be backdated to a date closer to that of the bankruptcy order, so that the contract dated December 30, 1998, is not affected. The representatives of the employees filed another complaint to the contrary, proposing that the effects of the bankruptcy be backdated to the date of the sale of the shares of Sintel (April 1996).

The arrangement proposed by the bankrupt company and approved by the Court was the subject of an appeal to a superior court.

On June 14, 2004, an order was made dismissing all of the appeals filed and confirming the order approving the bankruptcy arrangement. An appeal was filed against this

order and has been dismissed by the Supreme Court, thus making the bankruptcy arrangement final.

The two criminal proceedings are as follows:

"Abbreviated" proceeding no. 273/2001, in relation to which, on September 24, 2002, Telefónica, S.A. and Telefónica de España, S.A. appeared before Central Examining Court no. 1 filing a civil suit as parties suffering loss against the directors of Sintel and of Mastec Internacional, S.A. Leave was given for them to appear as parties to the proceeding.

Preliminary proceeding no. 362/2002, which was commenced on October 23, 2002, by Central Examining Court no. 1 for a possible offense of extortion. This proceeding arises from the preceding one, concerns the possible commission of an offense of extortion in the assumption by Sintel of joint and several liability with Mastec for the obligation to pay the related sale price. This preliminary proceeding has been joined to proceeding no. 273/2001. In April 2004, the motion filed by counsel for Telefónica, S.A. to have the case dismissed on the ground that the investigation should have continued was rejected. However, it must be stressed that no charges have been pressed to date, and the claim in the expanded criminal complaint that led to this proceeding has been expressly dismissed.

On June 29, 2004, notice was given of a pleading filed by counsel for the former employees of Sintel seeking to further expand the criminal complaint to include, this time, the existence of an offense of criminal insolvency purportedly committed in the sale of Sintel to Mastec Internacional, Inc. in April 1996. On July 4 and August 5, 2004, Telefónica, S.A. filed submissions seeking to have the aforementioned pleading declared inadmissible, although the judge has not yet granted leave to expand the criminal complaint.

5 Collective lawsuits filed by stockholders of Terra in the U.S., in connection with the tender offer by Telefónica, S.A. for Terra Networks, S.A.

On May 29, 2003, two class actions were filed at the Supreme Court of New York State by stockholders of Terra Networks, S.A. against Telefónica, S.A., Terra Networks, S.A. and certain former and current directors of Terra Networks, S.A.

These actions are founded mainly on the claim that the price offered to the stockholders of Terra Networks, S.A. was not in keeping with the intrinsic value of the shares of that company, and seek to not have the tender offer approved or, alternatively, to have damages awarded to them.

It should be noted that since the filing of the complaints, the related proceedings have remained inactive.

Based on the opinion of its legal counsel, the Company considers that it has a sound defense against both the form and the substance of the claims filed against it and, accordingly, is confident that the outcome of the litigation should not be adverse for Telefónica.

- 6 Appeal for judicial review no. 6/461/03 filed at the National Appellate Court by the World Association of Stockholders of Terra Networks, S.A. (ACCTER) against the administrative decision made by the Spanish National Securities Market Commission (CNMV) to authorize the tender offer by Telefónica, S.A. for Terra Networks, S.A.

ACCTER filed an appeal for judicial review against the decision of the CNMV to authorize the tender offer made to Terra Networks, S.A. stockholders on June 19, 2003.

Telefónica, S.A. has filed an application, admitted for consideration, to appear in the proceeding as an intervening nonparty to defend the lawfulness of the decision by the CNMV.

In turn, the National Appellate Court has rejected the appellant's request for an ex parte or inter partes injunctive stay of the aforementioned decision.

ACCTER filed a complaint for judicial review, and Telefónica, S.A. and the Government Legal Service filed their answers.

At present, the proceeding is ready for the rendering of judgment.

Based on the opinion of its legal counsel, the Company is convinced that the outcome of the aforementioned proceeding will be satisfactory for the Company.

7 Claim at the ICSID

As a result of the enactment by the Argentine Government of Public Emergency and Exchange Rules Reform Law 25561, of January 6, 2002, Telefónica considered that the terms and conditions of the Share Transfer Agreement approved by Decree 2332/90 and the Pricing Agreement ratified by Decree 2585/91, both of which were executed by the Company with the Argentine Government, were affected appreciably, since the Law renders ineffective any dollar or other foreign currency adjustment clauses, or indexation clauses based on price indexes of other countries, or any other indexation mechanism in contracts with the public authorities. The Law also provides that prices and rates resulting from such clauses are denominated in pesos at an exchange rate of one peso (\$ 1) to one U.S. dollar (US\$ 1).

Accordingly, since negotiations with the Argentine Government were unsuccessful, on May 14, 2003, Telefónica filed a request for arbitration with the International Center for Settlement of Investment Disputes (ICSID) pursuant to the Agreement for the Promotion and Reciprocal Protection of Investments between the Argentine Republic and the Kingdom of Spain. On July 6, 2004, the first hearing at the ICSID took place in Washington and a 90-day stay was ordered in an attempt to reach a settlement. Following the expiration of the stay without any such settlement having been achieved, on December 6, 2004, Telefónica filed the "memorial" or claim with the ICSID together with the initial supporting testimonies.

b) Commitments

Strategic alliance between Telefónica and Terra

On February 12, 2003, Telefónica and Terra Networks, S.A. entered into a Framework Strategic Alliance Agreement to replace the Strategic Agreement dated May 16, 2000, to which Bertelsmann AG was also a party (whereby, in the framework of the acquisition of Lycos Inc. by Terra Networks, S.A., Telefónica, S.A. undertook to commission from Terra the portion of the advertising services committed by Bertelsmann AG that the latter did not commission from Terra Networks, S.A., up to a maximum amount of US\$ 675 million).

Additionally, on February 12, 2003, Telefónica, S.A., Terra Networks, S.A., Lycos Inc. and Bertelsmann AG entered into a preferential interest agreement which will enable them to continue to explore opportunities for the mutual provision of communications, development and content services in the on-line market.

The term of the Framework Strategic Alliance Agreement is six years, ending on December 31, 2008. The agreement is automatically renewable for one-year periods unless it is expressly terminated by the parties.

The main features of this Framework Strategic Alliance Agreement are summarized as follows:

- 1 Strengthening of the Terra Lycos Group as:

The exclusive provider of essential portal elements, including brand image, and aggregator of the broad and narrow band Internet content and services targeted at the residential, SOHO and, when so agreed, SME market segments, for the Telefónica Group companies' connectivity and ISP services.

Preferential provider of consulting, management and maintenance services for the country portals of the Telefónica Group companies.

Exclusive provider of Telefónica Group employee on-line training services.

Preferential provider of on-line integral marketing services with the Telefónica Group companies.

- 2 Guaranteed minimum volume of acquisitions of Terra Group on-line advertising space by Telefónica Group companies.

3 Exclusive acquisition of connectivity and wholesale Internet access services by Terra Group companies from Telefónica Group companies under the legally permitted most-favored-customer conditions.

- 4 Outsourcing by Terra Group companies to Telefónica Group companies of all or part of the services and/or operation of the Internet access elements for the provision of ISP services to its residential, SOHO and, when so agreed, SME customers under the legally permitted most-favored-customer conditions.

- 5 Exclusive acquisition by Terra Group companies from Telefónica Group companies of the advanced broad and

narrow band network and platform services required to construct the range of services to be offered to residential, SOHO and, when so agreed, SME customers under the legally permitted most-favored-customer conditions.

The Framework Strategic Alliance Agreement guarantees the generation for the Terra Group of a minimum annual amount throughout the term of the Agreement of €78.5 million. This amount is the difference between the revenues arising from the services provided under the aforementioned Framework Strategic Alliance Agreement and the costs and investments directly associated therewith. In compliance with the terms of the aforementioned Framework Agreement, the minimum annual amount was generated for the Terra Group in 2003 and 2004.

Agreements with Portugal Telecom (Brazil)

On January 23, 2001, Telefónica, S.A. and its subsidiary Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Moveis, SGPS, S.A., on the other, entered into an agreement in order to group together all their wireless telephony businesses in Brazil and, accordingly, they undertook to contribute all their wireless telephony assets in Brazil to a joint venture, which, subject to the obtainment of the necessary regulatory authorizations, would be a subsidiary of the two groups, and in which they would each have a 50% ownership interest. Also, under the terms of this agreement, the two parties expressed their interest in increasing their reciprocal ownership interests, subject to compliance with the applicable regulatory and bylaw conditions.

On October 17, 2002, Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Moveis SGPS, S.A., on the other, entered into the definitive agreements (Stockholders' Agreement and Subscription Agreement) that implement the aforementioned agreement signed in January 2001. On December 27, 2002 (after having obtained the necessary authorizations), the two Groups' holdings in their respective Brazilian wireless telephony operators were contributed to a Dutch joint venture, Brasilcel N.V., in accordance with the provisions of the aforementioned Subscription Agreement.

In accordance with the aforementioned definitive agreements, Telefónica Móviles, S.A. and the Portugal Telecom Group will have the same voting rights at Brasilcel, N.V. This equality in voting rights will cease to exist if, as a result of capital increases at Brasilcel, N.V., the percentage of ownership of either of the parties falls below 40% during an uninterrupted period of six months. In this event, if the Group with the reduced interest were the Portugal Telecom Group, it would be entitled to sell to Telefónica Móviles, S.A., which would be obliged to buy (directly or through another company), all the Portugal Telecom Group's ownership interest in Brasilcel N.V. This right expires on December 31, 2007. The price for the acquisition of the Portugal Telecom Group's holding in Brasilcel, N.V. would be calculated on the basis of an independent appraisal (in the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. Subject to certain conditions, the payment could be made, at Telefónica Móviles' choice, in (i) cash, (ii) Telefónica Móviles S.A. shares and/or Telefónica, S.A. shares, or

(iii) a combination of the two. This put option would be exercisable in the 12 months subsequent to the end of the aforementioned six-month period, provided that the Portugal Telecom Group had not increased its ownership interest to 50% of the total capital stock of Brasilcel N.V.

Also, in accordance with the definitive agreements, the Portugal Telecom Group will be entitled to sell to Telefónica Móviles, S.A., which will be obliged to buy, its holding in Brasilcel, N.V. should there be a change in control at Telefónica, S.A., at Telefónica Móviles, S.A. or at any other subsidiary of the latter that held a direct or indirect ownership interest in Brasilcel N.V. Similarly, Telefónica Móviles, S.A. will be entitled to sell to the Portugal Telecom Group, which will be obliged to buy, its holding in Brasilcel, N.V. if there is a change of control at Portugal Telecom SGPS, S.A., at PT Moveis SGPS, S.A. or at any other subsidiary of either company that held a direct or indirect ownership interest in Brasilcel N.V. The price will be determined on the basis of an independent appraisal (in the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. The related payment could be made, at the choice of the group exercising the put option, in cash or in shares of the wireless telephony operators contributed by the related party, making up the difference, if any, in cash.

Agreements for the acquisition of Pegaso (Mexico)

In accordance with the agreements entered into by Telefónica Móviles, S.A. on April 26, 2002, with Sprint, Leap Wireless, Qualcomm and other financial investors, the acquisition by Telefónica Móviles, S.A. of 65% of the capital stock of the Mexican company Pegaso Telecommunicaciones, S.A. de C.V. (Pegaso) was definitively concluded on September 10, 2002.

Also, in compliance with the agreements adopted on that date, Telefónica Móviles, S.A. and the Burillo group, which owned 35% of the remaining capital stock of Pegaso, all the shares of Pegaso were contributed to a company formed for this purpose called Telefónica Móviles México, S.A. de C.V. Telefónica Móviles, S.A. also contributed to this new company the companies which it owned in northern Mexico. After these contributions, Telefónica Móviles, S.A. had a 92% holding in the new company.

Under the agreements entered into, the Burillo group has certain mechanisms with which it can cease to be a stockholder, instrumented through an option to sell its holding in Telefónica Móviles México, S.A. de C.V. The Burillo group can exercise its put option in 2007 or 2008, or, if its holding in the company falls below 50% of its original ownership interest, on the date on which such decrease occurs. If the Burillo group did not exercise its put option, Telefónica Móviles could exercise its purchase option on the shares of the company owned by the Burillo group. In this case, the purchase price for the shares will be determined on the basis of a valuation of the company on the date on which the rights were exercised. The agreements entered into envisage that a portion of the purchase price will be paid in cash, the amount of which will depend upon the Burillo group's original investment in the company, to which interest will be added and from which any cash distribution received by the Burillo group will be deducted. The remaining portion of the purchase price, if any, will be paid, at Telefónica Móviles'

choice, in cash, in shares of Telefónica Móviles or a combination of the two.

Also, under the stockholders' agreement entered into the Burillo group has certain rights to veto agreements on the conversion of shares from one class to another, declarations of bankruptcy or Chapter 11-type insolvency proceedings, dissolution or liquidation, bylaw amendments which adversely affect the rights of the Burillo group and mergers or corporate reorganizations which do not afford the Burillo group the opportunity to maintain a given percentage of ownership.

Newcomm Wireless Services, Inc. (Puerto Rico).

On September 29, 2003, Telefónica Móviles, S.A. arranged a counter-guarantee for Telefónica Internacional, S.A. for the obligation of Telefónica Móviles Puerto Rico (a subsidiary of Telefónica Móviles) regarding a loan of US\$ 11 million granted by Banco Santander de Puerto Rico. On January 11, 2005, Telefónica Móviles Puerto Rico repaid the principal and paid the interest outstanding on the aforementioned loan, and the guarantee provided by Telefónica Internacional, S.A. and, consequently, the counter-guarantee of Telefónica Móviles, were released from that date.

On December 23, 2003, Telefónica Móviles, S.A. arranged a counter-guarantee for Telefónica, S.A. for the obligation of Newcomm Wireless Services, Inc. de Puerto Rico, regarding a bridge loan of US\$ 61 million granted by ABN AMRO which matures on June 30, 2005. These guarantees are deemed to be recoverable on the basis of the company's business plan and of their seniority for credit ranking purposes with respect to capital stock.

Medi Telecom (Morocco)

Telefónica Móviles España S.A. (Sole-Stockholder Company), as a stockholder of Medi Telecom, signed a "Stockholders' Support Agreement" together with Portugal Telecom and the BMCE Group. This commitment requires the signatories to jointly and severally provide up to €210 million of financial assistance to Medi Telecom in the event of noncompliance with financial clauses or a shortfall in funds at Medi Telecom that would prevent it from meeting its debt servicing obligations. If Medi Telecom obtains a specific level of operating income before depreciation and amortization during a certain period of time and if it fulfills all its obligations under the loan agreement, this financial commitment will automatically be cancelled.

As a result of the most recent loans and capital increases subscribed by, inter alia, Telefónica Móviles España, S.A. (sole-Stockholder Company), the aforementioned commitment between the latter, Portugal Telecom and the BMCE Group was reduced to €118.3 million as of December 31, 2004.

Guarantees provided for Ipse 2000 (Italy)

The Telefónica Group has provided for the Italian company Ipse 2000 S.p.A. (the awardee of an UMTS license in Italy, in which it owns an indirect holding through Telefónica Móviles, S.A. and Telefónica DataCorp, S.A.U.), guarantees securing financial transactions, mainly its financing commitments relating to the amounts payable to the Italian State in connection with the grant of the license amounting to €483.93 million.

On December 27, 2002, Telefónica Móviles, S.A. arranged a counter-guarantee for Telefónica, S.A., which in turn was counter-guaranteed by Telefónica Móviles España, S.A.U., whereby, under certain terms and conditions, Telefónica Móviles, S.A. undertakes vis-à-vis Telefónica, S.A. to pay for 91.79% of the amounts to be legally, contractually or judicially paid by the latter in connection with the guarantee that Telefónica, S.A. (jointly with other strategic partners of Ipse 2000, S.p.A.) provided to certain banks, which in turn provided a bank guarantee for the Italian authorities as security for the deferred payment of the UMTS license. Payment of the deferred amount for the base license (€16.01 million) was completed as of November 31, 2004. In order to avoid execution of the guarantee by the Italian Government and subject to the resolution of the litigation in progress, in addition to and together with the payment of the base license price, IPSE 2000, S.p.A. paid €104.32 million as part of the installment outstanding in connection with the deferred payment of the additional 5 MHz spectrum which was granted to ISPE 2000, S.p.A. by the Italian Government for a total amount of €826.33 million. This additional 5MHz spectrum was returned by IPSE 2000, S.p.A. There is currently a dispute between this company and the Italian Government in connection with the validity of this return.

On October 25, 2000, Ipse 2000, S.p.A. signed an agreement with Ferrovie dello Stato, S.p.A., an Italian railroad company, whereby Ipse 2000, S.p.A. was granted certain access and use rights on certain specific sites owned by the railroad company. Telefónica, S.A. provided a guarantee of up to €48.2 million to secure the amounts owed under this agreement. On November 28, 2003, Ipse 2000, S.p.A. notified its decision to terminate the agreement with Ferrovie dello Stato, S.p.A. on the grounds that the agreement was a lease agreement subject to unilateral termination in the event of exceptional circumstances. Since Ferrovie dello Stato, S.p.A. rejected these grounds, arbitration proceedings have been initiated to resolve the dispute as stipulated in the agreement.

Atento

Within the framework of the strategic agreement entered into on February 11, 2000, by Banco Bilbao Vizcaya Argentaria S.A. (BBVA) and Telefónica, on December 4, 2001, the two entities signed an agreement establishing the procedure and conditions for the integration in Atento, a Telefónica Group subsidiary, of the BBVA Group's Spanish and international contact center business.

The transaction agreed on consisted of the initial contribution by Telefónica S.A. of all its contact center business to a newly-formed subsidiary (Atento N.V.) and the subsequent inclusion of the BBVA Group in the stockholder structure of Atento N.V. through the contribution of the Spanish companies Procesos Operativos, S.A. and Leader Line, S.A., which entailed the transfer to Atento of the BBVA Group's Spanish and international contact center business.

The transaction also envisaged the signing of various specific agreements for the provision to the BBVA Group by Atento of contact center services in Spain and Portugal and in several Latin American countries.

Atento N.V. was incorporated on May 13, 2002. All Telefónica, S.A.'s contact center business was contributed to it on that

date. The contributions by the BBVA Group under the terms of the agreement discussed in this section have not yet been made.

On October 24, 2003, BBVA, Telefónica, S.A. and Atento N.V. entered into an Agreement establishing the terms and conditions under which BBVA, through General de Participaciones Empresariales, S.L. (GPE) became a stockholder of Atento N.V. by contributing all the shares of Procesos Operativos, S.A. As a result of the performance of this Agreement, Telefónica, S.A. currently owns shares representing 91.35% of the capital stock of Atento N.V., and GPE (a BBVA Group company) owns the remaining 8.65%.

Subsequently, on December 1, 2003, the Atento Group company Atento Teleservicios España, S.A. acquired all the shares of Leader Line, S.A.

On November 27, 2003, BBVA and Atento N.V. entered into a framework contract for services, with a term of four years, establishing the terms under which Atento N.V. and its subsidiaries will provide contact center activities and services to the BBVA Group.

At the same time as the aforementioned acquisition of Leader Line, S.A., Telefónica and GPE entered into a put option contract whereby GPE has the right to sell to Telefónica, which will be obliged to buy, all the shares of Atento N.V. that GPE owns at the time the option is exercised.

Commitments in relation to Sogecable

As a result of the agreements dated May 8, 2002 and January 29, 2003, between Telefónica, S.A., Telefónica de Contenidos, S.A.U. and Sogecable, S.A., relating to the merger of Via Digital into Sogecable, on August 7, 2003, Telefónica de Contenidos acquired a commitment to contribute funds up to a maximum of €45.28 million to offset Sogecable's cash deficit if it is unable to repay any amount owed under a syndicated loan and credit facility granted to Sogecable on August 7, 2003, by several financial institutions. This guarantee to contribute funds to cover possible cash deficits at Sogecable expires on June 30, 2005, the date on which it is estimated that the restructuring process brought about by the merger of the digital platforms will have been completed.

Also, on August 7, 2003, Telefónica de Contenidos, S.A.U. acquired a commitment, up to a maximum of €80 million, to guarantee compliance with the payment obligations arising for Sogecable under the aforementioned syndicated loan and credit facility, or to indemnify the syndicate of banks and savings banks up to the same amount against the damage and loss that the syndicate may suffer if any of Sogecable's obligations in relation to the contract were to be rendered null, void or ineffective for Sogecable.

In any case, the maximum amount guaranteed by Telefónica de Contenidos, S.A.U. in relation to the aforementioned syndicated loan and credit facility granted to Sogecable may not exceed €80 million, and the guarantee will be reduced in proportion to the voluntary or mandatory early repayments that take place during the term of the related agreement, which ends on December 31, 2010.

Telefónica, S.A. and Telefónica de Contenidos, S.A.U. have stated that they currently plan not to dispose of this holding for at least three years from the exchange date.

Commitments relating to audiovisual content (Telefónica de Contenidos)

As of December 31, 2004, Telefónica de Contenidos had the following commitments relating to sports rights:

1. In December 2004, Canal Satélite Digital, S.A. gave its approval to allow Telefónica de Contenidos to broadcast on a non-exclusive basis under the pay-per-view (PPV) system the signal for the soccer games of the First and Second Divisions of the Spanish National Soccer League and of the Spanish Knock-out Cup (Copa de S.M. El Rey) (except for the final) produced by Audiovisual Sport, from January 1, 2005, at current market prices for this type of content and for a period that will depend on the soccer seasons for which the content provider will be able to renew the current agreements with the soccer clubs.
2. Also in December 2004, an agreement was entered into with Audiovisual Sport for the latter to provide the broadcast signal to Telefónica de Contenidos and/or the Telefónica Group companies to which Telefónica de Contenidos assigns the signal, for the soccer games specified in the agreement with Canal Satélite Digital, at current market prices for this type of content for each soccer game, with guaranteed minimum payments per season to Audiovisual Sport from January 1, 2005, and for a period that will depend on the soccer seasons for which the content provider will be able to renew the current agreements with the soccer clubs.

Terra Networks, S.A. – BBVA (Uno-e Bank, S.A.)

By virtue of the agreements entered into in February 2000 by Telefónica, S.A. and Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), in August 2001 Terra Networks, S.A. acquired a 49% holding in Uno-e Bank, S.A. for €160.43 million.

On May 15, 2002, Terra Networks, S.A. and BBVA entered into a memorandum of understanding to integrate the consumer finance lines of business of Finanzia Banco de Crédito, S.A. (a wholly-owned subsidiary of BBVA) and Uno-e Bank, S.A. The agreement relating to this integration was subject to a legal, financial and business review, and to the obtainment of the relevant internal and administrative authorizations. After the integration had taken place, Terra Networks, S.A.'s ownership interest in Uno-e Bank, S.A. was 33% and that of the BBVA Group was 67%.

On that same date (May 15, 2002), BBVA and Terra Networks, S.A. entered into a liquidity agreement in which they established certain liquidity mechanisms (call and put options) relating to the Uno-e Bank, S.A. shares owned by Terra Networks, S.A., which would be modified if a definitive agreement were reached regarding the aforementioned integration of the consumer finance lines of business of Finanzia Banco de Crédito, S.A. and Uno-e Bank, S.A., to the effect that BBVA would lose its call option and Terra Networks, S.A. would retain its put option, but only at the market value as determined by an investment bank.

On January 10, 2003, Terra Networks, S.A. and BBVA entered into an agreement for the integration of the consumer finance line of business of Finanzia Banco de Crédito, S.A. and Uno-e Bank, S.A., in terms more suited to their respective interests than those established in the memorandum of

understanding of May 15, 2002, which was then rendered void. The definitive agreement was subject to the related internal and administrative authorizations, which had to be granted before June 30, 2003, as a condition for the formalization and execution of the integration transaction. After the integration had taken place, Terra Networks, S.A.'s ownership interest in Uno-e Bank, S.A. was 33% and that of the BBVA Group was 67%.

On that same date (January 10, 2003), BBVA and Terra Networks, S.A. entered into a liquidity agreement that replaced that dated May 15, 2002, when the aforementioned integration took place. This agreement establishes the following liquidity mechanism (put options) relating to the Uno-e Bank, S.A. shares owned by Terra Networks, S.A.: Terra Networks, S.A. has the right to sell to BBVA, and BBVA is obliged to acquire, Terra Networks, S.A.'s holding in Uno-e Bank, S.A. between April 1, 2005 and September 30, 2007, at market value, established as the higher of the two following values: (i) that determined by an investment bank; and (ii) that obtained by multiplying the income after taxes of Uno-e Bank, S.A. by the P/E ratio of BBVA, multiplied by the percentage of ownership held by Terra Networks, S.A. that it is intended to sell as of that date.

Also, the exercise price of the aforementioned option may not be lower than €148.5 million if Uno-e Bank, S.A. does not achieve the net ordinary revenue and pre-tax income targets set for 2005 and 2006 in the above-mentioned liquidity agreement.

In accordance with the terms of the aforementioned agreement dated January 10, 2003, once the relevant authorizations had been obtained, on April 23, 2003, the Special Stockholders' Meeting of Uno-e Bank, S.A. approved a capital increase at Uno-e Bank, S.A. to be subscribed in full by Finanzia Banco de Crédito, S.A., through the nonmonetary contribution of the consumer finance business line of the latter, whose Special Stockholders' Meeting held on the same date approved the contribution and the subscription in full of the capital increase.

This capital increase led to the integration of the consumer finance business line of Finanzia Banco de Crédito, S.A. into Uno-e Bank, S.A., following which the holdings of the BBVA Group and Terra Networks, S.A. in Uno-eBank, S.A. are 67% and 33%, respectively.

Other commitments in the form of performance bonds for concessions or licenses

1 Telefónica Móviles España, S.A.U., a subsidiary of Telefónica Móviles, S.A., which is in turn a subsidiary of Telefónica, S.A., provided certain financial guarantees to the Spanish State amounting to €1,100 million, in relation to the grant to Telefónica Móviles España, S.A.U. of a UMTS license in Spain. These guarantees ensure fulfillment of the commitments assumed by the company awarded the license in relation to network deployment, job creation, investments, etc.

Telefónica Móviles España, S.A.U. initiated negotiations with the Ministry of Science and Technology with a view to changing the existing system of guarantees. This process was completed through an Official Notice issued

by the Secretary of State for Telecommunications and for the Information Society on July 28, 2003, as a result of which the 71 guarantees in force at that date amounting to €630.9 million that were securing the commitments assumed under the UMTS license were returned to Telefónica Móviles España, S.A.U., after the latter had arranged, in the same month, a guarantee of €167.5 million with the Government Depositary, to secure compliance with the UMTS service commitments prior to launch of the UMTS and the commitments of the first year from the date of commercial launch, in accordance with the new system of guarantees. In September 2003, Telefónica Móviles España, S.A.U. cancelled the returned guarantees at the respective banks.

On June 23, 2004, the Ministry of Industry, Tourism and Commerce issued an order authorizing the change in the commitments assumed by Telefónica Móviles España, S.A.U. in connection with the operation of the third-generation wireless telecommunications (UMTS) service. Under this Order the requests filed by Telefónica Móviles España, S.A.U. in this respect were upheld, compliance with certain commitments was reinterpreted and other commitments were eliminated for the benefit of public interest.

As a result of this change, the amount to be guaranteed by Telefónica Móviles España, S.A.U. as a performance bond for the commitments assumed prior to the launch of the UMTS service and in the first year of service was reduced to €157.5 million. The guarantee therefore amounted to €157.5 million as of December 31, 2004.

2. Telefónica Móviles, S.A. is backing the commitments assumed by Grupo de Telecomunicaciones Mexicanos, S.A. de C.V. (GTM) to the regulator, COFETEL for the long-distance national license it has obtained. The maximum amount of this support is MXP 124.15 million. As of the date of preparation of these consolidated financial statements no disbursements had been made in this connection.
3. In 1999 Telefónica de Argentina, S.A. provided guarantees for the promissory notes amounting to US\$ 22.5 million provided by Telefónica Comunicaciones Personales, S.A. to the Argentine Government to guarantee the fulfillment of the obligations assumed in the obtainment of the PCS licenses for areas I and III. Also, Telefónica de Argentina, S.A. jointly and severally guaranteed, with Telecom Argentina Stet-France Telecom, S.A., the promissory notes amounting to ARP 45 million provided jointly by Telefónica Comunicaciones Personales, S.A. and Telecom Personal, S.A. to the Argentine Government to guarantee the fulfillment of the obligations assumed in the obtainment of the PCS licenses for area II. These guarantees are still in force, pending verification by the Regulatory Authority of the fulfillment of the PCS network coverage obligations secured by these guarantees. In 2003 the Regulatory Authority verified substantially all the coverage obligations in areas I and III, leaving only the cities of La Rioja, Córdoba and Catamarca. The Regulatory Authority completed the verification of the PCS network coverage obligations in the aforementioned cities and in area II in 2004. The Regulatory Authority must now decide the return of the guarantees.

Telefónica, S.A. and those of its subsidiaries which head subgroups perform, as holding companies, various equity investment purchase and sale transactions in the course of their business activities, in which it is standard practice to receive or provide guarantees regarding the nonexistence of liabilities, contingencies, etc. in the investments forming the subject matter of the related transactions.

The contingencies arising from the commitments described above were evaluated when the consolidated financial statements as of December 31, 2004, were prepared, and the provisions recorded with respect to the commitments taken as a whole are not representative.

c) Regulatory matters

On April 1, 2004, the Spanish Antitrust Agency ("the TDC") rendered a decision finding that Telefónica de España had engaged in conduct restricting competition and abused its dominant position.

On April 16, 2004, the Company filed an appeal for judicial review contesting the decision of the TDC which, inter alia, had imposed a € 57 million fine on Telefónica de España.

The appeal is being heard by Panel 6 of the Judicial Review Chamber of the National Appellate Court (appeal no. 162/2004). The appeal, which was filed on April 16, 2004, included a motion to say the execution of certain sections of the decision of April 1, 2004, including the section relating to the imposition of the fine.

In an Order of June 29, 2004, the Chamber granted an injunctive stay of execution of the fine, subject to the posting of a bond in the same amount. Accordingly, execution of the fine is currently stayed.

Based on the opinion expressed by its external advisers, the Company considers that there are strong factual and legal arguments that could lead to the appeal being upheld in whole or in part.

d) Environmental matters

The Telefónica Group, through its investees, and in line with its environmental policy, has been undertaking various activities and projects relating to environmental matters. In 2004 it incurred expenses and made investments for scantily material amounts which were recorded in the consolidated statement of income and the consolidated balance sheet, respectively.

As regards the current systems implemented by the Group to reduce the environmental impact of its facilities, several projects were initiated the cost of which was included in the cost of the facilities in which they are located.

As regards possible environmental contingencies, there are sufficient internal control mechanisms, which are periodically supervised, either in-house or by prestigious outside firms. No significant contingencies have been disclosed in this connection.

e) Fees paid to auditors

The fees paid to the various member firms of the Deloitte Touche Tohmatsu international organization, to which

Deloitte, S.L. (the auditors of the Telefónica Group) belongs, amounted to €12.53 million in 2004 and €14.82 million in 2003.

The detail of the foregoing amounts is as follows:

<i>Millions of euros</i>	2004	2003
Audit of financial statements	8.56	7.48
Other audit services	2.95	2.90
Non-attest work	1.02	4.44
TOTAL	12.53	14.82

The fees paid to other auditors in 2004 and 2003 amounted to €11.20 million and €7.78 million, respectively, the detail being as follows:

<i>Millions of euros</i>	2004	2003
Audit of financial statements	2.55	2.10
Other audit services	0.23	2.05
Non-attest work	8.42	3.63
TOTAL	11.20	7.78

These fees include the amounts paid in connection with the fully and proportionally consolidated Spanish and foreign Telefónica Group companies. In this connection, they include €0.61 million in 2004 and €0.95 million in 2003 relating to 50% of the fees for the proportionally consolidated companies (Deloitte Touche Tohmatsu, €0.61 million in 2004 and €0.70 million in 2003; other auditors, €0.25 million in 2003).

f) Adoption of International Financial Reporting Standards - IFRS

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002, all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after January 1, 2005, in conformity with the International Financial Reporting Standards (IFRS) previously adopted by the European Union. In conformity with this Regulation, the Group will have to present its consolidated financial statements for 2005 in accordance with the IFRS adopted by the European Union.

Under IFRS 1, First-Time Adoption of International Financial Reporting Standards, although the first consolidated financial statements prepared in accordance with IFRS will, in the case of the Group, be those for the year ending December 31, 2005, it will be necessary to include, for comparison purposes, the figures for the preceding year (2004) prepared on a basis consistent with that used to calculate the figures for 2005. Accordingly, an opening balance sheet will have to be prepared as of the date of transition to IFRS accounting methods (January 1, 2004, in the case of the Group), also in accordance with the IFRS in force as of December 31, 2005.

In order to meet the obligation imposed by Regulation (EC) no. 1606/2002, the Group has established a plan for the transition to IFRS that includes, inter alia, the following steps:

1. Analysis of the differences between the methods provided for in the National Chart of Accounts in force in Spain and related implementing rules, and in IFRS.
2. Selection of the methods to be used in cases or areas in which IFRS permit alternative accounting treatments to be applied.
3. Assessment and determination of the appropriate changes to or adaptations of the operating procedures and systems used for compiling and providing the information required in order to prepare the consolidated financial statements.
4. Preparation of the opening consolidated financial statements, as of the transition date, in accordance with IFRS.

The Group commenced to implement the plan for the transition to IFRS in 2003 and the stage of completion is currently as planned for the adaptation to be completed in 2005.

(23) SUBSEQUENT EVENTS

In the period from December 31, 2004, through the date of preparation of these consolidated financial statements the following events worthy of mention took place at the Telefónica Group:

BellSouth

The acquisition of all the shares owned by BellSouth in the Chilean and Argentine operators was performed on January 7 and January 11, 2005, thus completing the purchase of the Latin American operators from BellSouth.

The acquisition of BellSouth's Chilean operators was formalized on January 7, 2005. The corporate value of these companies under the share purchase agreement dated March 5, 2004, amounted to \$531.89 million. As a result of the company's net debt at the time of acquisition, the final purchase price was \$405.50 million.

The acquisition of the Argentine companies which belonged to the BellSouth group was formalized on January 11, 2005. The agreed-upon corporate value of these companies amounted to \$988.36 million and the price finally paid, after deducting the company's net debt, was \$673.54 million.

The agreement entered into with BellSouth stipulates that, after the acquisition of these companies, Telefónica Móviles will perform various procedures to validate their cash and debt. If as a result of these procedures the debt and cash figures used in the calculation of the final share price at the closing date were found to be inaccurate, the purchase price could be increased or reduced in order to reflect the difference disclosed. Accordingly, the acquisition price might be adjusted slightly upwards or downwards as a result of the cash and debt audit currently under way.

Restructuring of Telefónica Holding de Argentina, S.A.'s debt

Telefónica Holding de Argentina S.A. has a debt to its majority stockholder, Telefónica Internacional, S.A., amounting to \$616 million of principal and interest. Telefónica Internacional, S.A. has stated its intention to partially convert this loan into equity through a capital increase for an amount equal to the

principal and related interest accrued through the date of the Stockholders' Meeting, translated to Argentine pesos at the closing buying exchange rate of Banco de la Nación Argentina on the business day immediately preceding the date of the aforementioned Stockholders' Meeting (i.e. an amount of up to ARP 2,046 million), and through the issuance at par of common registered class B shares of ARP 1 par value each, carrying one voting right each, for the same amount as the amount to be converted into equity. These shares will have the same dividend rights as the other shares outstanding at the issue date. Accordingly, the Board of Directors of Telefónica Holding de Argentina, S.A. resolved to hold a Special Stockholders' Meeting on February 15, 2005, to adopt a resolution on the aforementioned capital increase, which was approved at that Meeting.

Capital increase at Telesp Celular Participações (TCP).

On October 8, 2004, TCP resolved to increase capital by approximately 2.05 million reais. Following this capital increase, which was completed on January 4, 2005, and was fully subscribed, Brasilcel increased its ownership interest from 65.12% to 65.70%.

Assignment of debt owed by Telinver S.A.

On January 3, 2005, Telinver S.A. entered into an assignment agreement with Telefónica Internacional S.A. and Telefónica de Argentina S.A. whereby Telinver, S.A. assigned its debt payable to Telefónica Internacional S.A.U. to Telefónica de Argentina S.A., which now has a claim on Telinver, S.A. as a consideration for the assigned debt. Telefónica de Argentina, S.A. has stated its intention to convert a portion of this claim into equity for the purpose of balancing the net worth position of Telinver, S.A.

MTN Program for the issuance of debt instruments (Telefónica Emisiones, S.A.U.)

Telefónica Emisiones, S.A.U., a subsidiary of Telefónica, S.A., has launched a program for the issuance of debt instruments ("the Program") for up to a total of €15,000 million. The related Prospectus was filed with the UK Listing Authority for which purpose the Dealership Agreement, the Issue and Paying Agency Agreement, the Deed of Covenant, the Deed of Guarantee and the Master Global Notes were formalized on February 4, 2005.

Under the Deed of Guarantee, the issues of debt instruments to be made by Telefónica Emisiones, S.A.U. under the aforementioned Program shall be irrevocably and unconditionally guaranteed by Telefónica, S.A.; all in conformity with the resolutions adopted by Telefónica, S.A.'s Standing Committee at its meeting on December 22, 2004.

Merger by absorption of Terra Networks, S.A. into Telefónica, S.A.

On February 9, 2005, Telefónica, S.A.'s Standing Committee resolved to propose to Terra Networks, S.A. the commencement of negotiations for the eventual merger of the two companies.

The Boards of Directors of Telefónica, S.A. and Terra Networks, S.A. resolved at their respective meetings held on February 23, 2005, to approve a plan for the merger by absorption of Terra Networks, S.A. into Telefónica, S.A. through the dissolution of the former and the transfer en bloc of all its assets and liabilities to the latter, which will acquire, by way of universal

succession, all the rights and obligations of Terra Networks, S.A. The exchange ratio for the shares of the companies to be merged was determined on the basis of the actual net asset value of Telefónica, S.A. and Terra Networks, S.A. and will be as follows: 2 shares of Telefónica, S.A. of €1 par value each, for 9 shares of Terra Networks, S.A. of €2 par value each. The merger plan will be submitted for approval by the respective Stockholders' Meetings.

Interim dividend out of 2004 income

In accordance with the shareholder return policy approved by the Company's Board of Directors, and in conformity with the resolution adopted by the Board on January 26, 2005, on February 23, 2005, the Board of Directors of Telefónica, S.A., on the basis of the financial information furnished to it, resolved, pursuant to Article 216 of the Spanish Corporations Law currently in force, to distribute a fixed interim dividend out of 2004 income of €0.23 gross per share for the Company's outstanding shares carrying dividend rights, up to a maximum total amount of €1,139.86 million. This interim dividend will be paid on May 13, 2005.

ACCOUNTING STATEMENT SUPPORTING THE DISTRIBUTION OF THE INTERIM DIVIDEND:

Millions of euros

Income from January 1, 2004, through December 31, 2004	1,301.40
Mandatory appropriations to reserves	(130.14)
Distributable income	1,171.26
Proposed interim dividend (maximum amount)	1,139.86

CASH POSITION:

As shown in the financial statements for 2004, prepared by the Board of Directors on February 23, 2005, on December 31, 2004, there was sufficient liquidity for the distribution of dividends. This liquidity also existed as of January 31, 2005, as evidenced by the following statement of liquidity:

Funds available for distribution	<i>Millions of euros</i>
Cash	31.04
Unused credit facilities	6,836.06
Proposed interim dividend (maximum amount)	(1,139.86)
Difference	5,727.24

Dividend with a charge to additional paid-in capital

Also, in conformity with the resolution adopted by the Board of Directors on January 26, 2005, the Company's Board resolved to propose to the next Stockholders' Meeting that a fixed cash dividend of €0.27 per share be distributed with a charge to additional paid-in capital. This dividend will be paid, subject to approval by the aforementioned Stockholders' Meeting and as announced by the Company, on November 11, 2005.

**(24) CONSOLIDATED STATEMENTS OF CHANGES
IN FINANCIAL POSITION**

Application of funds	12/31/04	12/31/03	Source of funds	12/31/04	12/31/03
Funds applied in operations	-	-	Funds obtained from operations	11,633.24	10,635.10
Start-up and debt arrangement expenses	58.59	144.99			
Fixed asset additions			Stockholder contributions		
a) Intangible assets	594.09	809.88	a) Capital increase	-	-
b) Property, plant and equipment	3,172.33	2,973.30	b) Additional paid-in capital	-	-
c) Long-term investments	3,948.60	4,322.56	c) Minority interests	5.60	301.99
Deferred tax assets	716.01	-	Deferred tax assets	-	818.90
Dividends	3,268.05	2,070.18	Deferred revenues	88.55	1.81
Repayment or transfer to short term of long-term debt	5,166.77	5,792.81	Long-term deferred tax liabilities		
Provisions	1,119.59	1,897.95	Long-term debt	2,697.17	3,783.76
Other funds applied	15.45	213.48	Fixed asset disposals		
			a) Intangible assets	15.00	108.86
			b) Property, plant and equipment	158.08	535.50
			c) Long-term investments	767.40	1,944.42
			Transfer to short term of long-term loans	80.54	1,783.38
Decrease in working capital due to disposal of equity investments	25.19	-	Increase in working capital due to disposal of equity investments	-	100.39
Decrease in working capital due to inclusion of subsidiaries	464.60	-	Increase in working capital due to inclusion of subsidiaries	-	46.10
Variation in working capital due to translation differences	-	581.25	Variation in working capital due to translation differences	224.31	-

Total funds applied	18,549.27	18,806.40	Total funds obtained	15,669.89	20,060.21
Funds obtained in excess of funds applied (increase in working capital)	-	1,253.81	funds applied in excess of funds obtained (decrease in working capital)	2,879.38	-
	18,549.27	20,060.21		18,549.27	20,060.21

Variations in working capital

Increase in working capital	12/31/04	12/31/03	Decrease in working capital	31-12-04	31-12-03
Due from stockholders for capital calls	-	-	Due from stockholders for capital calls	-	-
Inventories	268.64	-	Inventories	-	48.86
Accounts receivable	717.53	189.12	Accounts receivable	-	-
Accounts payable	-	693.06	Accounts payable	5,391.85	-
Short-term investments	1,119.77	622.67	Short-term investments	-	-
Cash	518.60	-	Cash	-	207.49
Accrual accounts	10.05	5.31	Accrual accounts	122.12	-
Total	2,634.59	1,510.16	Total	5,513.97	256.35
Variation in working capital	2,879.38	-	Variation in working capital		1,253.81
	5,513.97	1,510.16		5,513.97	1,510.16

The reconciliation of the balances of the consolidated statements of income to the funds obtained from operations is as follows:

Millions of euros

	12/31/04	12/31/03
Income	2,877.29	2,203.58
Income attributable to minority interests	384.05	245.49
Income of associated companies	56.11	212.58
	3,317.45	2,661.65
Add:		
Dividends of companies accounted for by the equity method	71.24	-
Depreciation and amortization expense	5,968.17	6,283.70
Provisions for property, plant and equipment	27.29	35.69
Amortization of debt arrangement expenses	39.71	41.70
Amortization of consolidation goodwill	432.59	442.46
Amortization of other deferred charges	64.34	140.45
Write-down of consolidation goodwill	111.09	6.48
Investment valuation provisions	5.81	-
Undepreciated plant dismantled	28.98	38.68
Provisions for inventory adjustment	0.04	1.81
Period provisions	1,032.00	1,986.78
Provisions to technical reserves of insurance companies	122.05	13.30
Deferred interest	8.90	26.55
Deferred tax liabilities and other	1,063.85	787.05
Property, plant and equipment and intangible assets	20.60	16.52
Financial provision and supplementary pension payments to retired employees	61.63	5.17
Losses on disposal of consolidated companies	33.34	39.74
Less:		
Gain on disposal of property, plant and equipment and intangible assets	47.63	221.83
Capital subsidies	94.90	12.93
Exchange differences	250.36	882.97
Long-term deferred tax assets and liabilities	-	-
Gain on disposal of consolidated companies	65.39	407.96
Fixed asset allowances used	-	0.07
Other allowances used	283.68	356.53
Results on financial investments	33.88	10.34
Funds obtained from operations	11,633.24	10,635.10

(25) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

EXHIBIT I.**Contribution of the Group companies to reserves and translation differences**

The contribution of the Group companies to consolidated reserves and translation differences as of December 31, 2004 and 2003, was as follows:

Millions of euros

Companie	12/31/04		12/31/03	
	To Reserves	To Translation Differences	To Reserves	To Translation Differences
Fonditel	6.63	-	(0.94)	-
Atento Group	(279.23)	(30,79)	(263.76)	(36.17)
Casiopea Group	64.73	-	48.79	-
Comet Group	(6.45)	-	(6.41)	-
Telefónica de España Group	160.00	1.84	276.41	(0.03)
Telefónica Internacional Group	1,420.82	(4,568.35)	362.72	(4,010.81)
Telefónica Contenidos Group	(1,935.22)	(89.47)	(1,966.32)	(162.82)
Telefónica Publicidad e Información Group	138.42	(35.96)	126.39	(1.69)
Telefónica Móviles Group	896.93	(1,137.77)	159.22	(1,100.36)
Terra Networks Group	(1,636.91)	(52.60)	(1,408.77)	(167.59)
Inmobiliaria Telefónica	-	-	9.22	-
Taetel	11.10	-	10.40	-
Telefónica Europe B.V.	5.92	-	4.74	-
Telfisa	0.32	-	(1.85)	-
Tidsa	55.16	-	48.90	-
Telefónica, S.A. and instrumentality companies	15,707.16	(238.87)	18,640.51	(916.52)
Total Telefónica Group	14,609.38	(6,151.97)	16,039.25	(6,395.99)
Intercompany fixed asset transactions	(65.47)	-	(46.17)	-
Total contribution	14,543.91	(6,151.97)	15,993.08	(6,395.99)

DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(Amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
Telefónica de Contenidos, S.A.U (SPAIN) (*) (**) (1) (6) <i>Organization and operation of activities and businesses relating to multimedia services</i>	100.00%		100.00%	2,163.60	(1,865.97)	-	(82.84)	2,241.88	FC	-
<i>Paseo de la Castellana, 141 - 28046 Madrid</i>										
Telefónica Media Argentina, S.A. (ARGENTINA) (1) <i>Holdings in businesses in areas related to the media</i>	100.00%	100.00%	471.63	(395.89)	-	-	899.16	FC	-	
Tucumán, 1 Pta.17º - Buenos Aires										
Atlántida Comunicaciones, S.A (ARGENTINA) (1) (6) <i>Free-to-air television and radio</i>	100.00%	100.00%	474.58	(531.99)	-	(33.32)	-	FC	-	
Tucumán, 1 Pta.20 - Buenos Aires										
Other holdings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/D	EM	0.06
Telefónica Servicios Audiovisuales, S.A. (SPAIN) (*) (**) (1) <i>Provision of all manner of audiovisual telecommunications services</i>	100.00%	100.00%	6.01	18.11	-	(4.16)	8.37	FC	-	
Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid										
Andalucía Digital Multimedia, S.A. (SPAIN) <i>Development of the audiovisual industry in Andalucía</i>	24.00%	24.00%	2.69	(0.85)	-	(0.38)	0.43	EM	0.35	
Edificio Azul, Parque Tecnológico de Andalucía - Málaga										
Telefónica Sport, S.A. (SPAIN) (*) (**) (1) <i>Management and exploitation of audiovisual rights in any medium</i>	100.00%	100.00%	1.00	(1.35)	-	(0.62)	2.33	FC	-	
Paseo de la Castellana, 141 - 28046 Madrid										
Hispasat, S.A. (SPAIN) (2) <i>Operation of a satellite telecommunications system</i>	13.23%	13.23%	121.95	152.32	-	7.99	17.59	EM	37.35	
Gobelás, 41 - 28023 Madrid										
Telefónica Servicios de Música S.A.U. (SPAIN) (*) (**) (4) <i>Provision of services in the teledistribution industry</i>	100.00%	100.00%	1.26	3.51	-	(4.42)	1.79	FC	-	
Luchana, 23, 1º - 28010 Madrid										
Sogecable, S.A. (SPAIN) (1) (6) <i>Indirect management of public T.V. service</i>	1.60%	22.23%	23.83%	252.01	167.32	-	(156.23)	1.065.49	EM	62.70
Gran Vía, 32 - 3º Pta. - 28013 Madrid										
Patagonik Film Group, S.A. (ARGENTINA) (2) <i>Production of audiovisual content</i>	30.00%	30.00%	2.42	(0.48)	-	0.06	8.58	EM	0.54	
Godoy Curz, 1540 - 1414 Buenos Aires										
Other holdings (1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	11.21	C	11.22
Endemol Holding, N.V. (NETHERLANDS) (3) (6) <i>Holding company</i>	99.70%		99.70%	0.69	152.44	-	64.59	842.13	FC	-
<i>Bergweg 70, 1217 SC Hilversum</i>										
Endemol International B.V. (NETHERLANDS) (3) <i>Production of audiovisual content</i>	100.00%	99.70%	0.02	(7.43)	-	11.16	N/D	FC	-	
Bergweg 70, 1217 SC Hilversum										
Endemol, B.V. (3) <i>Holding company. Financing and exploitation of royalties</i>	100.00%	99.70%	0.67	229.66	-	(16.33)	N/D	FC	-	
Bergweg 70, 1217 SC Hilversum										
Endemol Holding France (3) <i>Holding and service company</i>	100.00%	99.70%	100.04	(111.97)	-	36.64	N/D	FC	-	
Endemol France (Holding) SAS (FRANCE) (3) <i>Holding and service company</i>	100.00%	99.70%	0.04	(9.27)	-	(24.05)	N/D	FC	-	
8-10 rue Torricelli, 75017 Paris, France										

(*) Empresas incluidas en la declaración del Impuesto sobre Sociedades consolidado, año 2003.

(**) Empresas incluidas en la declaración del Impuesto sobre Sociedades consolidado, año 2004.

DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
Endemol Nederland Holding, B.V. (NETHERLANDS) (3) <i>Holding and finance company</i> Bergweg 70, 1217 SC Hilversum		100.00%	99.70%	0.02	(5.27)	-	(1.50)	N/D	FC	-
Endemol Nederland, B.V. (NETHERLANDS) (3) <i>Production and presentation of radio and television broadcasts</i> Van Cleeffkade 15, 1431 BA Aalsmeer		100.00%	99.70%	0.30	0.58	-	2.66	N/D	FC	-
Endemol International Distribution (NETHERLANDS) (3) <i>Distribution and exploitation of audiovisual rights</i> Bergweg 70, 1217 SC Hilversum		100.00%	99.70%	0.02	(3.83)	-	0.33	N/D	FC	-
Endemol Finance B.V. (NETHERLANDS) (3) <i>Finance company</i> Bergweg 70, 1217 SC Hilversum		100.00%	99.70%	9.08	182.35	-	(15.55)	N/D	FC	-
Endemol Argentina S.A. (ARGENTINA) (3) <i>Presentation and shooting by any audiovisual medium</i> Dr. E. Ravignani 1470, C1414 CPJ - Buenos Aires		65.00%	64.80%	-	0.22	-	0.57	N/D	FC	-
Endemol USA, Inc. (USA) (3) <i>All the activities permitted by California law, except for certain activities such as banking</i> 9255 Sunset Blvd, Suite 1100 - Los Angeles - 90069 California		100.00%	99.70%	-	7.83	-	14.21	N/D	FC	-
True Entertainment LLC (USA) (3) <i>All the activities permitted by Delaware law</i> 435 West 19th Street - NY1011 New York		51.00%	50.85%	-	(0.11)	-	0.79	N/D	FC	-
Endemol Mexico S.A. de CV (MEXICO) (3) <i>Development and production of TV programs and serials</i> Vasco de Quiroga 2000, Colonia Santa Fé, Delegacion Guajimilpa, Mexico D.F. 01210		50.00%	49.85%	-	0.80	-	0.52	N/D	PC	-
Endemol Globo, S.A. (BRAZIL) (3) <i>Development, exploitation and distribution of audiovisual formats and programs</i> Av. das Americas 700, B2 Sala 301, Rio de Janeiro		50.00%	49.85%	0.09	(0.20)	-	0.33	N/D	PC	-
Endemol Belgium, N.V. (BELGIUM) (3) <i>Television, theater, video, film and other zproductions</i> Schaliënhoedveld 20E, B-2800 Mechelen		100.00%	99.70%	1.56	(0.97)	-	2.08	N/D	FC	-
Endemol-Neovision S.p.z.o.o. (POLAND) (3) <i>Radio- and television-related activities</i> Ul. Dominikanska 25A, 02-738 – Warsaw		50.00%	49.85%	0.01	0.06	-	0.08	N/D	PC	-
Endemol Produções Televisivas Portugal, Lda. (PORTUGAL) (3) <i>Production, exchange and distribution of TV productions</i> Rua Tierno Galvan, Torre 3, 8º Piso, sala 801, 1070 Lisbon		100.00%	99.70%	0.02	1.40	-	1.66	N/D	FC	-
Endemol South Africa (SOUTH AFRICA) (3) <i>TV program production</i> 5 Concourse Crescent, Lonehill, 2021 - Johannesburg		67.00%	66.80%	0.09	0.05	-	0.17	N/D	FC	-
Endemol Deutschland, GmbH (GERMANY) (3) <i>Cinema, television and theater production</i> Am Coloneum 3-7, D-50798 Cologne, Germany		100.00%	99.70%	0.03	(27.31)	-	30.57	N/D	FC	-
Endemol Italia (Holding), S.P.A. (ITALY) (3) <i>Production and exploitation of cinema films and TV films and serials</i> Via Monte Zebio 32, 00195 – Rome		100.00%	99.70%	0.11	42.65	-	11.00	N/D	FC	-

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(Amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
Palomar, S.p.A. (ITALY) (3) <i>Production and exploitation of cinema films and TV films and serials</i> Via Silvio Pellico 24, 00195 – Rome		69.00%	68.79%	0.40	1.15	-	0.57	N/D	FC	-
Endemol UK Holding, Ltd. (U.K.) (3) <i>Holding company</i> Shepherds Building Central, Charecroft Way, Shepherds Bush, W14 OEE - London	100.00%	99.70%		20.97	(9.92)	-	2.09	N/D	FC	-
B&B Endemol (SWITZERLAND) (3) <i>TV program and film production</i> Carmenstrasse 12, CH 8032 - Zurich	50.00%	49.85%		0.03	0.04	-	1.04	N/D	PC	-
Endemol España Holding, S.L. (SPAIN) (3) <i>Holding company</i> Latorre & Asociados, Velasquez 21, 3o O, 28001 - Madrid	100.00%	99.70%		0.47	12.92	-	(4.32)	N/D	FC	-
Gestmusic Endemol, S.A. (SPAIN) (3) <i>TV program production and related activities</i> Sta. Elinor 3, 08024 - Barcelona	100.00%	99.70%		0.06	17.98	-	4.15	N/A	FC	-
Zeppelin Televison, S.A. (SPAIN) (3) <i>Development and production of audiovisual media</i> Avda de Manoteras 18-6a Planta, 28050 - Madrid	100.00%	99.70%		0.07	5.28	-	8.77	N/A	FC	-
Other holdings (3)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	EM	7,96
Telefónica Datacorp, S.A.U. (SPAIN) (*) (**) (1) <i>Provision and exploitation of telecommunications services</i> Gran Vía, 28 - 28013 Madrid	100.00%	100.00%		1,226.76	(423.33)	-	(77.08)	1,335.81	FC	-
Telefónica International Wholesale Services, S.L. (SPAIN) (*) (**) (1) <i>Provision of international services</i> Gran Vía, 28 - 28013 Madrid	100.00%	100.00%		17.21	5.86	-	21.62	17.21	FC	-
Telefónica Empresas Mexico, S.A. de C.V. (MEXICO) (1) Telefónica Data Mexico Holding (MEXICO) (1) <i>Global telecommunications services</i> Mexico	49.00%	100.00%		39.70	(31.53)	-	(5.79)	40.45	FC	-
Telefónica Empresas Mexico, S.A. de C.V. (MEXICO) (1) <i>Global telecommunications services</i> Sierra Santa Rosa, 61 - Lomas de Chapultepec - 11.650 Mexico City	51.00%	100.00%		70.26	(53.99)	-	(10.59)	39.19	FC	-
Katalyx Mexico, S.A. de C.V. (MEXICO) (1) <i>Administrative management services</i> Boulevard Avila Camacho, 24 - Mexico D.F.	100.00%	100.00%		14.04	(9.14)	-	(5.38)	N/D	FC	-
Telefónica Data Colombia, S.A. (COLOMBIA) (1) <i>Global telecommunications services</i> Santa Fé de Bogotá	65.00%	65.00%		5.78	0.75	-	(2.66)	23.60	FC	-
Other holdings	N/A	N/A	N/D	N/D	N/D	N/D	N/D	0.03	C	-
Telefónica Data do Brasil, Ltda. (BRAZIL) (1) <i>Telecommunications services</i> Rua da Consolação, 247 - 6 - São Paulo	100.00%	100.00%		249.87	(130.86)	-	(4.82)	249.62	FC	-
Telefónica Data Brasil Holding (BRAZIL) (1) <i>Ownership of companies providing network and telecommunications services</i> Avda. Brig. Faria Lima, 1188 p/ta. 7º andar parte - São Paulo	93.98%	93.98%		345.67	(193.03)	-	(9.19)	N/A	FC	-

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
Telefónica Empresas (BRAZIL) (1) <i>Provision and operation of telecommunications services</i> Avda. Tamboré, 341/371 - Barueri - São Paulo		93.98%	93.98%	N/D	N/D	N/D	N/D	N/D	FC	-
Telefónica Datos de Venezuela, S.A. (VENEZUELA) <i>Telecommunications services</i> Avda. Las Palmas, 3º - 1050 Caracas	100.00%	100.00%	0.02	0.18	-	-	0.03	0.02	FC	-
Telefónica Data Canadá, Inc. (CANADA) <i>Telecommunications services</i> 44 Chipman Hill, 10th Floor - P.O. Box 7289 New Brunswick E5L 4S6	100.00%	100.00%	N/D	N/D	N/D	N/D	N/D	0.02	C	0.02
Telefónica Data Caribe (SPAIN) Telefónica Data USA Inc. (USA) (1) <i>Telecommunications services</i> 1221 Brickell Avenue - 33131 Miami - Florida	10.00%	100.00%	0.00	48.34	-	-	(18.44)	107.81	FC	-
Telefónica Data Caribe (*) (**) (SPAIN) (1) <i>Global telecommunications services</i> Beatriz de Bobadilla, 14 - 28040 Madrid Telefónica Data Cuba (CUBA) <i>Provision and operation of telecommunications services</i> Ave. 47 s/n entre 18º y 20 - Miramar Playa - La Habana	90.00%	100.00%	0.06	(2.06)	-	-	(0.02)	0.06	FC	-
Ipse - 2000 (ITALY) (1) <i>Exploitation of a UMTS license</i> Piazza dei Caprettari, 70 - 00186 Roma	4.08%						N/D	7.63	C	7.63
Telefónica Empresas Perú, S.A. (PERU) (1) <i>Provision and operation of telecommunications services</i> Jorge Basadre, 592 7º - San Isidro - Lima	97.07%	97.07%	29.00	(2.23)	(3.39)	1.92	18.16	FC	-	
Telefónica Data Argentina, S.A. (ARGENTINA) (1) <i>Provision and operation of telecommunications services</i> Tucumán, 1 pta. 18º - 1049 Buenos Aires	97.92%	97.92%	108.79	(82.87)	-	4.44	97.49	FC	-	
Intelsat, Ltd. (U.K.) <i>Global communications service provider</i> Bermuda	0.09%	0.09%	N/D	N/D	N/D	N/D	1.58	C	1.42	
Telefónica Soluciones de Informática y Comunicaciones, S.L. (SPAIN) (*) (**) (1) <i>Granting of loans, guarantees and financial assistance to the Telefónica Group</i> Alcalde Mandillo Tejero, 8 - Edificio Simón Bolívar - Santa Cruz de Tenerife	100.00%	100.00%	16.60	(34.19)	-	(0.67)	16.60	FC	-	
Telefonica Deutschland, GMBH (GERMANY) (1) <i>Internet and telecommunications services</i> Landshuter Allee, 8 - 80637 Munich	100.00%	100.00%	2.60	502.76	-	(165.06)	638.54	FC	-	
Telefónica Data Atlas, S.A. (MOROCCO) (8) <i>Provision and operation of telecommunications services</i> Tour Bmce, Rond Point Hassan II - Casablanca	59.86%	59.86%	300 m.DH	N/D	N/D	N/D	0.02	C	-	
Katalyx, Inc. (USA) (1) <i>Administrative management services</i> 1221 Brickell Avenue - Miami, Florida	100.00%	100.00%	143.43	(157.89)	-	19.93	5.18	FC	-	
Katalyx Brasil, Ltd. (BRAZIL) (1) <i>Administrative management services</i> Rua Joaquim Floriano, 1052 - São Paulo	100.00%	100.00%	0.44	(1.55)	-	(0.01)	N/D	FC	-	

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(Amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
Adquira Mexico, Ltd. (MEXICO) (1) <i>E-commerce</i>		50.00%	50.00%	9.84	(7.30)	-	(1.14)	N/D	EM	0.70
Boulevard Avila Camacho, 24 - Mexico City		100.00%	100.00%	2.64	(2.99)	-	(0.19)	N/D	FC	-
Adquira Brasil, Ltd. (BRAZIL) (1) <i>E-commerce</i>		100.00%	100.00%	-	(1.41)	-	(0.04)	-	FC	-
Rua Joaquim Floriano, 1052 - Sao Paulo		100.00%	100.00%	-	(0.24)	-	(0.01)	-	FC	-
Katalyx Transportation Brasil, Ltd. (BRAZIL) (1) <i>E-commerce</i>		100.00%	100.00%	-	(19.60)	-	(0.75)	N/D	EM	0.79
Rua Joaquim Floriano, 1052 - Sao Paulo		54.00%	54.00%	21.81	-	-	-	-	-	-
Mercador, S.A. (BRAZIL) (1) <i>E-commerce</i>		100.00%	100.00%	1,023.68	2,241.85	-	1,112.07	3,033.86	FC	-
Rua Joaquim Floriano, 1052 - Sao Paulo		100.00%	100.00%	-	-	-	-	-	-	-
Telefónica de España, S.A.U. (SPAIN) (*) (**) (1) (6) <i>Provision of telecommunications services in Spain</i>	100.00%	100.00%	1,023.68	2,241.85		-	1,112.07	3,033.86	FC	-
<i>Gran Vía, 28 - 28013 Madrid</i>										
Telefónica S. de Informática y Comunicaciones de España, S.A.U. (SPAIN) (*) (**) (3) <i>Telecommunications systems, network and infrastructure engineering</i>		100.00%	100.00%	6.06	17.54	-	(6.12)	20.49	FC	-
Sor Angela de la Cruz, 3 - Pl. 9º - 28020 Madrid		N/D	N/D	0.19	(1.36)	-	0.11	0.19	FC	-
Telefónica Mobile Solutions Chile, S.A.C. (CHILE) (1) <i>Equipment and systems engineering activities</i>		99.90%	99.90%	0.31	(0.17)	-	(0.12)	-	FC	-
Avda. Seminario, 15 - Providencia - Santiago de Chile		99.90%	99.90%	-	-	-	-	-	-	-
Telefónica Mobile Solutions Perú, S.A.C. (PERU) (1) <i>Communications services and/or advisory</i>		99.90%	99.90%	0.01	(0.85)	-	0.10	0.01	FC	-
Avda. Camino Real, 155 4º - San Isidro - Lima		99.90%	99.90%	-	-	-	-	-	-	-
Telefónica Mobile Solutions Brasil, Ltda. (BRAZIL) (1) <i>Equipment and systems engineering activities</i>		99.50%	99.50%	0.22	(0.18)	-	-	0.23	FC	-
Na de Botafogo, 501 2º andar, sales 202 y 203 - Rio de Janeiro		N/D	N/D	-	-	-	-	-	-	-
Telefónica Mobile Solutions Argentina, S.A. (ARGENTINA) (1) <i>Equipment and systems engineering activities</i>		99.50%	99.50%	0.04	(0.25)	-	0.22	0.03	FC	-
Carlos Pellegrini, 1149 10º - Buenos Aires		99.50%	99.50%	-	-	-	-	-	-	-
Telefónica Sistemas Ingeniería de Productos Guatemala, S.A. (GUATEMALA) (8) <i>Telecommunications equipment and systems engineering</i>		98.00%	98.00%	-	(0.21)	-	0.02	-	FC	-
Guatemala		99.50%	99.50%	-	-	-	-	-	-	-
Telefónica Sistemas El Salvador, S.A. de C.V. (EL SALVADOR) (8) <i>Engineering and systems services</i>		100.00%	100.00%	1.00	(0.29)	-	0.09	0.56	FC	-
San Salvador		100.00%	100.00%	-	-	-	-	-	-	-
Telefónica Soluciones de Outsourcing, S.A. (SPAIN) (*) (**) (3) <i>Network management and marketing</i>		45.00%	45.00%	6.51	0.65	-	-	3.09	EM	3.38
Goya, 4- 28001 Madrid		45.00%	45.00%	-	-	-	-	-	-	-
Soluciones Tecnologicas para la Alimentacion, S.L. (SPAIN) <i>E-commerce</i>		100.00%	100.00%	-	-	-	-	-	-	-
C/Roselló, 515.08025-Barcelona		100.00%	100.00%	-	-	-	-	-	-	-

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
Telefónica Soluciones Sectoriales, S.A. (SPAIN) (*) (**)(4) <i>Consulting services for companies in the communications and IT industries</i> Av. Burgos, 17-10.º-28036 Madrid		100.00%	100.00%	13.73	(3.57)	-	0.43	10.72	FC	-
Interdomain, S.A. (SPAIN) (*) (**)(4) <i>Operation of Internet resources</i> Fernando El Santo, 15 - 28010 Madrid		100.00%	100.00%	0.30	0.52	-	0.04	0.78	FC	-
SODETEL, Comercial de Servicios de Telecomunicaciones, S.A. (SPAIN) <i>Provision of consulting services, installation and telecommunications services</i> Parque industrial y de servicios de Mairena del Aljarafe - Sevilla		50.00%	50.00%	0.12	-	-	-	0.07	EM	0,06
Portel Servicios Telemáticos, S.A. (SPAIN) (1) <i>Systems engineering and telecommunications in port areas</i> Avda. de Partenón, 10 Campo de las Naciones - 28042 Madrid.	49.00%	49.00%		3.01	0.16	-	-	1.35	EM	1.55
Instituto Canario de Telecomunicaciones (IT 7) (SPAIN) <i>Provider of multimedia services</i> Cebrián, 3 - 35003 Las Palmas de Gran Canaria	40.00%	40.00%		0.10	(0.06)	-	-	0.03	EM	0.01
Bitel Baleares Innovación Telemática, S.A. (SPAIN) <i>Provision of services and systems engineering in the IT and communications fields</i> Paseo Marítimo, 38 A - 07005 Palma de Mallorca	39.00%	39.00%		1.51	0.07	-	-	0.69	EM	0.62
Tecnología e Ingeniería de Sist. y Servicios Avanzados de Telec., S.A. (TISSAT) (2) <i>Systems engineering and marketing of advanced services</i> Correos, 1 - 46002 Valencia	30.77%	30.77%		0.78	2.33	-	-	0.17	EM	0.96
SEMCA (SPAIN) <i>Emergency telephone service in the Autonomous Community of Cantabria</i> Casimiro Sainz, 4 - Santander	16.00%	16.00%		0.75	(0.11)	-	-	0.12	C	0.12
Barcelona Emprend, S.A. (SPAIN) <i>Promotion of non-financial companies</i> C/ Llacuna, 162 - Barcelona	6.92%	6.92%		6.50	(0.57)	-	(0.08)	0.45	C	0,45
Foment Ciutat Vella, S.A. (SPAIN) <i>Performance of urban projects</i> C/ Pintor Fortuny, 17-19 - Barcelona	5.00%	5.00%		6.01	0.80	-	-	0.30	C	0.30
Teleinformática y Comunicaciones, S.A. (TELYCO) (SPAIN) (*) (**)(3) <i>Promotion, marketing and distribution of telephone and telematic equipment and services</i> Plaza del Descubridor Diego de Ordás, 3 - 28003 Madrid	100.00%	100.00%		2.77	11.40	-	(0.34)	12.47	FC	-
Telyco Marruecos, S.A. (MOROCCO) (3) <i>Promotion, marketing and distribution of telephone services</i> Boulevard Abdelmoumen, 88 - Casablanca	54.00%	54.00%		0.60	0.06	-	0.38	0.32	FC	-
Telefónica Telecomunicaciones Públicas, S.A. (SPAIN) (*) (**).(1) <i>Installation of public telephones</i> Plaza de Carlos Trias Bertrán, 7 - 28020 Madrid	100.00%	100.00%		1.20	78.66	-	7.09	64.12	FC	-

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	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
Adquira Spain, S.A. (SPAIN) (2) <i>Development of e-commerce platform</i> Pl. Pablo Ruiz Picoso, s/n. Edif. Torre Picoso - Madrid		20.00%	20.00%	1.56	11.35	-	(4.78)	7.64	EM	0.68
Other holdings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.22	C	0.22
Telefónica Data España, S.A.U. (SPAIN) (*) (**) (1) <i>Data transmission</i> Beatriz de Bobadilla, 18 - 28040 Madrid	100.00%	100.00%		39.27	25.72	-	90.64	157.25	FC	-
Agencia de Certificación Electrónica, S.A. (SPAIN) (*) (**) (2) <i>"Operation of ""electronic notary's office"</i> <i>"using SET technology"</i> Sor Angel de la Cruz, 3 - 28020 Madrid	100.00%	100.00%		0.94	(4.28)	-	(0.42)	0.00	FC	-
Segurvirtual MVS, S.A. (SPAIN) (3) <i>Research on insurance virtual market</i> Plaza de la Lealtad, 4 - 28014 Madrid	49.00%	49.00%		3.49	(6.87)	-	-	1.59	EM	-
Euroinfomarket, S.A. (SPAIN)(1) Servicios On Line Para Usuarios Múltiples, S.A. (SPAIN)	5.00%	5.00%		2.05	(0.80)	-	(0.49)	0.27	C	0.27
33.33% 33.33% 0.60 1.33 - 0.34 0.70 EM 0.76	33.33%	33.33%		0.60	1.33	-	0.34	0.70	EM	0.76
Telefónica Cable, S.A. (SPAIN) (*) (**) (7) <i>Cable telecommunications services</i> Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (7) - 28223 Madrid	100.00%	100.00%		3.05	(5.10)	-	(11.98)	29.58	FC	-
Telefónica Cable Menorca, S.A. (SPAIN) (*) (**) (8) <i>Cable television systems and value-added services</i> Santiago Ramón y Cajal, 13 - Mahón - Menorca	100.00%	100.00%		0.60	(0.13)	-	-	0.56	FC	-
Telefónica Cable Galicia, S.A. (SPAIN) (*) (7) <i>Cable television systems and value-added services</i> Ronda de Outerio, 1-3 - A Coruña	85.00%	85.00%		0.60	0.10	-	0.01	0.53	FC	-
Sociedad General de Cablevisión Canarias, S.A. (SPAIN).(*)(**) (7) <i>Cable television systems and value-added services</i> Alcalde Mandillo Tejera, 8 - 38007 Santa Cruz de Tenerife	100.00%	100.00%		1.23	(1.16)	-	-	1.17	FC	-
Taetel, S.L. (SPAIN) (*) (**) (1) <i>Acquisition, holding and disposal of shares</i> <i>and ownership interests in other companies</i> Beatriz de Bobadilla, 3 - 28040 Madrid	100.00%	100.00%	28.25	5.65	-	0.53	28.25	FC	-	
Lotca Servicios Integrales, S.L. (SPAIN) (*) (**) (4) <i>Holding and operation of aircraft and the lease thereof</i> Gran Vía, 28 - 28013 Madrid	100.00%	100.00%	16.93	-	-	-	-	16.93	FC	-
Telefónica Ingeniería de Seguridad, S.A. (SPAIN) (*) (**) (2) <i>Security services and systems</i> Condesa de Venadito, 1- 28027 Madrid	100.00%	100.00%	0.90	(2.63)	-	(0.76)	3.58	FC	-	
Telefónica Engenharia de Segurança (BRAZIL) (2) <i>Security services and systems</i> Rua Haddock Lobo, 337 2º andar, conjunto 21 - 01414-001 - São Paulo	99.99%	99.99%	3.25	(0.41)	-	(1.45)	3.07	FC	-	
Telefónica Ingeniería de Seguridad México, S.A. de C.V. (MEXICO) (2) <i>Security services and systems</i> Ciudad de México, Distrito Federal	65.00%	65.00%	0.52	(0.74)	-	(0.05)	0.34	FC	-	

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
Telefónica Capital, S.A. (SPAIN) (*) (**) (3)	100.00%		100.00%	7.00	39.88	-	1.72	18.12	FC	-
<i>Financial institution</i>										
<i>Gran Vía, 28 - 28013 Madrid</i>										
Fonditel Pensiones Entidad Gestora de Fondos de Pensiones, S.A. (SPAIN) (3)		70.00%	70.00%	15.70	18.86	-	8.01	22.45	FC	-
<i>Administration of pension funds</i>										
<i>Pedro Teixeira nº 8 - 3º P. - 28020 Madrid</i>										
Fonditel Gestión, Sociedad Gestora de Instituciones de Inversión Colectiva, S.A. (SPAIN) (*) (3)	100.00%	100.00%		1.50	0.21	-	2.06	1.50	FC	-
<i>Administration and representation of collective investment institutions</i>										
<i>Pedro Teixeira nº 8 - 3º P. - 28020 Madrid</i>										
Fonditel Valores, Agencia de Valores, S.A. (SPAIN) (*) (3)	100.00%	100.00%		3.00	(0.07)	-	(0.03)	3.00	FC	-
<i>Investment services</i>										
<i>Pedro Teixeira nº 8 - 3º P. - 28020 Madrid</i>										
Telepizza, S.A. (SPAIN)	4.89%	4.89%	N/D	N/D	N/D	N/D	N/D	102.02	C	102.02
Catalana D'Iniciatives, C.R., S.A. (SPAIN)	5.99%	5.99%	30.86	31.24	-	1.85	3.77	C	3.77	
<i>Promotion of non-finance companies</i>										
<i>Passeig de Gracia, 2 - 2ºB - 08007 Barcelona.</i>										
Atesco Comunicación, S.A. (SPAIN).(*) (**) (1)	100.00%		100.00%	6.12	39.47	-	2.23	107.58	FC	-
<i>Holding company</i>										
<i>C/ Gran Vía, 28 - 28013 Madrid</i>										
Atento N.V. (NETHERLANDS) (1) (6)	91.35%		91.35%	0.12	(10.98)	-	18.21	302.71	FC	-
<i>Provision of telecommunications services</i>										
<i>Locatelliakade, 1 - 1076 AZ Amsterdam</i>										
Procesos Operativos, S.A. (SPAIN)(1)	100.00%	91.35%	0.06	1.10	-	0.95	0.76	FC	-	
<i>Provision of telematic services (telemarketing, help line and, in general, call-center activities)</i>										
<i>Isla Sicilia, 3 - 28034 Madrid</i>										
Atento Teleservicios España, S.A. (SPAIN).(4)	100.00%	91.35%	1.38	36.59	(20.00)	7.91	23.93	FC	-	
<i>Provision of promotion, marketing and market research services relating to direct marketing</i>										
<i>Santiago de Compostela, 94 - 7º - 28035 Madrid</i>										
Tempotel, Empresa de Trabajo Temporal, S.A. (SPAIN).(4)	100.00%	91.35%	0.06	1.29	-	(0.05)	0.06	FC	-	
<i>Temporary employment agency</i>										
<i>Príncipe de Vergara, 28 Madrid</i>										
Atento Servicios Técnicos y Consultoría, S.L. (SPAIN) (4)	100.00%	91.35%	0.01	0.15	-	0.34	0.01	FC	-	
<i>Study, development and performance of projects and system-related services</i>										
<i>Santiago de Compostela, 94 - 7º - 28035 Madrid</i>										
Servicios Integrales de Asistencia y Atención, S.L. (SPAIN) (4)	100.00%	91.35%	0.01	(0.01)	-	0.26	0.01	FC	-	
<i>Management of specialized employment centers for disabled workers</i>										
<i>Santiago de Compostela, 94 - 7º - 28035 Madrid</i>										
Atento Brasil, S.A. (BRAZIL).(1)	100.00%	91.35%	249.75	(183.36)	-	4.09	195.88	FC	-	
<i>Provision of call-center services</i>										
<i>Av. Maria Coelho de Aguiar, 215</i>										
<i>- Bloco B, 8 - 05804-900 São Paulo</i>										

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(Amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
Atento Puerto Rico, Inc. (PUERTO RICO) (1) <i>Provision of call-center services</i>		100.00%	91.35%	7.12	(5.95)	-	3.42	8.22	FC	-
Valencia Park calle 2 edificio 17 suite 600, Guaynabo - Puerto Rico 00968										
Atento Colombia, S.A. (COLOMBIA) (1) <i>Provision of call-center services</i>		100.00%	91.35%	1.55	3.32	-	0.65	7.63	FC	-
Santa Fé de Bogotá										
Atento Maroc, S.A. (MOROCCO) (1) <i>Provision of call-center services</i>		100.00%	99.95%	4.16	(1.22)	-	(1.79)	3.56	FC	-
Bd Abdelmoumen, Angle rue Errazi et Charles Lebrun - Casablanca										
Atento Venezuela, S.A. (VENEZUELA) (1) <i>Provision of call-center services</i>		100.00%	91.35%	11.19	(9.92)	-	2.31	8.78	FC	-
Caracas										
Atento Centroamérica, S.A. (GUATEMALA) (1) <i>Provision of call-center services</i>		100.00%	91.35%	15.95	(6.84)	-	(4.17)	12.23	FC	-
14 Calle 3-51 Zona 10 Edificio Murano Center 18 Nivel - Departamento de Guatemala										
Atento El Salvador, S.A. de C.V. (EL SALVADOR) (1) <i>Provision of call-center services</i>		7.41%	91.35%	4.40	(3.23)	-	0.38	0.23	FC	-
San Salvador										
Atento de Guatemala, S.A. (GUATEMALA) (1) <i>Provision of call-center services</i>		100.00%	91.35%	14.76	(9.93)	-	0.69	10.53	FC	-
Guatemala City										
Atento El Salvador, S.A. de C.V. (EL SALVADOR) (1)		92.59%								
Atento Holding Chile, S.A. (CHILE) (1) <i>Holding company</i>		100.00%	91.35%	38.85	(9.78)	-	(0.04)	30.13	FC	-
Ciudad y Comuna de Santiago										
Atento Argentina, S.A. (ARGENTINA) (1) <i>Provision of call-center services</i>		100.00%	91.35%	18.05	(21.64)	-	0.20	0.22	FC	-
Avda. de Mayo, 645 P.1º - Buenos Aires										
Atento Chile, S.A. (CHILE) (1) <i>Provision of call-center services</i>		70.00%	77.58%	21.72	(8.15)	-	3.19	15.19	FC	-
Diagonal Paraguay, 386 - Santiago de Chile										
Nexcom (CHILE) (1) <i>Provision of call-center services</i>		100.00%	77.58%	1.73	(0.99)	-	(0.15)	0.85	FC	-
Santiago de Chile										
Atento Educación, Ltda. (CHILE) (1) <i>Provision of call-center services</i>		100.00%	77.58%	0.01	0.05	-	0.05	0.01	FC	-
Santiago de Chile										
Atento Recursos, Ltda. (CHILE) (1) <i>Provision of call-center services</i>		100.00%	77.58%	0.01	(0.25)	-	0.01	0.01	FC	-
Santiago de Chile										
Atento Perú, S.A.C. (PERU) (1) <i>Provision of call-center services</i>		70.00%	93.40%	8.90	(5.20)	-	2.30	14.06	FC	-
C Jiron Camaná, 654 - 01 Lima										
Atento Italia, S.R.L. (ITALY) (8) <i>Provision of call-center services</i>		100.00%	91.35%	0.01	(2.23)	-	(0.10)	6.08	FC	-
Via Lamaro, edif. D/2 - Roma										

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
Atento Mexicana, S.A. de C.V.(MEXICO) <i>Provision of call-center services</i> Mexico City		100.00%	91.35%	5.36	(3.32)	-	4.19	4.10	FC	-
Atento Atención y Servicios, S.A. De C.V. (MEXICO) <i>Provision and receipt of all manner of administrative, professional and consultative services</i> Ciudad de México		100.00%	91.35%	0.01	(0.01)	-	0.06	0.01	FC	-
Atento Servicios, S.A. de C.V. (MEXICO) <i>Provision of call-center services</i> Mexico City		100.00%	91.35%	0.02	(0.05)	-	0.46	0.01	FC	-
Telefónica Investigación y Desarrollo, S.A. (TIDSA) (SPAIN) (*) (**).(3) <i>Telecommunications research activities and projects</i> Emilio Vargas, 6 - 28043 Madrid	100.00%		100.00%	6.01	55.16	-	4.43	6.01	FC	-
Telefónica Investigación y Desarrollo de Mexico, S.A. de CV. (MEXICO)	100.00%	100.00%	0.01	(0.04)	-	0.06	0.01	FC	-	
Telefónica Pesquisa e Desenvolvimento (BRAZIL) <i>Telecommunications research activities and projects</i> Sao Paulo	99.99%	99.99%	0.17	0.08	-	0.28	0.21	FC	-	
Communicapital Inversiones, S.A.U. (SPAIN) (1) <i>Global telecommunications fund</i> Gran Vía, 28 - 28013 Madrid	100.00%		100.00%	6.00	(73.72)	-	2.40	6.00	C	6,00
Compañía Española de Tecnología, S.A. (SPAIN) (*) (**)(3) <i>Promotion of business initiatives and holding of marketable securities</i> Villanueva, 2 duplicado planta 1º Oficina 23 - 28001 Madrid	100.00%		100.00%	3.99	(0.35)	-	(0.04)	10.11	FC	-
Cleon, S.A. (SPAIN) (3) <i>Property development</i> Villanueva, 2 duplicado planta 1º Oficina 23 - 28001 Madrid	50.00%	50.00%	8.23	(0.72)	-	(0.06)	4.12	EM	3,73	
Casiopea Reaseguradora, S.A. (LUXEMBOURG) (3) <i>Reinsurance</i> 6D, route de Trèves, L-2633 Senningerberg, Luxembourg	100.00%		100.00%	3.60	64.74	-	1.46	2.99	FC	-
Pléyade Peninsular, Correduria de Seguros y Reaseguros del Grupo Telefónica, S.A. (SPAIN).(3) <i>Distribution, promotion or preparation of insurance contracts, operating as a broker</i> Avda. General Perón, 38 Master II - 17º P- 28020 Madrid	16.67%	83.33%	100.00%	0.36	1.28	-	1.51	0.38	FC	-
Pléyade Perú Corredores de Seguros, S.A.C. (PERU) (1) <i>Insurance broker</i> Lima	99.93%	100.00%	0.01	0.02	-	0.01	0.01	FC	-	
Pléyade Argentina, S.A. (ARGENTINA) (1) <i>Insurance broker</i> Buenos Aires	99.80%	99.80%	0.01	0.12	-	0.07	0.01	FC	-	
TGP Brasil Corretora de Seguros e Resseguros, Ltda. (BRAZIL) (1) <i>Insurance broker</i> Rua do Livramento, 66 - Bloco A, 1º andar - 04008-030 - Sao Paulo	99.90%	99.90%	0.01	0.04	(0.02)	-	0.01	FC	-	

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(Amounts in millions of euros)

	% of Ownership								Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)				
Pleyade México, Agente de Seguros y de Fianzas, S.A. de C.V., Ltda. (MEXICO) (1) <i>Insurance broker</i> San Pedro Garza García - Nuevo León		99.50%	99.50%	0.02	(0.01)	-	0.04	0.02	FC	-	
Other holdings	N/D	N/D	N/D	N/D	N/D	N/D	N/D	0.02	C	0.02	
Altaïr Assurances, S.A. (LUXEMBURGO) <i>Performance of direct insurance transations</i> 6DRoute de Trèves L-2633 - Senningerberg	100.00%	100.00%	6.00	-	-	-	-	6.00	C	6.00	
Seguros de Vida y Pensiones Antares, S.A. (SPAIN)(*) (**). (3) <i>Life insurance, pensions and health insurance</i> Avda. General Perón, 38 Master II - 17º P. - 28020 Madrid	94.67%	5.33%	100.00%	204.33	4.95	-	8.39	215.50	FC	-	
Other holdings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	9.04	C	9.04	
Telefónica Finanzas, S.A. (TELFISA) (SPAIN) (*) (**).(3) <i>Integrated cash management, counseling and financial support for Group companies</i> Gran Vía, 30 - 4º Plta. - 28013 Madrid	100.00%		100.00%	3.01	9.93	-	0.96	12.61	FC	-	
Telefónica Finanzas Perú, S.A.C. (PERU) <i>Integrated cash management, counseling and financial support for Group companies</i> Ciudad de Lima	100.00%		100.00%	2.75	-	-	-	2.75	C	2.75	
Fisatel Mexico, S.A. de C.V. (MEXICO) (1) <i>Integrated cash management, counseling and financial support for Group companies</i> Boulevard Manuel Avila Camacho, 24 - 16º Plta. - Lomas de Chapultepec - 11000 Mexico City	100.00%		100.00%	0.42	(0.29)	-	0.15	0.43	FC	-	
Venturini España, S.A. (SPAIN) (*) (**).(2) <i>Printing, graphic arts and direct marketing</i> Avda. de la Industria, 17 Tres Cantos - 28760 Madrid	100.00%		100.00%	3.01	(0.13)	-	0.36	3.60	FC	-	
Venturini, S.A. (SPAIN) (*) (**).(2) <i>Direct marketing</i> Via Augusta, 117, 2º 1º - 08006 Barcelona		100.00%	100.00%	0.18	0.03	-	0.02	0.21	FC	-	
Communicapital Gestión, S.A.U. (SPAIN) (*) (**) (1) <i>Global telecommunications fund</i> Gran Vía, 28 - 28013 Madrid	100.00%		100.00%	0.06	0.02	-	-	0.06	FC	-	
Telefónica Participaciones, S.A. (SPAIN) (**) <i>Issuance of preferred securities and/or other debt financial instruments</i> Gran Vía, 28 - 28013 Madrid	100.00%		100.00%	0.06	-	-	-	0.06	FC	-	
Telefónica Emisiones, S.A. (SPAIN) (**) (1) <i>Issuance of preferred securities and/or other debt financial instruments</i> Gran Vía, 28 - 28013 Madrid	100.00%		100.00%	0.06	-	-	-	0.06	FC	-	
Telefónica Europe, B.V. (NETHERLANDS) (1) <i>Fund raising in capital markets</i> Strawinskylaan 1259, tower D, 12th floor 1077 XX - Amsterdam	100.00%		100.00%	0.05	6.08	(1.35)	1.92	0.05	FC	-	
Telefónica Finance USA, L.L.C. (U.S.A.) <i>Financial intermediation</i> Corporation Trust Center, 1209 Orange street - Wilmington/New Castle County - Delaware		0.01%	0.01%	2,000.00	0.01	(83.68)	83.69	0.01	FC	-	

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(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
Telefónica Internacional USA Inc. (U.S.A.) (1) <i>1221 Brickell Avenue suite 600 - 33131 Miami - Florida</i>	100.00%		100.00%	-	0.37	-	0.04	-	FC	-
Telefónica B2B Licensing, Inc. (U.S.A.) (1)	100.00%		100.00%	-	(8.05)	-	(1.80)	-	FC	-
TELEFÓNICA GESTIÓN DE SERVICIOS COMPARTIDOS, S.A. <i>(*) (**) (SPAIN) (1) (6)</i>	100.00%		100.00%	7.57	11.82	-	(1.10)	20,08	FC	-
<i>Provision of management and administration services</i>										
<i>Gran Vía, 28 - 28013 Madrid</i>										
Sociedad de Cobros de Brasil (BRASIL)	99.33%	99.33%	0.01	0.00	-	0.02	0.01	FC	-	
Telefónica Procesos y Tecnología de la Información, S.A. (SPAIN) (*) (**) (3)	100.00%	100.00%	3.00	5.53	-	0.68	8.71	FC	-	
<i>Provision of IT-related services</i>										
<i>José Abascal, 4 - 28003 Madrid</i>										
Zeleris España, S.A. (SPAIN) (*) (**) (3)	100.00%	100.00%	2.38	1.17	-	1.48	0.82	FC	-	
<i>Provision of mail, directory and package distribution services</i>										
<i>C/ Gran Vía, 28 - 28.013 Madrid</i>										
Telefónica Gestión de Servicios Compartidos Mexico, S.A. de C.V. (MEXICO) (1) (6) <i>Blvd. Diaz Ordaz Pte N 123 2º, Col. Santamaría - 6465 Monterrey</i>	99.99%	0.01%	100.00%	6.75	(3.73)	-	(0.21)	6.76	FC	-
<i>Provision of management and administration services</i>										
<i>Blvd. Diaz Ordaz Pte N 123 2º, Col. Santamaría - 6465 Monterrey</i>										
Telefónica Gestión de Servicios Compartidos El Salvador, S.A. (EL SALVADOR) (1)	100.00%	100.00%	0.02	0.01	-	0.06	0.01	FC	-	
<i>Provision of management and administration services</i>										
<i>63 Avda. Sur y Alameda Roosevelt-Ctro F Gigante Torre B n 10, San Salvador</i>										
Telefónica Gestión de Servicios Compartidos Guatemala, S.A. de CV. (GUATEMALA) (1)	100.00%	100.00%	0.01	0.03	-	(0.05)	0.01	FC	-	
<i>Provision of management and administration services</i>										
<i>18 Calle 5-56, Zona 10, Edif. Unicentro Nivel 10, Guatemala</i>										
Telefonica Gestao de Serviços Compartilhados do Brasil, Ltda. (BRAZIL) (1) <i>Rua Do Livramento, 66 Bolo Ibirapuera - Sao Paulo.-</i>	99.99%		99.99%	8.45	(5.00)	-	(0.56)	5.00	FC	-
<i>Provision of management and administration services and advisory and consulting services</i>										
<i>Rua Do Livramento, 66 Bolo Ibirapuera - Sao Paulo.-</i>										
Telefónica Gestión de Servicios Compartidos, S.A.C. (PERU) (1) (6) <i>Shell, 310 - Miraflores Lima</i>	99.99%	0.01%	100.00%	3.91	1.48	-	0.23	3.91	FC	-
<i>Provision of management and administration services</i>										
<i>Shell, 310 - Miraflores Lima</i>										
Telefónica Centro de Cobros Perú, S.A.C. (PERU) (1)	100.00%	100.00%	0.01	0.53	-	0.65	1.24	FC	-	
<i>Provision of collection services for the account of third parties</i>										
<i>Shell, 310 - Miraflores Lima</i>										
Telefónica Gestión de Servicios Compartidos, S.A. (ARGENTINA) (1) <i>Tucuman 1, Piso 18 Ciudad de Buenos Aires</i>	99.99%		99.99%	0.01	(0.53)	-	0.45	0.01	FC	-
<i>Provision of management and administration services</i>										
<i>Tucuman 1, Piso 18 Ciudad de Buenos Aires</i>										
Telefónica International Wholesale Services America, S.A. (URUGUAY) (1) (6) <i>Luis A. de Herrera, 1248 Piso 4 - Montevideo</i>	100.00%		100.00%	370.41	(109.88)	-	(45.68)	499.05	FC	-
<i>Provision of high bandwidth communications services</i>										
<i>Luis A. de Herrera, 1248 Piso 4 - Montevideo</i>										

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(Amounts in millions of euros)

	% of Ownership								Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)				
Emergia Argentina, S.A. (ARGENTINA) (1) <i>Provision of high bandwidth communications services Paraguay, 1345 Piso 6 - Buenos Aires</i>		99.99%	99.99%	11.82	(0.94)	-	(6.14)	7.41	FC	-	
Emergia Participacoes, Ltd. (BRAZIL) (1) <i>Provision of high bandwidth communications services Rua Martiniano de Carvalho, n°851, 16º andar, Bela Vista</i>		99.99%	99.99%	45.87	(17.40)	-	(7.09)	N/A	FC	-	
Emergia Brasil, Ltd. (BRAZIL) (1) <i>Provision of high bandwidth communications services Av. Brigadeiro Faria Lima, 1188 Piso 8º - Sao Pablo</i>		99.99%	99.99%	-	-	-	-	33.70	FC	-	
Telefónica International Wholesale Services Chile, S.A. (CHILE) (1) <i>Provision of high bandwidth communications services Ricardo Lyon, 222 Piso 14 - Santiago de Chile</i>		99.99%	99.99%	24.79	(9.29)	-	(2.61)	15.69	FC	-	
Telefónica International Wholesale Services Perú, S.A.C. (PERU) (1) <i>PROVISION OF HIGH BANDWIDTH COMMUNICATIONS SERVICES Av. de la Floresta, 497 Piso 5 - San Borja</i>		99.99%	99.99%	14.62	(3.80)	-	(4.17)	11.62	FC	-	
Telefónica International Wholesale Services USA, Inc. (U.S.A.) (1) <i>Provision of high bandwidth communications services 1221 Brickell Avenue, Piso 6 - 33131 Miami (Florida)</i>		100.00%	100.00%	21.98	(16.18)	-	(2.99)	6.15	FC	-	
Telefónica International Wholesale Services Guatemala, S.A. (GUATEMALA) (1) <i>Provision of high bandwidth communications services Blvd. Los Próceres, 5-56 Piso 11, zona 10 - Guatemala City</i>		99.99%	99.99%	11.70	0.28	-	(3.18)	13.00	FC	-	
Telefónica International Wholesale Services Puerto Rico, Inc. (PUERTO RICO) (1) <i>Provision of high bandwidth communications services Metro Office Park Edificio 17, Calle 2, Suite 600 - Guayanabo</i>		100.00%	100.00%	17.39	(3.18)	-	(1.27)	0.46	FC	-	
Telefónica Internacional, S.A. (SPAIN) (*) (**) (1) (6) <i>Investment in the telecommunications industry abroad C/ Gran Vía, 28 - 28013 Madrid</i>	99.88%	0.12%	100.00%	2,842.12	3,627.02	-	1,216.79	8,141.40	FC	-	
Sao Paulo Telecomunicações Holding, Ltda. (BRAZIL) (1) <i>Holding company Sao Paulo</i>	100.00%	100.00%	1,262.77	11.51	(71.96)	86.28	2,882.52	FC	-		
Telecomunicações de Sao Paulo, S.A. - TELES P (BRAZIL) (1) <i>Wireline telephony operator in Sao Paulo. Sao Paulo</i>	87.49%	87.49%	1,653.42	1,755.59	(856.93)	600.56	4,535.10	FC	-		
Telefónica Finance Limited (ISLE OF MAN) (1)	100.00%	100.00%	N/A	N/A	N/A	N/A	N/A	FC	-		
Telefónica del Perú Holding, S.A. (PERU) (1) (5) <i>Holding company</i>	100.00%	100.00%	1,292.10	(200.31)	-	(64.93)	N/D	FC	-		
Telefónica del Perú, S.A.C. (PERU) (1) <i>Operator of local, long distance and international telephony services in Peru Avda. Arequipa, 1155 Santa Beatriz - Lima</i>	0.14%	98.05%	98.19%	526.81	70.79	-	12.49	750.89	FC	-	
Atento Perú, S.A.C. (PERU) <i>30.00%</i>											
Telefonica International Holding, BV. (NETHERLANDS) (1) <i>Holding company</i>	100.00%	100.00%	402.61	202.46	-	73.04	N/D	FC	-		
Telefónica Chile Holding, B.V. (NETHERLANDS) (1) <i>Holding company</i>	100.00%	100.00%	0.03	28.57	-	(0.01)	N/D	FC	-		
Telefónica Internacional de Chile, S.A. (CHILE) (1) <i>Holding company</i>	100.00%	100.00%	11.58	693.48	-	202.64	N/A	FC	-		

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(**) Companies included in the consolidated corporate income tax return in 2004.

DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
Compañía de Telecomunicaciones de Chile, S.A(C.T.C.), (CHILE) (1) <i>Operator of telecommunications services in Chile Avenida Providencia, 111 piso 29 Santiago de Chile</i>		44.89%	44.89%	1,090.58	94.22	(333.95)	448.60	N/A	FC	-
Telefónica Gestión de Servicios Compartidos Chile, S.A. (CHILE) <i>Provision of management and administration services Avenida Providencia, 111 piso 29 Santiago de Chile</i>	99.90%	44.85%	N/A	N/A	N/A	N/A	N/A	N/A	FC	-
Atento Chile, S.A. (CHILE) (1) (6) <i>Holding company Av. Ingeniero Huergo, 723, PB - Buenos Aires</i>	30.00%									
Compañía Internacional de Telecomunicaciones, S.A. (ARGENTINA) (1) <i>Holding company Tucumán, 1 P-17 Buenos Aires</i>	99.98%	99.98%	239.18	(700.85)	-	-	57.71	372.57	FC	-
Telefónica Holding de Argentina, S.A. (ARGENTINA) (1) <i>Holding company Tucumán, 1 P-17 Buenos Aires</i>	99.96%	99.96%	102.33	(700.99)	-	-	(22.24)	998.90	FC	-
Telefónica de Argentina, S.A. (ARGENTINA) (1) <i>Provision of telecommunications services Av. Ingeniero Huergo, 723, PB - Buenos Aires</i>	98.03%	98.03%	435.34	(715.87)	-	-	158.17	866.22	FC	-
Telefónica Venezuela Holding, B.V. (NETHERLANDS) (1) <i>Holding company Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) (VENEZUELA) (1)</i>	100.00%	100.00%	0.01	(70.39)	-	-	(8.00)	-	FC	-
Telefónica Larga Distancia de Puerto Rico, INC (PUERTO RICO) (1) <i>Telecommunications operator Calle 1, Edificio nº 8. Metro Office Park. Sector de Buchanan. Guaynabo - Puerto Rico</i>	98.00%	98.00%	82.10	(38.58)	-	-	1.85	N/A	FC	-
Infonet Services Corporation (U.S.A.) (1) <i>Telecommunications operator 2100 East. Crand Avenue. El Segundo, California 90245 - 1022 USA</i>	14.41%	14.41%	1,272.44	(473.09)	-	-	(34.59)	N/A	EM	90,63
Telefónica Móviles, S.A. (*) (**) (1)(SPAIN) <i>Communication Technology, Inc. (U.S.A.) (4) Provider of long distance telecommunications services Delaware</i>	21.43%									
Other holdings Other holdings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	EM	(0,05)
Telefónica Móviles, S.A. (SPAIN) (*) (**) (1) (6) (9) <i>Holding company Goya, 24 - Madrid</i>	71.03%	21.43%	92.46%	2,165.28	920.71	-	1,633.91	3,051.92	FC	-
Brasilcel, N.V. (NETHERLANDS) (1) <i>Joint Venture Strawinskyalaan 3105 - 1077ZX - Amsterdam</i>	50.00%	46.23%	0.10	4,454.24	-	-	5.63	2,179.38	PC	-

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(Amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
VIVO Brasil Comunic.(BRAZIL) (1) <i>Holding company</i> Rua da Consolação, 247 - 6º andar / sala 57-F São Paulo - SP	50.00%	46.23%	-	-	-	-	-	-	PC	-
Tagilo Participações, S.A. (BRAZIL) (1) <i>Ownership of intellectual property</i> Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, São Paulo.	50.00%	46.23%	97.42	8.66	(0.57)	0.77	-	-	PC	-
Sudestecel Participações, S.A. (BRAZIL) (1) <i>Holding company</i> Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, São Paulo.	50.00%	46.23%	533.61	3.28	(1.33)	2.01	-	-	PC	-
Avista Part. S.L (BRAZIL) (1) <i>Holding company</i> Rua da Consolação, 247 - 6º andar / sala 57-F São Paulo - SP	50.00%	46.23%	170.37	-	-	(3.76)	-	-	PC	-
Tele Sudeste Celular Participações, S.A. (BRAZIL) (1) <i>Holding company</i> Praia de Botafogo 501,20 andar,parte bela Vista, São Paulo	45.44%	42.02%	246.56	279.87	(7.06)	25.57	-	-	PC	-
Telerj Celular,S.A. (BRAZIL) (1) <i>Provision of wireless communications services</i> Praia de Botafogo, 501-5º a 8º Andares, Botafogo - Rio de Janeiro	45.44%	42.02%	297.22	142.77	(2.18)	9.12	-	-	PC	-
Telest Celular,S.A. (BRAZIL) (1) <i>Provision of wireless communications services</i> Avda. Nossa Senhora da Penha, 275 - Praia de Santa Elena,Vitoria - Espírito Santo	45.44%	42.02%	44.33	28.32	(6.36)	16.91	-	-	PC	-
Portelcom Fixa, S.A. (BRAZIL)(1) <i>Holding company</i> Av Brigadeiro Faria Lima, 2277, 15º andar, Conj1503, Jardim Paulistano,	50.00%	46.23%	-	-	-	-	-	-	PC	-
Sao Paulo Telefónica Brasil Sul Celular Participações, S.A. (BRAZIL) (1) <i>Holding company</i> Avda. Martiniano de Carvalho, 851, 20 andar, parte São Paulo,São Paulo	49.25%	45.54%	161.85	11.78	(3.54)	9.64	0.53	PC	-	-
Celular CRT Participações, S.A. (BRAZIL) (1) <i>Holding company</i> Rua José Bonifacio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul	33.28%	30.77%	71.16	192.94	(20.83)	50.11	-	PC	-	-
Celular CRT, S.A. (BRAZIL) (1) <i>Provision of wireless communications services</i> Rua José Bonifacio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul	33.28%	30.77%	148.57	89.47	(0.02)	52.49	-	PC	-	-
Tele Leste Celular Participações, S.A. (BRAZIL) (1) <i>Holding company</i> Rua Silveria Martins, n 1036, Cabula, Salvador- Bahia	25.29%	23.38%	84.74	27.22	-	(8.34)	-	PC	-	-
Telebahia Celular,S.A. (BRAZIL) (1) <i>Provision of wireless communications services</i> Rua Silveria Martins, n 1036, Cabula, Salvador- Bahia	25.29%	23.38%	98.97	0.95	-	(12.58)	-	PC	-	-

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
Telergipe Celular, S.A. (BRAZIL) (1) Provision of wireless communications services Avda. Francisco Porto, 686, 13 de julho - Aracaju, Sergipe		25.29%	23.38%	9.85	0.96	(0.24)	3.46	-	PC	-
Ptelecom Brasil, S.A. (BRAZIL) (1) Holding company Rua Cubatao, 320, 4 andar, Sao Paulo, Sao Paulo	49.99%	46.22%	726.95	(410.74)	-	-	(9.16)	-	PC	-
Portelcom Participações, S.A. (BRAZIL) (1) Holding company Av Brigadeiro Faria Lima, 2277, 15º andar, Conjunto 503, Jardim Paulistano, Sao Paulo	49.99%	46.22%	979.40	(165.20)	-	-	(34.42)	-	PC	-
Telesp Celular Participações, S.A. (BRAZIL) (1) Holding company Av. Roque Petroni Júnior, nº 1464, 6 andar-parce, bloco B, Morumbi, Sao Paulo, Sao Paulo	32.56%	30.10%	1,209.67	(269.98)	-	-	(134.96)	-	PC	-
Telesp Celular, S.A. (BRAZIL) (1) Holding company Av. Roque Petroni Júnior, nº 1464, 6 andar-parce, bloco B, Morumbi, Sao Paulo, Sao Paulo	32.56%	30.10%	519.92	172.87	-	-	127.12	-	PC	-
Global Telcom Telecom, S.A. (BRAZIL) (1) Wireless operator Av. Higienópolis, nº 1635, Curitiba, Paraná	32.56%	30.10%	1,119.42	(708.73)	-	-	(49.66)	-	PC	-
Tele Centro Oeste Celular Participações, S.A. (BRAZIL) (1) Holding company and telecommunications services Sector Comercial Sul, Quadra 2, Bloco C, nº 226, Edif Telebrasília Celular, 7 andar, Brasília DF	16.49%	15.25%	219.32	352.31	(11.18)	140.05	-	PC	-	-
Telegoiás Celular, S.A. (BRAZIL) Wireless operator Rua 136-C, Quadra F-44, nº 150, Setor Sul Goiania, Goiás	16.49%	15.25%	68.54	87.64	-	-	50.22	-	PC	-
Telemat Celular, S.A. (BRAZIL) Wireless operator Av. Getúlio Vargas, nº 1,300, Centro, Cuiabá, Mato Grosso	16.49%	15.25%	39.72	54.41	-	-	30.57	-	PC	-
Telems Celular, S.A. (BRAZIL) Wireless operator Av. Alfonso Pena, nº 2,386, Ed Dolor de Andrade, Campo Grande, Mato Grosso Do Sul	16.49%	15.25%	31.33	38.35	-	-	21.09	-	PC	-
Teleron Celular, S.A. (BRAZIL) Wireless operator Av. Getúlio Vargas, 1941, Porto Velho, Rondonia	16.49%	15.25%	9.67	14.83	-	-	4.19	-	PC	-
Teacre Celular, S.A. (BRAZIL) Wireless operator Rua Minas Gerais, nº 64, Ivete Vargas, Rio Branco-Acre	16.49%	15.25%	5.20	7.16	-	-	2.66	-	PC	-
Norte Brasil Telecom, S.A. (BRAZIL) Wireless operator Travessa Padre Eutíquio, nº 1,226, Barrio Batista Campos, Belém, Para	16.49%	15.25%	49.78	2.22	-	-	9.79	-	PC	-

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(Amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
Tele Centro Oeste IP, S.A. (BRAZIL) <i>Wireless operator</i> AC/Sul Quadra 02, Bloco C, nº 256, 3º Pavimento, Ed Toufic, Plano Piloto, Brasilia		16.49%	15.25%	0.28	(1.50)	-	(1.39)	-	PC	-
Telefónica Móviles El Salvador Holding, S.A. de C.V. (EL SALVADOR) (3) <i>Holding company</i> Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador	100.00%	92.46%		130.91	(4.49)	-	(1.19)	153.93	FC	-
Telefónica Móviles El Salvador, S.A. de C.V. (EL SALVADOR) (3) <i>Provision of wireless and international long distance communications services</i> Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador	91.75%	84.83%		102.79	(67.79)	-	(18.05)	-	FC	-
Telefónica Multiservicios, S.A. de C.V. (1) <i>Cable modem system operator</i> Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador	71.11%	65.74%		6.52	(0.68)	-	(0.76)	-	FC	-
Telefónica Móviles Centroamérica, S.A. de C.V. (1) <i>Operative company</i> Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador	91.75%	84.83%		1.05	(0.08)	-	0.03	-	FC	-
Telefónica El Salvador, S.A. de C.V. (1) <i>Operative company</i> Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador	91.75%	84.83%		0.02	(0.02)	-	(0.01)	-	FC	-
TCG Holdings, S.A. (GUATEMALA) (1) <i>Holding company</i> Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 1 - Guatemala City	100.00%	92.46%		198.31	(1.22)	-	(0.39)	238.54	FC	-
Telefónica Móviles Guatemala, S.A. (GUATEMALA) (1) <i>Provision of wireless, wireline and radio paging communications services</i> Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City	100.00%	92.46%		193.20	(106.61)	-	(15.53)	193.20	FC	-
Telescucha, S.A. (GUATEMALA) (1) <i>Provision of telecommunications and paging services</i> Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City	100.00%	92.46%		2.39	(1.58)	-	(0.40)	-	FC	-
Infraestructura Internacional, S.A. (GUATEMALA) <i>Provision of telecommunications and paging services</i> Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City	70.00%	64.72%		0.41	(0.14)	-	(0.01)	-	FC	-
PageMart de Centroamérica <i>Operative company</i> Bulevar Los Próceres 5-56 Zona 10 -	30.00%	27.74%		-	-	-	-	-	FC	-

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(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
<i>Univentro Nivel 11, Ciudad de Guatemala</i>										
Telefónica Móviles España, S.A.U. (SPAIN) (*) (**).(1)	100.00%	92.46%	423.34	(1,011.70)	-	-	2,143.16	933.21	FC	-
<i>Provision of wireless communications services</i>										
<i>Plaza de la Independencia, 6 - Pta. 5 - 28001 Madrid</i>										
Spiral Investment, BV. (NETHERLANDS) (1)	100.00%	92.46%	38.54	(133.51)	-	-	(2.53)	-	FC	-
<i>Holding company</i>										
<i>Strawinskyalaan 3105 - 1077ZX - Amsterdam</i>										
3G Mobile AG (SWITZERLAND)	100.00%	92.46%	35.71	(78.70)	-	-	0.57	-	FC	-
<i>Wireless telephony operator</i>										
<i>Bahnhofplatz 4, 8001 Zurich</i>										
MobiPay España, S.A. (SPAIN)	13.36%	12.35%	16.05	(3.00)	-	-	(5.09)	-	EM	1.06
<i>Provision of payment services through wireless telephony</i>										
<i>Avda. Europa, 20 - Alcobendas - Madrid</i>										
Solivella Investment, B.V. (NETHERLANDS) (1)	100.00%	92.46%	880.70	(1,553.16)	-	-	(50.98)	-	FC	-
<i>Sociedad holding</i>										
<i>Strawinskyalaan 3105 - 1077ZX - Amsterdam</i>										
Ipse 2000, S.p.A. (ITALY)	45.59%	46.23%	150.50	177.06	-	-	(254.77)	-	EM	31.76
<i>Installation and operation of third-generation wireless communications systems</i>										
<i>Piazza dei Capprettari, 70 - Rome</i>										
Group 3G UMTS Holding, GmbH (GERMANY) (1)	57.20%	52.89%	250.03	(10,195.88)	-	-	(0.02)	-	FC	-
<i>Network development and provision of third-generation telecommunications services</i>										
<i>5 Alois-Wolffmüller-Str. 8 80939 Munich</i>										
Quam, GmbH (GERMANY) (1) 57,20%	57.20%	52.89%	250.03	(250.02)	-	-	(37.66)	-	FC	-
<i>Provision of UMTS services</i>										
<i>Alois-Wolffmüller-Str. 8 80939 Munich</i>										
Opco Mobile Services GmbH (GERMANY) (1)	57.20%	52.89%	0.05	-	-	-	(1.12)	-	FC	-
<i>Provision of UMTS services</i>										
<i>Alois-Wolffmüller-Str. 8 80939 Munich</i>										
Médi Telecom, S.A. (MOROCCO)	32.18%	29.75%	786.83	(666.78)	-	-	(42.93)	-	EM	25.04
<i>Provision of wireless communications services</i>										
<i>Twin Center, Tour A. Angle Bd Zertouni et El Massira</i>										
<i>El Kdra Casablanca</i>										
Telefónica Móviles Interacciones, S.A. (**) (SPAIN) (1)	100.00%	92.46%	4.00	(79.40)	-	-	(6.64)	-	FC	-
<i>Engineering consultancy services in wireless environments.</i>										
<i>Gran Vía, 28 - 28013 Madrid</i>										
Terra Mobile Brasil, Ltd. (BRAZIL) (1)	100.00%	92.46%	5.65	(5.63)	-	-	-	-	FC	-
<i>No activity</i>										
<i>22º ANDAR 17 - Bairro ou Distrito FLAMENGO, Rio de Janeiro</i>										
Gruppo 3G, SRL (ITALY)	100.00%	92.46%	0.07	-	-	-	-	-	C	0.10
<i>Holding company</i>										
<i>Via Lepetit, 4 - Milan</i>										
Tempo 21 Innovación en Aplicaciones Móviles, S.A. (SPAIN)	38.50%	35.60%	13.22	(6.32)	-	-	(4.26)	-	C	5.09
<i>Research, development and commercial operation of wireless services and applications.</i>										
<i>Avda. Diagonal, 640 - Barcelona</i>										
Simpay, Ltd. (U.K.)	25.00%	23.12%	-	-	-	-	-	-	C	-
<i>Wireless means of payment</i>										

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(Amounts in millions of euros)

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	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
62-65 Chandos Place, London WC2N 4LP										
Omicron Ceti, S.L. (SPAIN) (8)	100.00%	92.46%		-	-	-	-	-	C	-
<i>Holding company</i>										
José Abascal - Madrid										
Telefónica Móviles Puerto Rico, Inc. (PUERTO RICO)	100.00%	92.46%	0.03	0.98	-	(45.91)	1.21	FC	-	
<i>Ownership of wireless operators in Puerto Rico</i>										
Metro Office Park Calle Edificio #17, Suite 600										
- 00968 Guaynabo										
Telefónica Móviles USA, Inc. (U.S.A.)	100.00%	92.46%		-	(0.85)	-	(0.08)	0.75	FC	-
<i>Telecommunications consultancy services</i>										
1221 Brickell Avenue - Miami - Florida										
TELCA Gestión Guatemala, S.A.	100.00%	92.46%	0.02	-	-	-	-	0.02	C	0,02
<i>Management of and counseling on telecommunications services</i>										
Guatemala										
MobiPay Internacional, S.A. (SPAIN)	50.00%	46.23%	11.82	(0.08)	-	(3.50)	5.21	PC	-	
Avda Europa 20, Alcobendas, Madrid										
<i>Provision of payment services through wireless telephony</i>										
Telefónica Móviles Perú Holding, S.A.A. (PERU) (1)	97.97%	90.58%	174.95	34.16	-	1.03	254.46	FC	-	
<i>Holding company</i>										
Avda. Arequipa, 1155 Lima, 01										
Telefónica Móviles, S.A.C. (PERU) (1)	97.97%	90.58%	201.47	7.95	-	1.08	-	FC	-	
<i>Provision of wireless communications services</i>										
Avda. Arequipa, 1155 Lima, 01										
Telefónica Móviles Argentina, S.A. (ARGENTINA) (1)	97.93%	90.55%	128.73	(566.58)	-	(84.58)	495.79	FC	-	
<i>Holding company</i>										
Ing Huergo 723, piso 17 - Buenos Aires										
Telefónica Comunicaciones Personales, S.A. (ARGENTINA) (1)	97.93%	90.55%	131.86	(569.33)	-	(84.45)	-	FC	-	
<i>Provision of wireless communications services</i>										
Ing Huergo 723, piso 17 - Buenos Aires										
Radio Servicios, S.A. (ARGENTINA) (7)	97.93%	90.55%	0.24	(0.29)	-	(0.02)	-	EM	(0.05)	
<i>Inactive company</i>										
Ing Huergo 723, piso 17 - Buenos Aires										
Telefónica de Centroamérica, S.L. (SPAIN) (1) (7)	100.00%	92.46%	0.50	0.01	-	(0.13)	1.33	C	1.33	
<i>Inactive company</i>										
Gran Vía, nº 28, Madrid										
Telefónica Móviles Holding Uruguay, S.A. (URUGUAY) (7)	100.00%	92.46%	24.01	-	-	0.05	25.80	FC	-	
<i>Inactive company</i>										
Plaza de la Independencia 8, planta baja, Montevideo										
Telefónica Móviles Uruguay, S.A. (URUGUAY) (7)	100.00%	92.46%	24.01	-	-	0.06	-	FC	-	
<i>Inactive company</i>										
Plaza de la Independencia 8, planta baja, Montevideo										
Wireless Network Ventures	100.00%	92.46%	-	-	-	-	-	FC	-	
<i>Holding Company</i>										
Palm Grove House, PO Box 438, Tortola, BVI										
Paging de Centroamérica, S.A. (GUATEMALA)	100.00%	92.46%	-	-	-	-	-	C	-	
<i>Provision of telecommunications and paging services</i>										
Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City										

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
Telefónica Soporte y Tecnología, S.A. (GUATEMALA) <i>Provision of telecommunications and paging services</i> Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City		100.00%	92.46%	-	-	-	-	-	C	-
Telefónica Móviles México, S.A. de C.V. (MEXICO) (1) <i>Holding company</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	1.443.01	(594.68)	-	-	(658.73)	998.99	FC	-
Telefónica Finanzas México, S.A. de C.V. (MEXICO) (1) <i>Promotion, formation, organization, exploitation, operation and ownership of companies' capital stock.</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	-	0.46	-	-	0.53	-	FC	-
Baja Celular Mexicana, S.A. de C.V. (MEXICO) (1) <i>Provision of wireless local loop services</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	97.05	(14.04)	-	-	(33.99)	-	FC	-
Movitel de Noroeste, S.A. de C.V. (MEXICO) (1) <i>Provision of wireless local loop services</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	82.80%	76.56%	14.06	0.11	-	-	(17.75)	-	FC	-
Moviservicios, S.A. de C.V. (MEXICO) (1) <i>Technical, administrative, consultancy, advisory and supervision services.</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	91.99%	85.05%	1.59	0.67	-	-	0.18	-	FC	-
Corporativo Integral Comunicación, S.A. de C.V. (MEXICO) (1) <i>Holding company</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	6.51	(13.30)	-	-	(1.43)	-	FC	-
Telefonía Celular del Norte, S.A. de C.V. (MEXICO) (1) <i>Provision of wireless local loop services</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	23.71	(57.13)	-	-	(26.65)	-	FC	-
Grupo Corporativo del Norte, S.A. de C.V. (MEXICO) (1) <i>Acquisition, disposal and custodianship of securities</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	4.36	(18.90)	-	-	(2.99)	-	FC	-
Enlaces del Norte, S.A. de C.V. (MEXICO) (1) <i>Acquisition, disposal and custodianship of securities</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	87.31%	80.72%	0.03	2.39	-	-	(12.08)	-	FC	-
Grupo de Telecomunicaciones Mexicanas, S.A. de C.V.										

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(Amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
(MEXICO) (1) <i>Provision of wireless local loop services</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120		89.61%	82.85%	0.01	13.40	-	(22.17)	-	FC	-
Pegaso Telecomunicaciones, S.A. de C.V. (MEXICO) (1) <i>Installation, maintenance and operation of public or private telecommunications networks</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	723.49	(1.152.08)	-	(454.61)	-	-	FC	-
Pegaso Comunicaciones y Sistemas, S.A. de C.V. (MEXICO) (1) <i>Provision of wireless local loop services</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	573.36	(984.32)	-	(153.48)	-	-	FC	-
Pegaso PCS, S.A. de C.V. (MEXICO) (1) <i>Provision of wireless local loop services</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	10.28	(54.01)	-	(285.90)	-	-	FC	-
Pegaso Recursos Humanos, S.A. de C.V. (MEXICO) (1) <i>Technical professional services for the development of public telecommunications networks</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	2.27	(1.23)	-	2.20	-	-	FC	-
Pegaso Finanzas, S.A. de C.V. (MEXICO) (1) <i>Obtaining financing and loans and granting loans to commercial partners.</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	-	-	-	-	-	-	FC	-
Pegaso Finco I, S.A. de C.V. (MEXICO) (1) zomas, Mexico City 05120	92.00%	85.06%	-	-	-	-	-	-	FC	-
Activos Para Telecomunicación, S.A. de C.V. (MEXICO) (1) <i>Provision of handsfree wireless telecommunications services</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	-	(47.67)	-	(17.24)	-	-	FC	-
Telecomunicaciones Punto a Punto México, S.A. de C.V. (MEXICO) (1) <i>Provision of handsfree wireless telecommunications services</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.06%	-	(31.78)	-	0.22	-	-	FC	-
Telefónica Telecommunicaciones México (MEXICO) <i>Holding Company</i> Río Durero 31, México DF 06500	94.90%	87.74%	-	-	-	-	-	-	FC	-
Telefónica Móviles Soluciones y Aplicaciones, S.A. (CHILE) (1) <i>Provision of computer and communications services</i> Avenida del Cóndor N°720, piso 4, comuna de Huechuraba, de la Ciudad de Santiago de Chile	100.00%	92.46%	9.14	(0.36)	-	(4.78)	9.50	FC	-	-
Inversiones Telefónica Móviles Holding Limitada (CHILE) <i>Holding company</i>	100.00%	92.46%	428.23	-	-	(22.15)	423.89	FC	-	-

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
Miraflores 130, piso 12, Santiago e Chile										
TEM Inversiones Chile Limitada (CHILE)	100.00%	92.46%	885.36	10.62	-	-	(23.86)	-	FC	-
Holding company										
Miraflores 130, piso 12, Santiago e Chile										
Telefónica Móvil de Chile, S.A. (CHILE)	100.00%	92.46%	273.29	0.83	-	-	(3.86)	-	FC	-
Wireless operator										
Miraflores 130, piso 12, Santiago e Chile										
Telefónica Móviles Soluciones, S.A.(CHILE)	100.00%	92.46%	0.01	-	-	-	-	-	FC	-
Services company										
Miraflores 130 piso 12 Santiago de Chile										
Telefónica Móviles eServices Latin America, Inc. (U.S.A.)	100.00%	92.46%	-	-	-	-	-	-	FC	-
Provision of computer services										
Mellon Financial Center 1111 Brickell ave. Suite 1000, Miami, florida 33131										
Ecuador Cellular Holdings, B.V. (NETHERLANDS)	100.00%	92.46%	219.71	-	-	-	6.82	663.43	FC	-
Holding company										
Strawinskyalaan 3105, Atium 7th, Amsterdam										
BS Ecuador Holdings, Ltd. (ISLAS VIRGENES BRITANICAS)	100.00%	92.46%	-	-	-	-	-	-	FC	-
Holding company										
Palm Grove House, PO Box 438, tortola, BVI										
Otelcel, S.A. (ECUADOR)	100.00%	92.46%	61.15	26.56	-	-	5.19	-	FC	-
Provision of wireless communications services										
Avda. de la República y la Pradera esq. Casilla, Quito										
Cellular Holdings (Central America), Inc.										
(ISLAS VIRGENES BRITANICAS)	100.00%	92.46%	-	-	-	-	-	37.93	FC	-
Holding company										
Palm Grove House, PO Box 438, tortola, BVI										
Guatemala Cellular Holdings, B.V. (NETHERLANDS)	100.00%	92.46%	4.28	-	-	-	0.82	29.39	FC	-
Holding company										
Strawinskyalaan 3105, Atium 7th, Amsterdam										
TMG (BVI) Holdings, Ltd. (ISLAS VIRGENES BRITANICAS)	100.00%	92.46%	-	-	-	-	-	-	FC	-
Holding company										
Palm Grove House, PO Box 438, tortola, BVI										
Centram Communications, LP (ISLAS VIRGENES BRITANICAS)	100.00%	92.46%	-	-	-	-	-	-	FC	-
Holding company										
Palm Grove House, PO Box 438, tortola, BVI										
TEM Guatemala Ltd. (ISLAS VIRGENES BRITANICAS)	100.00%	92.46%	-	-	-	-	-	-	FC	-
Holding company										
Palm Grove House, PO Box 438, tortola, BVI										
Telefónica Móviles Guatemala y Cia, S.C.A. (GUATEMALA)	100.00%	92.46%	100.82	(46.00)	-	-	2.08	-	FC	-
Wireless operator										
Bvd Los Próceres Torre Telefónica 10, Guatemala										
Central America Services Holding, Ltd.										
(ISLAS VIRGENES BRITANICAS)	100.00%	92.46%	-	-	-	-	-	-	FC	-
No activity										
Palm Grove House, PO Box 438, tortola, BVI										
Multi Holding Corporation (PANAMÁ)	99.23%	91.75%	-	-	-	-	-	298.72	FC	-
Holding Company										
Edificio HSBC, Piso 11, Avd Samuel Lewis, Panamá,										

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(Amounts in millions of euros)

	% of Ownership								Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)				
<i>República de Panamá</i>											
Panamá Cellular Holdings, B.V. (NETHERLANDS)	100.00%	92.46%	-	40.14	-	2.29	238.17	FC	-		
<i>Holding company</i>											
Strawinskyalaan 3105, Atium 7th, Amsterdam											
BellSouth Panamá, Ltd. (ISLAS CAIMÁN)	100.00%	92.46%	-	-	-	-	-	-	FC	-	
<i>Holding company</i>											
<i>Islas Cayman</i>											
Panamá Cellular Holdings, LLC (USA)	100.00%	92.46%	-	-	-	-	-	-	FC	-	
<i>Holding company</i>											
<i>Delaware</i>											
BSC de Panama Holdings, SRL (PANAMÁ)	100.00%	92.46%	-	60.84	-	2.41	-	FC	-		
<i>Holding company</i>											
Avda Samuel Lewis y Calle 54, Edificio Afra, Panamá											
BSC Cayman (ISLAS CAIMÁN)	99.62%	92.10%	-	-	-	-	-	-	FC	-	
<i>General Partnership</i>											
<i>Islas Cayman</i>											
Telefónica Móviles Panamá, S.A. (PANAMÁ)	99.57%	92.06%	41.09	37.43	-	4.50	-	FC	-		
<i>Wireless telephony services</i>											
Edificio Magna Corp. Calle 51 Este y Avda Manuel											
Maria Icaza, Ciudad de Panamá											
Panamá Cellular Investments, LLC (USA)	99.57%	92.06%	-	-	-	-	-	-	FC	-	
<i>Services company</i>											
<i>Delaware</i>											
Latin American Cellular Holdings, B.V. (NETHERLANDS)	100.00%	92.46%	0.56	1,284.59	-	6.96	1,377.72	FC	-		
<i>Holding company</i>											
Strawinskyalaan 3105, Atium 7th, Amsterdam											
Ablitur, S.A. (URUGUAY) (2)	100.00%	92.46%	35.50	(8.59)	-	0.18	-	FC	-		
<i>Holding company</i>											
Constituyente 1467 Piso 23, Montevideo.11200											
Redamil, S.A. (URUGUAY) (2)	100.00%	92.46%	4.70	10.46	-	0.18	-	FC	-		
<i>Holding company</i>											
Constituyente 1467 Piso 23, Montevideo.11200											
Abiatar, S.A. (URUGUAY) (2)	100.00%	92.46%	5.45	19.57	-	0.23	-	FC	-		
<i>Wireless operator and services</i>											
Constituyente 1467 Piso 23, Montevideo.11200											
Comunicaciones Móviles de Perú, S.A. (PERU) (2)	99.85%	92.32%	23.09	(30.04)	-	(1.32)	0.17	FC	-		
<i>Wireless operator</i>											
Av. Republica e Panamá nº3055, San Isidro, Lima											
BellSouth Nicaragua, S.A. (NICARAGUA)	100.00%	92.46%	-	-	-	-	-	-	FC	-	
<i>Holding Company</i>											
<i>Managua</i>											
Pisani Resources y Cía, Ltd. (NICARAGUA)	100.00%	92.46%	-	-	-	-	-	-	FC	-	
<i>Holding Company</i>											
<i>Managua</i>											
Doric Holding y Cía, Ltd. (NICARAGUA)	100.00%	92.46%	-	-	-	-	-	-	FC	-	
<i>Holding Company</i>											
<i>Managua</i>											
Kalamai Holdings, Ltd. (ISLAS VIRGENES BRITÁNICAS)	100.00%	92.46%	-	-	-	-	-	-	FC	-	
<i>Holding Company</i>											

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(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
Palm Grove House, PO Box 438, tortola, BVI										
Kalamai Hold.Y Cia, Ltd. (NICARAGUA)		100.00%	92.46%	-	-	-	-		FC	-
<i>Holding Company</i>										
Managua										
Telefonía Celular de Nicaragua, S.A. (NICARAGUA) (2)		100.00%	92.46%	11.21	31,41	-	1.14	-	FC	-
<i>Wireless telephony services</i>										
Carretera Mazalla, Managua, Nicaragua										
Telecomunicaciones BBS, S.R.L. (VENEZUELA) (2)		100.00%	92.46%	-	486.84	-	16.86	-	FC	-
<i>Wireless telephony-related services</i>										
Torre Edicampo, Avda Francisco de Miranda, Caracas 1010, Venezuela										
Comtel Comunicaciones Telefónicas, S.A. (VENEZUELA) (2)		100.00%	92.46%	23.23	127.25	(27.56)	5.56	0.15	FC	-
<i>Holding company</i>										
Torre Edicampo, Avda Francisco de Miranda, Caracas 1010, Venezuela										
Telcel, C.A. (VENEZUELA) (2)		100.00%	92.46%	104.37	365.12	(86.13)	17.48	240.47	FC	-
<i>Wireless operators</i>										
Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060, Venezuela										
Sistemas Timetrak, C.A. (VENEZUELA)		75.00%	69.35%	1.59	0.29	6.94	0.39	-	FC	-
<i>Fleet localisation services</i>										
Calle Partin, Edificio Grupo Secusat. Piso 3. Caracas, Venezuela										
Servicios Telcel, C.A. (VENEZUELA)		100.00%	92.46%	-	-	-	-		FC	-
<i>Telecommunication services and public attention</i>										
Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060										
Telcel International, Ltd. (ISLAS CAIMÁN)		100.00%	92.46%	-	-	-	-		FC	-
<i>Holding Company</i>										
Islas Cayman										
Corporación 271191, C.A. (VENEZUELA)		100.00%	92.46%	-	-	-	-		FC	-
<i>Buy-sell.buildings</i>										
Av. Francisco de Miranda. Edif Parque Cristal, Caracas 1060										
Promociones 4222. C.A. (VENEZUELA)		100.00%	92.46%	-	-	-	-		FC	-
<i>Buy-sell.buildings</i>										
Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060										
S.T. Mérida, C.A. (VENEZUELA)		100.00%	92.46%	-	-	-	-		FC	-
<i>Telecommunication services and public attention</i>										
Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060										
S.T. Ciudad Ojeda, C.A. (VENEZUELA)		100.00%	92.46%	-	-	-	-		FC	-
<i>Telecommunication services and public attention</i>										
Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060										
S.T. San Cristóbal (VENEZUELA)		100.00%	92.46%	-	-	-	-		FC	-
<i>Telecommunication services and public attention</i>										
Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060										
S.T. Maracaibo, C.A. (VENEZUELA)		100.00%	92.46%	-	-	-	-		FC	-
<i>Telecommunication services and public attention</i>										
Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060										
S.T. Punto Fijo, C.A. (VENEZUELA)		100.00%	92.46%	-	-	-	-		FC	-
<i>Telecommunication services and public attention</i>										

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(Amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060 S.T. Valera, C.A. (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060 S.T. Valencia, C.A. (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060 SyRed, T.E.I., C.A. (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
Servicios Telcel Acarigua, C.A. (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
Servicios Telcel Barquisimeto, C.A. (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
Serv. Telcel Charallave (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
S.T. Cumana, C.A. (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
S.T. Guarenas, C.A. (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
S.T. Los Teques, C.A. (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
S.T. Maracay, C.A. (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
S.T. Margarita, C.A. (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
S.T. Maturín, C.A. (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
S.T. Puerto Ordaz, C.A. (VENEZUELA) <i>Telecommunication services and public attention</i>	100.00%	92.46%	-	-	-	-	-	-	FC	-
Olympic, Ltd. (COLOMBIA) (2) <i>Holding company</i>	100.00%	92.46%	0.03	583.50	-	9.22	-	-	FC	-
Av. 82 N° 10-62, piso 6 Telefónica Móviles Colombia, S.A. (COLOMBIA)	100.00%	92.46%	0.29	143.57	-	13.82	115.60	FC	-	-
Bautzen, Inc. (PANAMÁ) <i>Financial management</i>	100.00%	92.46%	0.21	(0.20)	-	-	-	FC	-	-
Ciudad de Panamá Comoviles, S.A. (COLOMBIA) <i>Telecommunications services</i>	99.97%	92.43%	-	0.17	-	-	-	FC	-	-

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(**) Companies included in the consolidated corporate income tax return in 2004.

DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
Calle 100 N° 7-33, piso 17, Bogotá										
Comunicaciones Trunking, S.A. (COLOMBIA)		99.95%	92.42%	0.02	0.07	-	-		FC	-
<i>Provision of trunking services</i>										
Calle 100 N° 7-33, piso 16, Bogotá										
Paracomunicar, S.A. (COLOMBIA)		99.31%	91.82%	-	-	-	-		FC	-
<i>Telecommunications services</i>										
Calle 100 N° 7-33, piso 17, Bogotá										
Kobrocom Electrónica, Ltd. (COLOMBIA)		99.95%	92.41%	0.04	(0.02)	-	-		FC	-
<i>Telecommunications services</i>										
Calle 100 N° 7-33, piso 15, Bogotá										
Other holdings	N/A	N/A	-	-	-	-	-		PE	-
Other holdings	N/A	N/A	-	-	-	-	3.88	C	4.42	
Terra Networks, S.A. (SPAIN) (1) (6) (**)	75.87%	0.93%	76.80%	1,149.88	320.88	-	163.97	2,897.99	FC	-
<i>Provision and operation of telecommunications services</i>										
Nicaragua, 54 - 08029 Barcelona										
Terra Business Travel, S.A. (SPAIN) (**)	100.00%	76.80%	0.56	(0.01)	-	-	0.56	FC	-	
<i>Travel agent</i>										
Via Dos Castillas, 33. Pozuelo de Alarcon - Madrid										
Terra Lycos Holding, B.V. (NETHERLANDS)	100.00%	76.80%	0.02	-	-	-	0.02	C	0.02	
<i>Marketing of software licenses</i>										
Koningslaan, 34. 1075 AD Amsterdam, Holanda										
Terra Lycos Intangibles, S.A. (SPAIN) (1) (**)	100.00%	76.80%	0.66	13.29	-	(0.07)	19.29	FC	-	
<i>Internet services provider</i>										
Paseo de la Castellana, 92 - 28046 Madrid										
Terra Networks USA, Inc. and subsidiaries (U.S.A.) (6)	100.00%	76.80%	-	4.66	-	(6.41)	7.76	FC	-	
<i>Portfolio company</i>										
1201 Brickell Avenue, Suite 700, Miami - Florida 33131										
Deremate.com, Inc. (USA)	18.00%	13.82%	-	-	-	-	3.69	C	3.69	
<i>Internet content and e-commerce</i>										
1018 Centre Road, Wilmington - Delaware										
Lycos Europe, N.V. (3)	32.10%	24.65%	3.12	143.14	-	46.60	47.88	EM	46.56	
<i>Internet portal</i>										
Richard Holkade 30-34, Haarlem, Holanda										
Centro de Investigación y Experimentación de la Realidad Virtual, S.L. (SPAIN)	100.00%	76.80%	0.01	N/D	-	N/D	10.08	C	-	
<i>Design of communications products</i>										
Vía de Dos Castillas, 33 - Comp. Ática Ed. 1, 1º Plta.										
Pozuelo de Alarcón - 28224 Madrid										
Corporation Real Time Team, S.L. (SPAIN)	100.00%	76.80%	0.02	N/D	-	N/D	12,40	C	-	
<i>Design, advertising and consulting on the Internet</i>										
Claudio Coello, 32, 1º ext. - Madrid										
UNO-E Bank, S.A. (SPAIN)	33.00%	25.35%	80.32	31.15	-	N/D	189.83	C	189.83	
<i>On-line banking</i>										
Julián Camarillo, 4 Edificio C, 28037 - Madrid										
Terra Networks Asociadas, S.L. (SPAIN)	100.00%	76.80%	6.11	(8.44)	-	(15.35)	61.12	FC	-	
<i>Portfolio company</i>										
Paseo de la Castellana, 92 - 28046 Madrid										
Maptel Networks, S.A.U. (SPAIN) (1)	100.00%	76.80%	2.54	(1.49)	-	(0.63)	2.41	FC	-	
<i>Design of digital cartography</i>										

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(Amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
Plaza Santa María Soledad Torres Acosta, 15º - 28004 Madrid										
Ifigenia Plus, S.L. (SPAIN) (1) (8) (**)	100.00%	76.80%		0.14	(1.52)	-	(1.36)	10.11	FC	-
Vertical education and cultural content development portal										
Plaza Alonso Martínez, 3 - 28004 Madrid										
Educaterra, S.L. (SPAIN) (1) (**)	100.00%	76.80%		0.69	2.13	-	(0.95)	6.30	FC	-
Vertical education Internet portal										
Vía de Dos Castillas, 33 - Comp. Ática Ed. 1, 1º Plta.										
Pozuelo de Alarcón - 28224 Madrid										
One Travel.com, Inc. (USA) (1) (6)	54.15%	41.59%		0.01	6.36	-	(3.06)	29.64	FC	-
Travel boing portal										
258 Main Street, 3rd floor - East Greenville, EEUU										
11th Hour Vacations, Inc. (USA)	100.00%	41.59%		N/D	N/D	-	N/D	-	FC	-
Travel boing portal										
15 Century Drive. Greenville - South Carolina, EEUU										
Azeler Automoción, S.A. (SPAIN) (6)	50.00%	38.40%		1.80	(0.62)	-	(0.04)	5.22	EM	0.57
Motoring portal										
ia de Dos Castillas, 33 - Comp. Ática Ed. 1, 1º Plta.										
Pozuelo de Alarcón - 28224 Madrid										
Red Universal de Marketing y Boings Online, S.A. (SPAIN) (6)	50.00%	38.40%		0.90	(7.28)	-	0.57	7.50	EM	-
Travel boing portal										
Procién 1y 3 La Florida - 28023 Madrid										
Inversis Networks, S.A. (SPAIN)	10.68%	8.20%		44.03	4.67	-	(18.43)	11.69	C	11.69
Telematic and computer systems and applications										
C/Arrastáñ, 13. Polígono de las Mercedes - Madrid										
Iniciativas Residenciales en Internet, S.A. (ATREA) (SPAIN)	50.00%	38.40%		1.42	0.36	-	(1.21)	3.85	EM	0.29
Real estate portal										
Paseo Castellana, 92 - 28046 Madrid										
Terra Networks España, S.A. (SPAIN) (4) (**)	100.00%	76.80%		9.87	(393.78)	-	9.83	93.97	FC	-
ISP and portal										
Vía Dos Castillas, 33 - Comp. Ática Ed. 1, 1º Plta.										
Pozuelo de Alarcón - 28224 Madrid										
Terra Networks LATAM E.T.V.E., S.L. (SPAIN) (1) (**)	100.00%	76.80%		57.45	56.55	-	(23.44)	540.69	FC	-
Foreign securities holding and management										
Paseo de la Castellana, 92 - 28046 Madrid										
Terra Networks Venezuela, S.A. (VENEZUELA) (1)	100.00%	76.80%		1.37	(2.22)	-	(0.84)	20.88	FC	-
ISP and portal										
Avda. Francisco de Miranda, Centro Plaza, Torre A, Piso 11,										
Los Palos Grandes - Caracas										
Terra Networks Perú, S.A. (PERU) (1)	99.99%	76.80%		2.54	1.26	-	(2.49)	52.80	FC	-
ISP and portal										
Los Sauces, 374 - Torre Roja - San Isidro - Lima										
Terra Networks Mexico Holding, S.A. de C.V. (MEXICO) (1) (6)	100.00%	76.80%		91.32	(107.31)	-	(12.81)	356.66	FC	-
Portfolio company										
Antonio L. Rodríguez 1884, Monterrey										
- Nuevo León, Mexico										
Terra Networks Mexico, S.A. de C.V. (MEXICO) (1) (6)	99.99%	76.80%		3.07	6.86	-	(23.02)	(10.39)	FC	-
ISP and portal										
Col. Santa María Monterrey, Ciudad de Monterrey										

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim a Dividend	Income (loss)			
- Nuevo Leon										
Telefónica Interactiva Brasil, Ltda. (BRAZIL) (1) (6)		99.99%	76.80%	534.51	(435.10)	-	(17.82)	359.66	FC	-
Portfolio company										
Rua de Consolação, 247, 6º - São Paulo - Brasil										
Terra Networks Brasil, S.A. and subsidiaries (BRAZIL) (1) (6)	100.00%	76.80%	248.66	(222.30)	-	-	(18.96)	262.53	FC	-
ISP and portal										
Rua General João Manoel, 90 - Porto Alegre										
- Rio Grande do Sul - Brasil										
Terra Networks Chile Holding Limitada (CHILE) (1) (6)	99.99%	76.80%	95.18	(64.10)	-	-	(6.93)	95.18	FC	-
Portfolio company										
Avda. Vitacura, 2736 - Santiago de Santiago										
Terra Networks Chile, S.A. (CHILE) (1)	100.00%	76.80%	38.79	(36.50)	-	-	(3.53)	71.11	FC	-
ISP and portal										
Avda. Vitacura, 2736 - Santiago de Santiago										
Terra Networks Guatemala, S.A. (GUATEMALA) (6)	100.00%	76.80%	13.08	(12.59)	-	-	(1.93)	17.22	FC	-
ISP and portal										
Diagonal, 6 Edificio Las Margaritas II - Guatemala City										
Terra Networks El Salvador, S.A. de C.V. (EL SALVADOR) (1)	99.99%	76.80%	2.00	(2.00)	-	-	-	N/A	FC	-
Internet portal										
63 Ave. Sur y Alameda Roosevelt. Centro Fin.										
Gigante Torre de San Salvador										
Terra Networks Honduras, S.A. (HONDURAS)	99.99%	76.80%	0.01	-	-	-	-	N/A	FC	-
Internet portal										
14 Av. Circunvalación N.O. San Pedro Sula										
-Cortez, Honduras										
Terra Networks Costa Rica, S.A. (COSTA RICA) (3)	99.99%	76.80%	0.01	-	-	-	-	N/A	FC	-
Internet portal										
Escurridabat, Edificio Domus Plaza,										
2ª Planta Oficina 2 - San José										
Terra Networks Nicaragua, S.A. (NICARAGUA)	99.99%	76.80%	0.01	-	-	-	-	N/A	FC	-
Internet portal										
Nicaragua										
Terra Networks Panamá, S.A. (PANAMA)	99.99%	76.80%	0.01	-	-	-	-	N/A	FC	-
Internet portal										
Harry Eno y Piloto, Posada Edificio El Educador										
- Coopeduc - Bethania										
Terra Networks Caribe, S.A. (DOMINICAN REPUBLIC) (4)	99.98%	76.79%	0.01	-	-	-	-	-	FC	-
Internet portal										
Avda. Winston Churchill, Pza. Fernández II, Local 18 B										
.Nivel Ensanche Paraíso - Santo Domingo										
Terra Networks Argentina, S.A. (ARGENTINA) (1)	99.99%	76.80%	1.25	(0.28)	-	-	(1.14)	50.92	FC	-
ISP and portal										
Avda. Leandro N. Alem, 712 Piso 11 - Buenos Aires										
Terra Networks Maroc, S.A.R.L. (MOROCCO) (7)	100.00%	76.80%	0.03	N/D	-	-	N/D	0.03	C	0.03
Inactive company										
332 Boulevard Brahim Roudani - Casablanca										
Terra Networks Colombia Holding, S.A. (COLOMBIA) (1) (6)	100.00%	76.80%	0.25	(3.09)	-	-	(0.06)	47.01	FC	-
Portfolio company										
Avda. 100 nº 7-33 Torre 11 Of.301 - Santa Fé de Bogotá										

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(Amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
Terra Networks Colombia , S.A. (La Ciudad.com) (COLOMBIA) (1) <i>Internet portal</i> Avda. 100 nº 7-33 Torre 11 Of.301, Santa Fé de Bogotá	99.99%	76.80%	0.00	2.17	-	(1.86)	15.16	FC	-	
Terra Networks Serviços de Acesso a Internet e Trading, Ltd. (PORTUGAL) (7) <i>Inactive company</i> Avda. Arriaga, 73-2º andar, sala 212 - Freguesia de Se, Concelho do Funchal (Madeira)	100.00%	76.80%	0.01	N/A	-	N/A	0.01	C	0.01	
Telefónica Factoring Do Brasil, Ltd. (BRASIL) (1) <i>Factoring</i> Avda. Paulista, 1106	40.00%	10.00%	50.00%	2.41	(0.96)	(0.14)	0.72	1.45	EM	0.87
Telefónica Factoring Establecimiento Financiero de Crédito, S.A. (SPAIN) (1) <i>Loans and credits (consumer and mortgage loans and commercial transactions)</i> Pedro Teixeira, 8 - 28020 Madrid	50.00%		50.00%	5.11	1.74	-	2.44	2.64	EM	4.80
Aliança Atlântica Holding B.V. (NETHERLANDS) <i>Holder of 5,225,000 Portugal Telecom, S.A. shares</i> Strawinskylaan 1725, 1077 XX Amsterdam	50.00%	43.76%	93.76%	40.00	0.80	-	1.03	29.12	EM	-
Torre de Collserola, S.A. (SPAIN) (2) <i>Operation of a telecommunications mast and technical assistance and consulting services</i> Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona	30.40%		30.40%	12.02	0.56	-	-	3.66	EM	3.83
Telefónica Publicidad e Información, S.A. (SPAIN) (2) (6) <i>Publishing of directories and advertising in all types of media</i> Avda. de Manoteras, 12 - 28050 MADRID	59.90%		59.90%	18.41	100.84	-	111.86	4.06	FC	-
Telefónica Publicidad e Información Direct, S.L. (SPAIN) (2) <i>Direct marketing related activities</i> Avda. de Manoteras, 12 - 28050 MADRID	100.00%	59.90%	0.06	-	-	-	-	0.64	FC	-
Telefónica Publicidad e Información Edita, S.A.U. (SPAIN) (2) <i>Publishing of technical and professional directories in various industries</i> Fuerteventura, 21- San Sebastián de los Reyes. Madrid	100.00%	59.90%	0.66	8.77	-	(2.46)	11.02	FC	-	
Edinet Europa, S.A.U. (SPAIN) (2) <i>Publishing</i> Avda. de Manoteras, 12 - 28050 MADRID	100.00%	59.90%	0.06	(0.01)	-	-	-	0.35	FC	-
Adquira Spain, S.A. (SPAIN) (2) <i>E-commerce</i> Goya, 4,4º planta - Madrid	20.00%	11.98%	1.56	11.35	-	(4.78)	3.17	EM	1.63	
Telefónica Publicidad e Información Internacional, S.A.U. (SPAIN) (2) <i>Holding company</i> Avda. de Manoteras, 12 - 28050 MADRID	100.00%	59.90%	49.34	(0.50)	-	4.90	49.34	FC	-	
Directories Holding, B.V. (NETHERLANDS) <i>Holding company</i> Drentestraat 24 BG 1083 HK - Amsterdam	100.00%	59.90%	0.02	13.12	(4.60)	4.58	47.58	FC	-	
Publíguías Holding, S.A. (CHILE) (2) <i>Holding company</i>	100.00%	59.90%	13.73	(2.97)	(6.36)	6.57	13.20	FC	-	

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004

(Amounts in millions of euros)

	% of Ownership							Gross Book Value	Consolidation Method	Value in Consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim Dividend	Income (loss)			
Avda. Santa María 0792 - Providencia - Santiago de Chile										
Urge Chile, S.A. (CHILE) (2) <i>Construction and upkeep of buildings.</i> <i>Refurbishment work in general</i>	100.00%	59.90%	0.38	(0.35)	-	-	(0.24)	0.34	FC	-
Moneda 970, piso 12 - Santiago de Chile										
Impresora y Comercial Publiguías, S.A. (CHILE) (2) <i>Telephone directory and related products and telephone files business</i>	100.00%	59.90%	4.93	35.51	(12.50)	13.51	73.14	FC	-	-
Avda. Santa María 0792 - Providencia - Santiago de Chile										
Other holdings	N/A	N/A	N/A	N/A	-	N/A	0.18	C	0.18	-
Telefónica Publicidad e Información Perú, S.A.C. (PERU) (2) <i>Publishing of Peruvian market directories</i>	100.00%	59.90%	0.25	(0.33)	(3.61)	4.47	18.25	FC	-	-
Paseo Repùblica, 3755 San Isidro, Lima										
Telefónica Publicidade e Informação, Ltda. (BRAZIL) (2) <i>Publishing of directories and advertising in the states of São Paulo and Rio Grande do Sul</i>	100.00%	59.90%	63.17	(79.10)	-	(6.90)	72.65	FC	-	-
Rua Gomes de Carvalho, 1507 Vila Olímpia, São Paulo - Brasil										
11888 Servicio Consulta Telefónica, S.A. (SPAIN) (2) <i>Provision of wireline public telephone and directory enquiry service</i>	100.00%	59.90%	0.06	0.01	(5.68)	6.78	0.06	FC	-	-
Avda. de Manoteras, 12 - 28050 MADRID										
Guia Local Network, S.A. (BRAZIL) <i>City guide Internet portal</i>	20.00%	11.98%	3.70	-	-	(2.93)	1.57	C	1.57	-
Avda. Das Américas, 500 Bl. 6A - Rio de Janeiro										
Euredit, S.A. (FRANCE) <i>Publication of European yearbooks</i>	5.00%	2.99%	2.80	2.08	-	2.64	0.23	C	0.23	-
Avda. Friedland, 9 - 75008 París (*)										
Sistemas Técnicos de Loterías del Estado, S.A. (SPAIN) (2) <i>Operation of a gaming terminal system for the Spanish State Gaming Organization</i> <i>Manuel Tovar, 9 - 28034 Madrid</i>	31.75%		31.75%	12.02	54.32	-	4.74	3.82	EM	22.57
Amper, S.A. (SPAIN) (1) (6) <i>Development, manufacture and repair of telecommunications systems and equipment and related components</i>	6.10%		6.10%	27.91	20.18	-	2.51	11.83	EM	3.09
Torrelaguna, 75 - 28027 Madrid										
Portugal Telecom, S.G.P.S., S.A. (PORTUGAL) (1) <i>Holding company</i>	8.55%	1.03%	9.58%	1,166.49	1,388.28	-	417.34	877.19	EM	283.24
Avda. Fontes Pereira de Melo, 40 - 1089 Lisbon										
Banco Bilbao Vizcaya Argentaria, S.A. (SPAIN) (1) (6) <i>Banking</i>	1.07%		1.07%	1,662.00	(12,107.30)	(1,017.30)	2,802.00	555.63	EM	521.04
Plaza de San Nicolás, 4 - 48013 Bilbao (Vizcaya)										
I-CO Global Communications (HOLDINGS) Limited (U.K.)	N/D	N/A	N/D	N/D	N/D	N/D	N/D	6,03	C	6,03
Other holdings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8,72	C	8,72
TOTAL VALUE IN CONSOLIDATION, ASSOCIATED COMPANIES (Note 8)								1,159.08		
TOTAL VALUE IN CONSOLIDATION, INVESTEES (Note 8)								518.52		

EXHIBIT II

The variations in the scope of consolidation in the years ended December 31, 2004 and 2003, were as follows:

2004

The variations in the scope of consolidation in the year ended December 31, 2004, were as follows:

Telefónica

In 2004 Telefónica acquired 71,693 shares of the Dutch company Endemol Entertainment Holding, N.V. (Endemol) for €1.79 million. Following this transaction, the Telefónica Group's holding in Endemol, which continues to be fully consolidated in the Telefónica Group, increased to 99.70%..

Telefónica, S.A. acquired 52,820,862 shares of Portugal Telecom, S.G.P.S., S.A. for €475.14 million, giving rise to consolidation goodwill of €344.52 million. Additionally, on December 29, 2004, Portugal Telecom reduced capital by retiring 87,799,950 shares of treasury stock, representing 7% of capital stock. Following these transactions, Telefónica increased its direct holding in this company to 8.5%. The direct and indirect effective ownership interest by the Telefónica Group was 9.58%. This company continues to be accounted for by the equity method in the consolidated financial statements of the Telefónica Group.

The Spanish subsidiary Inmobiliaria Telefónica, S.L.U. was dissolved without liquidation through the overall transfer of its assets and liabilities to its sole stockholder, Telefónica, S.A. and the subsequent extinction of the company. This company, which had been fully consolidated in the consolidated financial statements of the Telefónica Group, was excluded from the scope of consolidation.

The U.S. companies Telefónica B2B, Inc. and Telefónica USA, Inc., which were fully consolidated in the consolidated financial statements of the Telefónica Group, were excluded from the scope of consolidation following their liquidation and dissolution and the transfer of their assets and liabilities to their sole stockholder, Telefónica, S.A.

Zeleris Soluciones Integrales, S.L.U. was merged into Telefónica Gestión de Servicios Compartidos España, S.A. (a wholly-owned subsidiary of Telefónica, S.A.), which increased capital stock by €5.47 million and received as a consideration all the shares composing the capital stock of the former. As a result of the merger, Zeleris España, S.A.U., a wholly-owned subsidiary of Zeleris Soluciones Integrales, S.A., became a wholly-owned subsidiary of Telefónica Gestión de Servicios Compartidos España, S.A. The company continues to be fully consolidated in the consolidated financial statements of the Telefónica Group.

In October Telefónica Gestión de Servicios Compartidos España, S.A., acquired a 99.33% holding in the Brazilian company Cobros Serviços de Gestão, S.A., currently S.L. As a result of the acquisition, the Brazilian company was fully consolidated in the Telefónica Group.

In 2004 the Spanish company Telefónica Investigación y Desarrollo, S.A. incorporated the Mexican company Telefónica

Investigación y Desarrollo México, S.A. and subscribed and paid all its capital stock, consisting of 50,000 shares of MXP 1 par value each. This company was fully consolidated in the Telefónica Group.

Telefónica, S.A. sold 464 shares of the associated company Torre de Collerola, S.A. for €1.47 million. As a result of this transaction, Telefónica, S.A. reduced its ownership interest in this company to 30.4%. This company continues to be accounted for by the equity method in the consolidation of the Telefónica Group.

The Spanish companies Telefónica Participaciones, S.A.U. and Telefónica Emisiones, S.A.U. were incorporated in November with a capital stock consisting of 62,000 shares of €1 par value each, which was fully subscribed and paid by their sole stockholder Telefónica, S.A.

The Luxembourg company Altaír Assurances, S.A. was incorporated in December with an initial capital stock of €6 million, which was subscribed and paid 95% by the Luxembourg company Casiopia Reaseguradora, S.A. and 5% by the Spanish company Seguros de Vida y Pensiones Antares, S.A., both wholly-owned subsidiaries of the Telefónica Group.

The Peruvian company Telfisa Perú, S.A.C. was incorporated in December with an initial capital of 12 million new soles, which was fully subscribed and paid by the Telefónica Group.

The Spanish company Cleon, S.A. a 50%-owned subsidiary of Compañía Española de Tecnología, S.A., which in turn is wholly owned by Telefónica, S.A., was carried by the equity method in the consolidated financial statements of the Telefónica Group for 2004 on the basis of management criteria, whereas in 2003 it was fully consolidated.

T.P.I. Group

In 2004 Telefónica Publicidad e Información, S.A., the parent company of the group, acquired the remaining 49% holding in its Chilean subsidiary Impresora y Comercial Publiguías, S.A. for €65.6 million, thereby increasing its ownership interest to 100%. A 9% holding was acquired from the Chilean company Compañía de Telecomunicaciones de Chile, S.A., a Telefónica Group subsidiary. This company continues to be fully consolidated in the Telefónica Group.

On August 13, 2004, the Chilean company Edinet América, S.A. (formerly Urge Chile, S.A.) increased capital by 218.81 Chilean pesos (€0.29 million). This capital increase was fully subscribed and paid by Publiguías Holding, S.A. As a result of this transaction, the TPI group increased its holding in Edinet América, S.A. from 99.90% to 99.978%. In November the Chilean company Impresora y Comercial Publiguías, S.A. acquired a 0.022% holding in the capital stock of Edinet América, S.A. Following this transaction, the Telefónica Publicidad e Información Group increased its holding in the Chilean company to 100%. This company continues to be fully consolidated in the Telefónica Group.

Telefónica de España Group

Telefónica Cable, S.A., a wholly-owned subsidiary of Telefónica de España, S.A., continued its corporate group restructuring process and the following local operators were merged into it: Telefónica Cable Asturias, S.A., Telefónica Cable Valencia, S.A.,

Telefónica Cable Extremadura, S.A. and Telefónica Cable Balears, S.A. All these companies, which had been fully consolidated in the Telefónica Group in 2003, were excluded from the scope of consolidation in 2004.

Telefónica de España, S.A.'s 2.13% holding in the French company Eutelsat, S.A. was sold for €44.83 million, giving rise to net gains of €21.43 million. Additionally, Telefónica de España S.A. sold its 0.75% holding in the Dutch company New Skies Satellites, B.V. for €6.02 million, at a gain of €5.95 million. Both companies were recorded under the "Other Investments" caption in the consolidated balance sheet of the Telefónica Group.

Telefónica Mobile Solutions, S.A.U. was taken over by its parent company Telefónica Soluciones de Informática y Comunicaciones de España, S.A.U. This company, which had been fully consolidated in the consolidated financial statements of the Telefónica Group in 2003, was excluded from consolidation in 2004.

Terra Group

Emplaza, S.A., a company 20% owned by the Terra Lycos Group which had not been included in consolidation since June 2003 because it was inactive, was dissolved and liquidated in January 2004.

Lycos, Inc. sold its holdings in Wit Capital and GSI Global Sports in March 2004, giving rise to a gain of €0.15 million. These companies were included under the "Other Investments" caption.

In 2004 Lycos, Inc. sold all its minority interests in Amazon, Interland, Cross Media, Easy Link, Fast, Autobytel and Total Sports, and recorded a loss on these sales of €5.32 million. All these companies were included under the "Other Investments" caption.

All the shares of the Mexican company Tecnología y S.V.A., S.A. de C.V. were sold in June 2004 giving rise to a gain of €10.77 million. This company, which had been fully consolidated in the Telefónica Group, was excluded from consolidation in 2004.

In 2004 Terra Networks Asociadas, S.L. increased capital at Inversis Networks, S.A. by €1.60 million, thus increasing its ownership interest in this company to 10.68%. This investee is recorded under the "Other Investments" caption in the consolidated balance sheet of the Telefónica Group.

On September 2, 2004, Terra Networks Asociadas, S.L. sold its holding in A Tu Hora, S.L., an inactive company, to Telepizza, which until then owned a 50% ownership interest in this company. This investee, which had been carried by the equity method in the consolidation of the Telefónica Group, was excluded from the scope of consolidation in 2004.

On October 5, 2004, Terra Networks, S.A. and Daum Communications, Corp. reached an agreement for the sale of Lycos, Inc. after obtaining the required administrative authorizations and approval from the Antitrust Authorities in the United States. The sale price was set at \$108 million, giving rise to a gain of €26.17 million. On September 30, 2004, before the sale of Lycos, Inc., and as part of the agreement for this transaction, Lycos, Inc.

transferred assets amounting to €332.9 million to Terra Networks, S.A.

In November 2004, a capital increase of €0.3 million was carried out at the subsidiary Terra Networks Colombia, S.A. for the purpose of offsetting losses. The local partners did not subscribe this capital increase. Following this transaction, the ownership interest of minorities decreased from 32% to 5%. This company continues to be fully consolidated in the financial statements of the Telefónica Group.

The merger of the wholly-owned subsidiary Ordenamiento de Links Especializados, S.L. (OLÉ) into Terra Networks España, S.A. was completed in December 2004. OLÉ, which had been fully consolidated in the Telefónica Group in 2003, was excluded from the scope of consolidation in 2004.

Atento Group

All the shares of Atento Guatemala Comercial, S.A. were sold in March 2004. This company, which had been fully consolidated in the Telefónica Group in 2003, was excluded from the scope of consolidation in 2004.

Atento USA, Inc. was dissolved and all its assets and liabilities were transferred to its parent company Atento Holding Inc. effective January 1, 2004. This company, which had been fully consolidated in the consolidated financial statements of the Telefónica Group for 2003, was excluded from the scope of consolidation in 2004.

The U.S. company Atento Holding Inc. was dissolved on April 30, 2004, and all its assets and liabilities were transferred to the Dutch parent company Atento N.V. The company, which had been fully consolidated in the consolidated financial statements of the Telefónica Group through that date, was subsequently excluded from the scope of consolidation.

Leader Line, S.A., a wholly-owned subsidiary of Atento Teleservicios España, S.A., was merged into the latter on July 16, 2004. The company, which had been fully consolidated in the consolidated financial statements of the Telefónica Group through that date, was subsequently excluded from the scope of consolidation.

The Mexican company Atento Atención y Servicios, S.A. de CV. was incorporated on September 1, 2004. Of its initial capital stock, MXP 49.999 were fully subscribed and paid by Atento Mexicana, S.A. de C.V. and MXP 1 by the Mexican company Atento Servicios, S.A. de C.V. The company was fully consolidated in the Telefónica Group in 2004.

Atento Uruguay, S.A. was dissolved and liquidated on September 30, 2004, and all its assets and liabilities were transferred to its parent company Atento Argentina, S.A. The company, which had been fully consolidated in the consolidated financial statements of the Telefónica Group through that date, was subsequently excluded from the scope of consolidation.

Telefónica Móviles Group

Mobipay España, S.A. increased its capital stock by €3.78 million in 2004. Telefónica Móviles España, S.A. subscribed the capital increase and acquired the shares required to increase its ownership interest in the company from 13.33% to 13.36%. This investee continues to be accounted for by the equity method in the consolidation of the Telefónica Group.

In August 2004, Brasilcel N.V. and Telesp Celular Participações, S.A. (TCP) announced their intention to launch friendly tender offers for Tele Sudeste Celular Participações, S.A., Tele Leste Celular Participações, S.A., Celular CRT Participações, S.A. and Tele Centro Oeste Celular Participações, S.A. (TCO). These tender offers were effectively implemented in October.

The following tables show the percentages of ownership held by Brasilcel N.V. and TCP in these subsidiaries before the friendly tender offers and the resulting percentages of ownership after settlement of the shares purchased as a result of the offer:

Brasilcel	Percentage of Ownership before the Offers	Percentage of Ownership after the Offers
Tele Sudeste	86.7%	90.9%
Tele Leste	27.9%	50.6%
CRT	51.5%	67.0%

TCP	Percentage of Ownership before the Offers	Percentage of Ownership after the Offers
TCO	28.9%	50.6%

These tender offers gave rise to a cash payment of approximately 607 million reais for Brasilcel, N.V. and of 902 million reais for TCP.

A further 13.95% holding was acquired in the capital stock of the Spanish company Mobipay Internacional, S.A., thereby increasing the total ownership interest to 50%. This company, which had been accounted for by the equity method in the consolidated financial statements of the Telefónica Group, is now proportionally consolidated.

At the end of June 2004, Brasilcel N.V. effectively acquired from NTT DoCoMo, Inc. and Itochu Corporation their ownership interests in Sudestecel Participações, S.A., a holding company controlling a bloc of shares of the operator Tele Sudeste Celular Participações, S.A. representing 10.5% of its capital stock, for €20.84 million. As a result of this transaction, Brasilcel, N.V. increased its controlling interest in Sudestecel Participações, S.A. to 100%. This company continues to be fully consolidated in the financial statements of the Brasilcel Group and this group, in turn, is proportionally consolidated in the consolidated financial statements of the Telefónica Group.

On July 23, 2004, a 100% holding in the Chilean company Telefónica Móvil de Chile, S.A. was acquired from the Chilean company Compañía de Telecomunicaciones de Chile, S.A., a subsidiary of Telefónica Internacional, S.A. The total amount paid by Telefónica Móviles for this acquisition was \$1,058 million. As a result of this transaction, the Telefónica Group increased its effective ownership interest in the capital stock of this company from 44.89% to 92.46%. This company continues to be fully consolidated in the consolidated financial statements of the Telefónica Group.

The mergers of the following Mexican companies were effective on September 24, 2004: Movicelular, S.A. de C.V. was merged into Movitel del Noroeste, S.A. de C.V. and Tamcel, S.A. de C.V. was merged into Baja Celular Mexicana, S.A. de C.V. The two subsidiaries continue to be fully consolidated in the Telefónica Group.

On October 8, 2004, Telesp Celular Participações, S.A. resolved to increase capital by approximately 2,054 reais. This capital increase was completed on January 4, 2005, and was fully subscribed. Following this transaction, Brasalcel, N.V. increased its holding from 65.12% to 65.70%.

On March 5, 2004, Telefónica Móviles, S.A. reached an agreement with BellSouth Corporation ("BellSouth") for the acquisition of all the holdings owned by latter in the former's operators in Argentina, Chile, Peru, Venezuela, Colombia, Ecuador, Uruguay, Guatemala, Nicaragua and Panama.

The effective transfer of the shares of these companies was conditional, inter alia, upon the obtainment of the required regulatory authorizations in each country and on the approvals required, if appropriate, of the minority stockholders. The effective transfer of the shares of these operators was made in 2004 and in January 2005: all the holdings owned by BellSouth in the operators located in Ecuador, Guatemala and Panama were transferred on October 14, 2004; those owned in the operators located in Colombia, Nicaragua, Peru, Uruguay and Venezuela were transferred on October 28, 2004, that owned in the operator in Chile was transferred on January 7, 2005, and the holding in the Argentine operator was transferred on January 11, 2005.

Under this agreement the aforementioned operators were valued at \$5,850 million and their net debt was taken over. The total acquisition cost for Telefónica Móviles, adjusted by the net debt of all the companies, amounted to €3,252.54 million (excluding Chile and Argentina).

Following are the values assigned to each transaction and the acquisition cost for Telefónica Móviles:

- Acquisition of a 100% holding in Otecel, S.A. (Ecuador) for a total company value of \$833 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €663.43 million.
- Acquisition of a 100% holding in BellSouth Guatemala, S.A. for a total company value of \$175 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €92.54 million.
- Acquisition of a 99.57% holding in BellSouth Panamá, S.A. for a total company value of \$657 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €549.28 million.
- Acquisition of a 100% holding in Telcel, S.A. (Venezuela) for a total company value of \$1,195 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €1,223.98 million.
- Acquisition of a 100% holding in Telefónica Móviles Colombia, S.A. for a total company value of \$1,050 million.

<p>The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €517.46 million.</p>	<p>consolidated in the consolidated financial statements of the Telefónica Group.</p>
<ul style="list-style-type: none"> • Acquisition of a 99.85% holding in Comunicaciones Móviles del Perú, S.A. for a total company value of \$210 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €7.70 million. • Acquisition of a 100% holding in Telefonía Celular de Nicaragua, S.A. for a total company value of \$150 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €148.74 million. • Acquisition of a 100% holding in Abiatar, S.A. for a total company value of \$60 million. The acquisition cost for Telefónica Móviles, adjusted by the company's net debt, was €49.42 million. 	<p>Telefónica del Perú, S.A.A. sold all the shares it owned in the Dutch company New Skies Satellites, BV, representing approximately 0.83% of this company's capital stock, for US\$ 7.84 million (approximately €5.9 million). The company was recorded under the "Other Investments" caption in the consolidated balance sheet of the Telefónica Group.</p>
<p>Telefónica Internacional Group</p> <p>The Brazilian company Aix Participações, which in 2003 was accounted for by the equity method in the consolidated financial statements of the Telefónica Group, was proportionally consolidated in 2004.</p>	<p>With respect to the Katalyx Group, the Mexican subsidiaries Katalyx Construction Mexico, S.R.L., Katalyx Health Mexico, S.R.L., Katalyx Cataloguing Mexico, S.R.L. de C.V., Katalyx Food Service Mexico, S.R.L. de C.V. and Katalyx Transportation Mexico, Llc. and the Argentine companies Katalyx Transportation Argentina, S.R.L., Katalyx Construction Argentina, Katalyx Food Service Argentina, S.R.L., Katalyx Cataloguing Argentina, S.R.L. and Katalyx Argentina, S.A. were dissolved or are in the process of liquidation. All of them, which had been fully consolidated in the consolidated financial statements of the Telefónica Group for 2003, were excluded from the scope of consolidation in 2004.</p>
<p>The U.S. company Katalyx, Inc. took over the U.S. companies Adquira, Inc. and Katalyx Transportation, Llc. These two companies, which had been fully consolidated in the consolidated financial statements of the Telefónica Group in 2003, were excluded from the scope of consolidation in 2004.</p>	<p>The Argentine company Adquira Argentina, S.L. was took over by Telefónica Data Argentina, S.A. The investee, which had been fully consolidated in the consolidated financial statements of the Telefónica Group for 2003, was excluded from the scope of consolidation in 2004.</p>
<p>The Peruvian company Telefónica Empresas Perú, S.A.A. took over the Peruvian company Telefónica Servicios Financieros, S.A.C. This company, which had been fully consolidated in the consolidated financial statements of the Telefónica Group in 2003, was excluded from the scope of consolidation in 2004.</p>	<p>The Venezuelan company Compañía Anónima Nacional de Teléfonos de Venezuela, C.A. (CANTV), which is 6.91% owned by the Telefónica Group and which in 2003 was accounted for by the equity method in the consolidated financial statements of the Telefónica Group, was excluded from the scope of consolidation in 2004. This change was due to the removal from the Board of Directors of CANTV of Telefónica Internacional's sole representative, in accordance with the resolution adopted by the Stockholders' Meeting of CANTV on March 31, 2004.</p>
<p>On July 8, 2004, Telefónica Internacional Chile S.A. acquired 3 million ADRs of Compañía de Telecomunicaciones de Chile S.A. (CTC), representing 12 million series A shares, equal to a 1.25% holding in this company, thereby increasing the Telefónica Group's total ownership interest to 44.89%. The price paid was US\$ 37.07 million. The company continues to be fully consolidated in the Telefónica Group.</p>	<p>In December the Brazilian company Telecomunicações de São Paulo, S.A. (TELESP) entered into an agreement for the purchase of all the shares (cuotas) of Santa Genovense Participações Ltd., a holding company owning all the cuotas of Atrium Telecomunicações Ltda., for 113.44 million Brazilian reais (approximately €31 million), giving rise to goodwill of €33.14 million. The company was fully consolidated in the consolidated financial statements of the Telefónica Group.</p>
<p>As discussed above, on April 26, 2004, CTC sold to Telefónica Publicidad e Información, S.A. its 9% holding in the Chilean company Impresora y Comercial Publiguías S.A.</p>	<p>Telefónica de Contenidos Group</p> <p>A 70% holding in the Spanish company Lola Films, S.A. was sold in July 2004 to its minority stockholder.</p>
<p>Following approval by the Board of Directors of the Chilean company CTC on May 18, and subsequent ratification by the Stockholders' Meeting on July 15, 2004, the aforementioned sale of a 100% holding in the subsidiary Telefónica Móviles Chile, S.A. to Telefónica Móviles, S.A. was formalized.</p>	<p>Telefónica, S.A. sold on the London Stock Exchange 38,853,403 Pearson Plc shares representing 4.84% of its capital stock for approximately €350 million, giving rise to a loss of €33.23 million in the consolidated financial statements of the Telefónica Group.</p>
<p>Under a share repurchase program, the subsidiary Telefónica del Perú, S.A.A. acquired own shares in the market for 21.90 new soles (approximately €5.3 million), thereby increasing the Telefónica Group's effective percentage of ownership from 97.21% to 98.19%. The company continues to be fully consolidated in the Telefónica Group.</p>	<p>These companies, which in 2003 had been fully consolidated and accounted for by the equity method, respectively, in the Telefónica Group, were excluded from the scope of consolidation in 2004.</p>

The group parent company took over its Spanish subsidiaries Telefónica Medios de Comunicación, S.A., Telefónica Media Internacional y de Contenidos, S.A., Producciones Multitemáticas, S.A. and Gestora de Medios Audiovisuales de Fútbol, S.L. The Spanish company Corporación Admira Media, S.A. was dissolved and liquidated in June 2004. All these companies had been fully consolidated in the Telefónica Group in 2003 but were excluded from the scope of consolidation in 2004.

In October 2004, Telefónica de Contenidos, S.A. sold its holdings in Lideres Entertainment Group, Inc and Fieldy BV. These companies, which had been accounted for by the equity method in the consolidated financial statements of the Telefónica Group in 2003, were excluded from the scope of consolidation in 2004.

Telefónica de Contenidos's 20% holding in the Argentine company Torneos y Competencias, S.A. was classified in the consolidated financial statements of the Telefónica Group as a short-term investment on the basis of management criteria.

2003

The variations in the scope of consolidation in the year ended December 31, 2003, were as follows:

Telefónica

In July 2003, Telefónica, S.A. concluded the tender offer for Terra Networks, S.A. shares by acquiring 202,092,043 of this company's shares for €5.25 per share, which represented 33.6% of its total capital stock. Following this transaction, Telefónica's direct holding in Terra was 71.97%. In December 2003, the Telefónica Group's effective holding in the Terra Group was increased to 75.29%, as described below. The company continued to be fully consolidated in the Telefónica Group.

In February 2003, Telefónica, S.A. acquired 9,669 shares of the Dutch subsidiary Endemol Entertainment Holding, N.V. for €0.34 million. Following this transaction, the Telefónica Group's holding in this Dutch company, which continued to be fully consolidated in the Telefónica Group, increased to 99.49%.

On January 7, 2003, Telefónica, S.A. and its subsidiary Telefónica de Contenidos exercised vis-à-vis Banco Santander Central Hispano, S.A. call options on 19,532,625 shares of Antena 3 de Televisión, S.A., representing 11.719% of its capital stock, which were acquired by the Group company Corporación Admira Media. Following this acquisition, the Telefónica Group owned 59.24% of the capital stock of Antena 3 de Televisión.

Subsequently, in 2003 the Telefónica Group began a process of divesting its holding in this investee, which commenced on April 30, 2003, with the acceptance of the bid of €364 million made by the Planeta Group for 25.1% of the capital stock of Antena 3 de Televisión. This sale was subject to the condition subsequent, already fulfilled in that year, that the shares of Antena 3 de Televisión were admitted to listing on the Spanish Stock Exchange.

Also, as indicated in Note 11, on April 11, 2003, the Stockholders' Meeting of Telefónica, S.A. approved the distribution of shares representing 30% of the capital stock of

Antena 3 de Televisión as a dividend in kind for its stockholders, which took place in October after this company had been admitted to listing on the Stock Exchange, as mentioned above. Lastly, in October and November Telefónica, S.A. sold on the stock market all the remaining shares of the above-mentioned company owned by it (2,928,893 shares) for €95.72 million.

These transactions carried out in 2003, which entailed the divestment of the Telefónica Group's holding in Antena 3 de Televisión, S.A., gave rise to a gain of €392.29 million (see Note 8). The company, which was fully consolidated in the first six months of 2003, was subsequently excluded from the scope of consolidation.

In January 2003, the Mexican company Fisatel Mexico, S.A. de C.V. was formed with an initial capital stock of MXP 5 million, consisting of 500 shares of MXP 100 each. Subsequently, this company increased its capital stock by MXP 4.95 million. The Telefónica Group subscribed all the shares of the new company, which was fully consolidated in the Telefónica Group.

Telefónica Capital, S.A., a wholly-owned subsidiary of Telefónica, S.A., formed Fonditel Gestión, Sociedad Gestora de Instituciones de Inversión Colectiva, S.A. in April and Fonditel Valores, Agencia de Valores, S.A. in May and subscribed all their shares for €1.5 million and €3 million, respectively. Both companies were fully consolidated in the Telefónica Group.

In January 2003, Telefónica, S.A. acquired 376,000 shares of the subsidiary Telefónica Móviles, S.A. for €2.43 million. Following this acquisition, the Telefónica Group's new ownership interest was 92.44%. This subsidiary continues to be fully consolidated in the Telefónica Group.

Telefónica, S.A. sold all the shares of its wholly-owned investee Playa de Madrid, S.A. This company, which had been fully consolidated in the Telefónica Group's consolidated financial statements in 2002, was excluded from the scope of consolidation in 2003.

The following companies were fully consolidated in the Telefónica Group's consolidated financial statements: Pléyade Argentina, S.A., Pléyade Perú Corredores de Seguros, S.A.C., TGP Brasil Corretora de Seguros e Resseguros, Ltda. and Pléyade México, Agente de Seguros y de Fianzas, S.A. de C.V. These companies are all subsidiaries of Pléyade Peninsular, Correduría de Seguros y Reaseguros del Grupo Telefónica, S.A.

Telefónica Ingeniería de Seguridad, S.A., a wholly-owned subsidiary of the Telefónica Group, participated in the incorporation of Telefónica Ingeniería de Seguridad México, S.A. de C.V. by paying €0.34 million to subscribe 65% of the new company's capital stock. This company was fully consolidated in the Telefónica Group's consolidated financial statements.

Pursuant to the Strategic Alliance Framework Agreement entered into on February 11, 2000, by Telefónica and Banco Bilbao Vizcaya, S.A. (BBVA), the Telefónica Group subsidiary located in the Netherlands, Atento N.V., increased capital several times in November 2003 in order to include the BBVA Group in its stockholder structure through the BBVA Group

subsidiary General de Participaciones Empresariales, S.L. As a result of these transactions, the capital stock and additional paid-in capital of Atento N.V. increased by €20.76 million. Telefónica, S.A. subscribed and paid in cash €20 million of this amount. The BBVA Group subscribed and paid in cash €4 thousand and delivered the remaining €0.76 million through a nonmonetary contribution of all the shares of Procesos Operativos, S.A. The inclusion of the BBVA Group in the stockholder structure of Atento N.V. reduced Telefónica, S.A.'s holding in the latter from 100% to 91.35%. Atento N.V. continued to be fully consolidated in the Telefónica Group and Procesos Operativos, S.A. was fully consolidated in the Telefónica Group for the first time.

In December 2003, the wholly-owned subsidiary Telefónica Consultora y Servicios, S.A. was absorbed by its parent company Telefónica Consultora de Proyectos, S.A. Subsequently, also in December, Telefónica Consultora de Proyectos, S.A., a wholly-owned subsidiary of Telefónica, S.A., was dissolved and liquidated. Consequently, both companies, which had been fully consolidated in the Telefónica Group, were excluded from consolidation.

Also, in December 2003, the following wholly-owned subsidiaries of the Telefónica Group were dissolved and liquidated: Urbana Ibérica, S.A., the U.S. company Telefónica North America, Inc. and the Dutch company Emergia Holding, N.V. All these companies, which had been fully consolidated in the Telefónica Group, were excluded from the scope of consolidation.

Telefónica Móviles Group

On April 25, 2003, Telesp Celular Participações, S.A. (TCP), which was 65.12%-owned by Brasilcel, N.V., acquired from the Brazilian company Fixcel (controlled by the Splice Group) 61.10% of the common voting stock of the Brazilian company Tele Centro Oeste Celular Participações, S.A. (TCO), representing 20.37% of the latter's total capital stock, for 1,505.5 million reais.

In October 2003, pursuant to Brazilian legislation, TCP launched a tender offer for TCO's remaining common voting stock held by minority stockholders. The acceptance period of the tender offer ended on November 18, 2003, and resulted in the acquisition by TCP of 74.23% of the shares at which the offer was targeted, which meant that together with the shares it already owned, TCP's holding in TCO amounted to 86.58% of the common shares (90.73% excluding the treasury stock owned by TCO) which represented 28.87% of its total capital stock (29.31% excluding the treasury stock). TCP paid 538.8 million reais for this additional ownership interest. TCP was consolidated in the consolidated financial statements of Brasilcel, which, in turn, were proportionally consolidated in the Telefónica Group.

Although TCP had announced its intention to perform an exchange of TCO's shares whereby it would become its sole stockholder, the exchange was cancelled on January 12, 2004, as a result of the opinion issued by the Brazilian Securities Market Commission (CVM) which, for the Board of Directors of TCP and TCO, made it advisable to cancel the process.

Telefónica Móviles, S.A. acquired a 20% holding in the Spanish company Telefónica Móviles Interacciona, S.A. (formerly Terra Mobile, S.A.) from Terra Networks, S.A.; following this

transaction, it was this company's sole stockholder. The Telefónica Group's effective holding in this company increased from 81.66% to 92.44% and it continued to be fully consolidated in the Telefónica Group. Subsequently, on June 24, 2003, Termespa, S.A. was merged by absorption into Telefónica Móviles Interacciona, S.A.

On July 29, 2003, Médi Telecom, S.A. increased capital. The Telefónica Móviles Group increased its percentage of ownership in this company, which continued to be accounted for by the equity method in the Telefónica Group's consolidated financial statements, from 31.34% to its current 32.18% by disbursing €21.23 million.

In September 2003, Telefónica Móviles, S.A. incorporated Telefónica Móviles Puerto Rico, Inc. with an initial capital stock of €40 thousand. This company was fully consolidated in the Telefónica Group.

On December 23, 2003, Telefónica Móviles España, S.A. and Mobilkom Austria Aktiengesellschaft & Co KG (Mobilkom) reached an agreement whereby the latter acquired all the shares of 3G Mobile Telecommunications GmbH, the Austrian subsidiary of Telefónica Móviles España which holds a UMTS license. The selling price of the company amounted to €13.65 million. The company, which had been fully consolidated in the Telefónica Group's consolidated financial statements in 2002, was excluded from consolidation.

Telefónica de Contenidos Group

Telefónica de Contenidos, S.A. sold all of the shares of the Spanish company Famosos, Artistas, Músicos y Actores, S.A.U. (FAMA), giving rise to a loss of €1.06 million for the Telefónica Group. This company, which had been fully consolidated in the Telefónica Group's consolidated financial statements in 2002, was excluded from the scope of consolidation.

The Dutch company Fieldy, B.V. and the U.S. company Líderes Entertainment Group, Inc. which were owned 51% and 49%, respectively, by Telefónica de Contenidos, were accounted for by the equity method in the Telefónica Group's consolidated financial statements on the basis of management criteria.

As part of the merger of DTS Distribuidora de Televisión Digital, S.A. (Vía Digital) and Sogecable, S.A., in the first half of 2003 Telefónica de Contenidos, S.A. acquired shares representing 12.63% of the capital stock of Distribuidora de Televisión Digital, S.A. (Vía Digital) for €165.6 million. Also, debentures amounting to €164.3 million were converted into shares and capital was subsequently increased by €949.84 million. As a result of these transactions, the holding of Telefónica de Contenidos in Vía Digital prior to its merger with Sogecable, S.A. was 96.64%.

On July 2, 2003, Telefónica de Contenidos, S.A. subscribed to the capital increase performed by Sogecable, S.A., by contributing the shares of Vía Digital owned by it. As a result of this transaction, the Telefónica Group acquired 28,008,149 shares in the capital increase, which represent a 22.228% holding in the capital stock of Sogecable. Vía Digital, which had been accounted for by the equity method in 2002, was excluded from consolidation. In October 2003, Telefónica, S.A. acquired 2,020,000 shares of Sogecable, S.A. for €41.91 million and, as a result, the Telefónica Group's holding

amounted to 23.83% of the capital stock. These transactions gave rise to consolidation goodwill of €607.23 million. Sogecable, S.A. was accounted for by the equity method in the Telefónica Group.

Also, as a result of the financing granted to Sogecable, S.A. in 2003 in the form of a subordinated loan (see Note 8), Telefónica de Contenidos was assigned 1,241,990 warrants on Sogecable shares for its participation in this loan. The "Other Investments" caption included the value of these warrants, amounting to €11.22 million.

On July 16, as part of the process to integrate the digital platforms, Gestora de Medios Audiovisuales Fútbol, S.L. sold its holding in 40% of the capital stock of Audiovisual Sport, S.L. to Gestión de Derechos Audiovisuales y Deportivos, S.A., a Sogecable Group company. The company, which had been accounted for by the equity method in the Telefónica Group, was excluded from the Group's consolidated financial statements.

On July 21 Telefónica de Contenidos, S.A. sold its 47.5% holding in Tick, Tack, Ticket, S.A. The holding was transferred in the same transaction as another holding of the same amount owned by Banco Bilbao Vizcaya Argentaria, S.A. The sale gave rise to a book loss of €0.13 million for the Telefónica Group.

On November 13, 2003, Telefónica de Contenidos, S.A. sold its holding in Euroleague Marketing, S.L. to Sogecable, S.A.

On December 22, 2003, the liquidation of Interocio Games, S.A., a 50%-owned investee of Telefónica de Contenidos, was formalized. This company, which in 2002 had been accounted for by the equity method in the Telefónica Group's consolidated financial statements, was excluded from the scope of consolidation.

T.P.I. Group

In January 2003, the TPI Group incorporated the Spanish company 11888 Servicio Consulta Telefónica, S.A. with an initial capital stock of €60.20 thousand. The company was fully consolidated in the Telefónica Group's consolidated financial statements.

In July 2003, the Brazilian company Telefónica Publicidade e Informação, Ltda., an investee of Telefónica Publicidad e Información, S.A. and Telefónica Internacional, S.A., simultaneously reduced and increased capital. Telefónica Publicidad e Información, S.A. subscribed and paid for all the securities in the capital increase and became the company's sole stockholder. The Telefónica Group diluted its effective holding in the company from 79.55% to 59.90%. The company continued to be fully consolidated in the Telefónica Group.

In September 2003, Buildnet, S.A. simultaneously reduced and increased capital, giving it a capital stock of €61 thousand, which was fully subscribed and paid by the subsidiary of Telefónica Publicidad e Información, S.A., Goodman Business Press, S.A. Through this transaction, the Telefónica Group's holding in this company increased from 58.46% to 59.90%. This company continued to be fully consolidated in the Telefónica Group.

Telefónica DataCorp Group

In October 2003, Telefónica DataCorp, S.A. acquired all the shares comprising Telefónica, S.A.'s 99.9% holding in the U.S. company Katalyx, Inc. This company continued to be fully consolidated in the Telefónica Group.

Also, in October Telefónica DataCorp, S.A. sold its 34% holding in Atlanet for €24.79 million, giving rise to a loss of €25.78 million. The company, which had been accounted for by the equity method in 2002, was excluded from the scope of consolidation.

The U.S. companies Katalyx Food Service, Llc., Katalyx Sip, Llc, Katalyx Cataloguing, Inc. and Katalyx Construction, Inc., which were all wholly-owned subsidiaries of Katalyx, Inc., were liquidated. These companies, which had been fully consolidated in the Telefónica Group in 2002, were excluded from the scope of consolidation.

Telefónica Data Colombia, S.A. increased its capital stock in May 2003 so as to include a new stockholder in its stockholder structure. Consequently, the Telefónica Group's holding in this company, which continued to be fully consolidated, decreased from 100% to 65%.

In June 2003, Telefónica Soluciones de Informática y Comunicaciones de España, S.A. (formerly Telefónica Sistemas, S.A.), a wholly-owned subsidiary of Telefónica Datacorp, S.A., acquired all the shares of the Spanish company Telefónica Mobile Solutions, S.A. from Telefónica Móviles, S.A. for €1.13 million. As a result of this transaction, the Telefónica Group's effective holding in this company, which continued to be fully consolidated in the Telefónica Group, increased from 92.43% to 100%.

In June Telefónica Data Argentina, S.A., a 97.92%-owned subsidiary of Telefónica Datacorp, S.A., acquired the 20% holding in the Argentine company Tyssa, Telecomunicaciones y Sistemas, S.A. owned by the Telefónica Internacional Group, as a result of which Telefónica Data Argentina gained control over all of Tyssa's shares. Following this transaction, the Telefónica Group's effective holding in this company decreased from 98.34% to 97.92%. Subsequently, in September 2003 Tyssa was absorbed by its parent company.

Terra Group

In December 2003, Terra Networks, S.A. acquired 26,525,732 shares owned by Citibank N.A., as the agent bank for the company's stock option plan assumed as a result of the acquisition of Lycos, Inc. Terra Networks, S.A. continued to guarantee the coverage of the employee stock option plan with the shares they held as treasury stock. As a result of this transaction, the Telefónica Group increased its effective percentage of ownership from 71.97% to 75.29% as of December 31, 2003. The company continued to be fully consolidated in the Telefónica Group.

The subsidiaries Terra Networks Uruguay, S.A. (wholly-owned by the Terra Group), Terra Global Management, Inc. (wholly-owned), Bumeran Participaciones, S.L. (84.2%-owned) and Emplaza, S.A. (80%-owned), which had been fully consolidated in the Telefónica Group in 2002, were excluded from the scope of consolidation. These companies were being liquidated or dissolved.

The Terra Group increased its holding in the capital stock of the U.S. company One Travel.com, Inc. by 15.08% to 54.15%, for which it disbursed €3.3 million. The company, which had been accounted for by the equity method in the Telefónica Group's consolidated financial statements in 2002, was fully consolidated from April 2003.

In January 2003, an agreement was entered into with BBVA to integrate Uno-e Bank, S.A. in the consumer finance line of business of Finanzia, Banco de Crédito, S.A. Subsequently, at the Special Stockholders' Meeting of Uno-e Bank, S.A. on April 23, 2003, Terra Networks, S.A. and BBVA approved a capital increase at Uno-e Bank, S.A., which was fully subscribed by Finanzia Banco de Crédito, S.A. (a wholly-owned investee of BBVA) through the nonmonetary contribution of its consumer finance line of business. As a result of the above-mentioned transaction, the holding of Terra Networks, S.A. in Uno-e Bank, S.A. decreased from 49% at 2002 year-end to 33%, and the bank was excluded from the scope of consolidation of the Telefónica Group.

Atento Group

On May 23, 2003, Atento Teleservicios España, S.A. subscribed and paid all the shares of the new company Atento Servicios Técnicos y Consultoría, S.L., comprising 3,006 shares of €1 par value each. This company was fully consolidated in the Telefónica Group.

On July 3, 2003, Atento Teleservicios España, S.A. subscribed and paid all the shares of the new company Servicios Integrales de Asistencia y Atención, S.L., comprising 3,006 shares of €1 par value each. This company was fully consolidated in the Telefónica Group.

Atento North America, Inc., a wholly-owned subsidiary of Atento Holding, Inc., was excluded from the Telefónica Group's scope of consolidation because it was liquidated on January 1, 2003.

On April 14, 2003, Atento Teleservicios España, S.A. absorbed its wholly-owned subsidiary Gestión de Servicios de Emergencia y Atención al Ciudadano, S.A., which was excluded from the scope of consolidation.

In June 2003, the Atento Group sold 70% of the shares of Atento Pasona, Inc. owned by it. This company, which had been fully consolidated in the Telefónica Group in 2002, was excluded from the scope of consolidation.

Atento Asia Pacific, Inc., which had been fully consolidated in the Telefónica Group in 2002, was excluded from the scope of consolidation because it was liquidated on October 21, 2003.

On December 1, 2003, Atento Teleservicios España, S.A. acquired all the shares of Leader Line, S.A., which was fully consolidated in the Telefónica Group.

Telefónica España Group

Continuing with the restructuring of its corporate group, Telefónica Cable, S.A., a wholly-owned subsidiary of Telefónica de España, S.A., absorbed the following local operators: Telefónica Cable Madrid, S.A., Telefónica Cable Ceuta, S.A., Telefónica Cable Melilla, S.A., Telefónica Cable Aragón, S.A., Telefónica Cable Catalunya, S.A., Telefónica

Cable Castilla y León, S.A., Telefónica Cable Euskadi, S.A., Telefónica Cable Cantabria, S.A., Telefónica Cable Murcia, S.A., Telefónica Cable Andalucía, S.A., Telefónica Cable La Rioja, S.A. and Telefónica Cable Navarra, S.A. All of these companies, which had been fully consolidated in the Telefónica Group, were excluded from the scope of consolidation in 2003.

With the acquisition of 17% of the capital stock of Telefónica Cable Extremadura, S.A. for €0.10 million, the Telefónica Group became the sole stockholder of this company, which continued to be fully consolidated in the Telefónica Group.

1.18% of the capital stock of Inmarsat Venture, plc., relating to an investment which had been recorded under the "Other Investments" caption, was sold for €14.12 million.

Telefónica Internacional Group

As a result of the retirement of treasury stock by the U.S. company Infonet Services Corporation in 2003, the Telefónica Internacional Group increased its holding in this company from 14.32% to 14.53%. This company continued to be accounted for by the equity method in the Telefónica Group's consolidated financial statements.

On September 1, 2003, Compañía de Telecomunicaciones de Chile S.A., a 43.64%-owned subsidiary of Telefónica Internacional, S.A., sold all the shares of Compañía de Telecomunicaciones de Chile S.A – Isapre, S.A. owned by it, giving rise to a loss of €0.29 million for the Telefónica Group. This company, which had been fully consolidated in the Telefónica Group's consolidated financial statements, was excluded from the scope of consolidation.

On July 29, 2003, Telefónica Empresas CTC Chile, S.A. was notified of the decision of Inversiones Santa Isabel Limitada to bring forward and exercise its purchase option on the remaining 35% of the capital stock of Sonda, S.A. This transaction gave rise to a loss of €11.14 million for the Telefónica Group. The company, which had been accounted for by the equity method in the Telefónica Group's consolidated financial statements, was excluded from the scope of consolidation.

EXHIBIT III
CONSOLIDATION GOODWILL

The detail of the balance of the consolidation goodwill and of the related accumulated amortization as of December 31, 2004 and 2003, and of the variations therein in 2004 and 2003 is as follows:

Millions of euros

Consolidation Goodwill	Balance at 12/31/03	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/04
Fully consolidated companies:						
C.T.C. (Chile)	68.99	9.13	(1.40)	0.40	(0.33)	76.79
T. Peru Holding (Peru)	50.41	-	-	-	-	50.41
Telefónica del Perú (Peru)	281.26	-	-	-	-	281.26
Telefónica Multimedia, S.A.C (Peru)	7.88	-	-	-	0.22	8.10
Telefónica Móvil de Chile, S.A (Chile)	264.59	-	-	(35.58)	-	229.01
Telesp Participações (Brazil)	106.52	33.14	-	(4.79)	(0.04)	134.83
T. Holding de Argentina y filiales (Argentina)	576.60	-	-	-	-	576.60
Cointel (Argentina)	484.29	-	-	-	-	484.29
TPI Edita (Spain)	8.29	-	-	-	-	8.29
Impresora y Comercial Publigráficas, S.A. (Chile)	-	42.22	-	-	-	42.22
Telefonica Internacional (Spain)	281.66	-	-	-	-	281.66
Telefonica Móviles (Spain)	128.02	6.10	-	-	-	134.12
T. Data España (Spain)	154.96	-	-	-	-	154.96
T. Data Brasil (Brazil)	132.93	-	-	(2.75)	1.14	131.32
T. Deutschland Gmbh y filiales (Alemania)	699.93	-	(101.51)	-	-	598.42
Fieldy Group (Netherlands)	1.46	-	-	-	-	1.46
Endemol (Netherlands)	842.19	11.40	-	-	-	853.59
Endemol Group (Netherlands)	511.69	45.13	-	(1.75)	0.59	555.66
Atco Group (Argentina)	375.00	-	-	-	(4.28)	370.72
Telefónica Media Argentina (Germany)	26.70	-	-	-	-	26.70
Atento Perú (Peru)	4.13	-	-	-	(0.58)	3.55
Atento Brasil (Brazil)	110.37	-	-	-	(7.93)	102.44
Terra Brasil Holding (Brazil)	231.41	-	-	-	0.01	231.42
Terra Chile Holding (Chile)	25.05	-	-	-	-	25.05
Ifigenia Plus (Spain)	4.72	-	-	-	-	4.72
Lycos (USA)	307.27	-	(220.27)	(87.00)	-	-
Sociedades Lycos (USA)	65.73	-	(67.31)	-	1.58	-
One Travel.com, Inc. (USA)	21.20	-	(8.89)	-	(0.05)	12.26
Terra Networks, S.A. (Spain)	75.77	1.81	-	-	-	77.58
Emergia Holding, N.V (Netherlands)	2.30	-	-	-	-	2.30
T.Centroamerica Guatemala (Guatemala)	50.23	-	-	-	(0.11)	50.12
Telefónica El Salvador (El Salvador)	66.76	-	-	-	(3.10)	63.66
Brasilcel and subsidiaries (Brazil)	760.73	111.68	-	(81.60)	4.25	795.06
Móviles México and subsidiaries (Mexico)	412.24	-	-	(1.83)	(4.82)	405.59
Telefonia Celular de Nicaragua	-	54.82	-	-	(2.83)	51.99
Telcel (Venezuela)	-	376.24	-	-	(11.47)	364.77
Otecel, S.A. (Ecuador)	-	397.44	-	-	-	397.44
Olympic, Ltda. (Colombia)	-	501.85	-	-	20.59	522.44
Telefónica Móviles Panamá (Panama)	-	252.18	-	-	-	252.18
Comunicaciones Móviles de Perú, S.A. (Peru)	-	4.46	-	-	(0.24)	4.22
Bellsouth Guatemala y Cia.	-	12.79	-	-	-	12.79
T. Móviles Uruguay S.A. (Uruguay)	-	3.91	-	-	(0.18)	3.73
Other companies	8.43	-	(0.92)	(0.07)	-	7.44
Total	7,149.71	1,864.30	(400.30)	(214.97)	(7.58)	8,391.16

Millions of euros

Consolidation Goodwill	Balance at 12/31/03	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/04
Companies accounted for by the equity method						
Venworld (Venezuela)	134.21	-	-	(134.21)	-	-
Mercador (Brazil)	4.62	-	-	-	-	4.62
Portugal Telecom (Portugal)	232.35	344.52	-	-	-	576.87
Amper (Spain)	5.59	-	-	-	-	5.59
Pearson (U.K.)	293.52	-	(293.52)	-	-	-
Patagonik (Argentina)	7.31	-	-	-	-	7.31
Sogecable, S.A. (Spain)	607.23	22.73	-	-	-	629.96
Medi Telecom., S.A. (Morocco)	10.56	-	-	-	-	10.56
Other companies	-	-	-	-	-	-
Total	1,295.39	367.25	(293.52)	(134.21)	-	1,234.91
Total consolidation goodwill	8,445.10	2,231.55	(693.82)	(349.18)	(7.58)	9,626.07

<i>Millions of euros</i>						
Amortization of Consolidation Goodwill	Balance at 12/31/03	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/04
Fully consolidated companies						
C.T.C. (Chile)	38.24	3.25	-	0.40	(0.05)	41.84
T. Peru Holding (Peru)	7.10	2.50	-	-	-	9.60
Telefónica del Perú (Peru)	55.90	14.23	-	-	-	70.13
Telefónica Multimedia, S.A.C (Peru)	4.13	0.89	-	-	0.17	5.19
Telefónica Móvil de Chile, S.A (Chile)	81.41	14.22	-	(89.74)	-	5.89
Telesp Participações (Brazil)	20.32	5.43	-	-	-	25.75
T. Holding de Argentina y filiales (Argentina)	86.45	28.83	-	-	-	115.28
Cointel (Argentina)	210.47	21.66	-	-	-	232.13
TPI Edita (Spain)	1.48	2.18	-	-	-	3.66
Impresora y Comercial Publiguías, S.A. (Chile)	-	1.64	-	-	-	1.64
Telefonica Internacional (Spain)	86.48	14.03	-	-	-	100.51
Telefonica Móviles (Spain)	16.40	6.45	-	-	-	22.85
T. Data España (Spain)	113.21	2.98	-	-	-	116.19
T. Data Brasil (Brazil)	18.83	6.54	-	(3.03)	0.37	22.71
T. Deutschland Gmbh y filiales (Germany)	160.41	39.20	-	-	-	199.61
Fieldy Group (Netherlands)	1.46	-	-	-	-	1.46
Endemol (Netherlands)	143.61	42.80	-	-	-	186.41
Endemol Group (Netherlands)	61.11	29.14	-	(0.65)	0.03	89.63
Atco Group (Argentina)	321.84	3.99	-	-	-	325.83
Telefónica Media Argentina (Argentina)	5.04	1.33	-	-	-	6.37
Atento Perú (Peru)	0.88	0.21	-	-	(0.16)	0.93
Atento Brasil (Brazil)	21.22	5.61	-	-	(2.01)	24.82
Terra Brasil Holding (Brazil)	139.09	17.90	-	-	-	156.99
Terra Chile Holding (Chile)	15.77	2.19	-	-	-	17.96
Ifigenia Plus (Spain)	4.72	-	-	-	-	4.72
Lycos (USA)	252.61	6.00	(352.42)	93.81	-	-
Sociedades Lycos (USA)	42.45	3.60	(45.94)	-	(0.11)	-
One Travel.com, Inc. (USA)	5.62	2.14	-	-	-	7.76
Terra Networks, S.A. (Spain)	15.21	6.62	-	-	-	21.83
Emergia Holding, N.V (Netherlands)	0.30	0.11	-	-	-	0.41
T.Centroamerica Guatemala (Guatemala)	6.11	2.78	-	-	(0.08)	8.81
Telefónica El Salvador (El Salvador)	12.37	3.40	-	-	(0.90)	14.87
Brasilcel and subsidiaries (Brazil)	72.25	43.36	-	-	0.43	116.04
Móviles México and subsidiaries(Mexico)	78.77	20.98	-	(1.84)	(2.43)	95.48
Telefonía Celular de Nicaragua	-	0.46	-	-	-	0.46
Telcel (Venezuela)	-	3.14	-	-	-	3.14
Otecel, S.A. (Ecuador)	-	3.31	-	-	-	3.31
Olympic, Ltda. (Colombia)	-	4.18	-	-	-	4.18
Telefónica Móviles Panamá (Panama)	-	2.10	-	-	-	2.10
Comunicaciones Móviles de Perú, S.A. (Peru)	-	0.04	-	-	-	0.04
Bellsouth Guatemala y Cía.	-	0.10	-	-	-	0.10
T. Móviles Uruguay S.A. (Uruguay)	-	0.02	-	-	-	0.02
Other companies	3.18	0.45	(0.07)	-	-	3.56
Total	2,104.44	369.99	(398.43)	(1.05)	(4.74)	2,070.21

Millions of euros

Amortization of Consolidation Goodwill	Balance at 12/31/03	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/04
Companies accounted for by the equity method						
Venworld (Venezuela)	105.30	-	-	(105.30)	-	-
Mercador (Brazil)	4.51	0.10	-	-	0.01	4.62
Portugal Telecom. (Portugal)	64.26	21.32	-	-	-	85.58
Amper (Spain)	1.50	0.28	-	-	-	1.78
Pearson (U.K.)	94.65	9.38	(104.03)	-	-	-
Patagonik (Argentina)	1.47	0.36	5.48	-	-	7.31
Sogecable, S.A. (Spain)	14.76	31.56	-	-	-	46.32
Medi Telecom., S.A. (Morocco)	0.37	0.53	-	-	-	0.90
Other companies	(0.03)	0.01	-	0.02	(0.01)	(0.01)
Total	286.79	63.54	(98.55)	(105.28)	-	146.50
Total accumulated amortization	2,391.23	433.53	(496.98)	(106.33)	(4.74)	2,216.71
Unamortized consolidation goodwill	6,053.87	1,798.02	(196.84)	(242.85)	(2.84)	7,409.36

<i>Millions of euros</i>						
Consolidation goodwill	Balance at 12/31/02	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/03
Fully consolidated companies						
C.T.C. (Chile)	97.07	-	(27.82)	0.54	(0.80)	68.99
T. de Argentina y filiales (Argentina)	581.51	-	-	(4.69)	(0.22)	576.60
T. Peru Holding (Peru)	50.41	-	-	-	-	50.41
Telefónica del Perú (Peru)	281.26	-	-	-	-	281.26
Telefónica Multimedia S.A.C (Peru)	9.17	-	-	-	(1.29)	7.88
Telefónica Móviles Chile, S.A (Chile)	267.45	-	-	(6.57)	3.71	264.59
Telesp Participações (Brazil)	106.52	-	-	-	-	106.52
Cointel (Argentina)	484.29	-	-	-	-	484.29
Goodman (Spain)	8.29	-	-	-	-	8.29
Telefonica Internacional (Spain)	281.66	-	-	-	-	281.66
Telefonica Móviles (Spain)	125.84	2.18	-	-	-	128.02
T. Data España (Spain)	154.96	-	-	-	-	154.96
T. Data Brasil (Brazil)	127.78	9.23	-	-	(4.08)	132.93
Mediaways (Germany)	689.11	-	-	-	-	689.11
Telefónica Deutschland Gmbh (Germany)	10.82	-	-	-	-	10.82
Fieldy Group (Netherlands)	8.09	-	(6.63)	-	-	1.46
Endemol (Netherlands)	833.04	9.15	-	-	-	842.19
Endemol Group (Netherlands)	379.12	128.54	9.42	-	(5.39)	511.69
Atco Group (Argentina)	377.24	-	-	-	(2.24)	375.00
Telefónica Media Argentina (Argentina)	26.70	-	-	-	-	26.70
Atento Perú (Peru)	5.76	-	-	-	(1.63)	4.13
Atento Brasil (Brazil)	132.66	-	-	-	(22.29)	110.37
Terra Brasil Holding (Brazil)	232.50	-	-	(1.32)	0.23	231.41
Terra Chile Holding (Chile)	25.05	-	-	-	-	25.05
Ifigenia Plus (Spain)	11.17	-	(6.45)	-	-	4.72
Lycos (USA)	309.49	-	(2.22)	-	-	307.27
Sociedades Lycos (USA)	286.55	-	-	(207.39)	(13.43)	65.73
One Travel.com, Inc. (USA)	-	3.73	-	17.37	0.10	21.20
Terra Networks, S.A. (Spain)	17.20	58.57	-	-	-	75.77
Emergia Holding, N.V (Netherlands)	2.30	-	-	-	-	2.30
T.Centroamerica Guatemala (Guatemala)	50.89	-	-	-	(0.66)	50.23
Telefónica El Salvador (El Salvador)	75.46	-	-	-	(8.70)	66.76
Brasilcel and subsidiaries (Brazil)	512.34	246.50	-	-	1.89	760.73
Móviles México and subsidiaries (Mexico)	1,037.16	-	(18.98)	(552.54)	(53.40)	412.24
Other companies	8.92	0.79	(0.26)	(1.02)	-	8.43
Total	7,607.78	458.69	(52.94)	(755.62)	(108.20)	7,149.71

Millions of euros

Consolidation Goodwill	Balance at 12/31/02	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/03
Companies accounted for by the equity method						
Venworld (Venezuela)	134.21	-	-	-	-	134.21
Mercador (Brazil)	4.62	-	-	-	-	4.62
Portugal Telecom (Portugal)	218.87	-	-	13.48	-	232.35
Amper (España)	5.59	-	-	-	-	5.59
Dts D ^a Tv Digital (Spain)	88.11	-	(88.11)	-	-	-
Antena 3 (Spain)	209.48	63.91	(273.39)	-	-	-
Sociedades Dependientes de Antena 3 T.V., S.A.	-	-	-	-	-	-
Pearson (UK)	292.99	0.53	-	-	-	293.52
Patagonik (Argentina)	7.31	-	-	-	-	7.31
Sogecable, S.A. (Spain)	-	607.23	-	-	-	607.23
Uno-e Bank (Spain)	130.25	-	-	(130.25)	-	-
One Travel (USA)	17.37	-	-	(17.37)	-	-
Meditel (Morocco)	5.10	5.46	-	-	-	10.56
Other companies	6.01	-	-	(6.01)	-	-
Total	1,119.91	677.13	(361.50)	(140.15)	-	1,295.39
Total consolidation goodwill	8,727.69	1,135.82	(414.44)	(895.77)	(108.20)	8,445.10

<i>Millions of euros</i>						
Amortization of consolidation goodwill	Balance at 12/31/02	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/03
Fully consolidated companies						
C.T.C. (Chile)	48.70	5.75	(16.55)	0.54	(0.20)	38.24
T. de Argentina y filiales (Argentina)	61.25	28.83	-	(3.46)	(0.17)	86.45
T. Peru Holding (Peru)	4.61	2.49	-	-	-	7.10
Telefónica del Perú (Peru)	41.67	14.23	-	-	-	55.90
Telefónica Multimedia. S.A.C (Peru)	3.92	0.85	-	-	(0.64)	4.13
Telefónica Móviles Chile, S.A (Chile)	73.10	14.70	-	(5.71)	(0.68)	81.41
Telesp Participações (Brazil)	14.89	5.43	-	-	-	20.32
Cointel (Argentina)	188.80	21.67	-	-	-	210.47
Goodman (Spain)	1.06	0.42	-	-	-	1.48
Telefonica Internacional (Spain)	72.46	14.02	-	-	-	86.48
Telefonica Móviles (Spain)	10.00	6.40	-	-	-	16.40
T. Data España (España)	110.23	2.98	-	-	-	113.21
T. Data Brasil (Brazil)	13.82	7.10	-	-	(2.09)	18.83
Mediaways (Germany)	120.71	38.66	-	-	-	159.37
Telefónica Deutschland Gmbh (Germany)	0.50	0.54	-	-	-	1.04
Fieldy Group(Netherlands)	2.01	-	(0.55)	-	-	1.46
Endemol (Netherlands)	100.43	43.18	-	-	-	143.61
Endemol Group(Netherlands)	36.95	24.78	(0.62)	-	-	61.11
Atco Group(Argentina)	317.46	4.38	-	-	-	321.84
Telefónica Media Argentina (Argentina)	3.71	1.33	-	-	-	5.04
Atento Perú (Peru)	0.94	0.25	-	-	(0.31)	0.88
Atento Brasil (Brasil)	18.86	6.17	-	-	(3.81)	21.22
Terra Brasil Holding (Brazil)	120.97	18.36	-	(0.24)	-	139.09
Terra Chile Holding (Chile)	13.57	2.20	-	-	-	15.77
Ifigenia Plus (Spain)	3.73	0.99	-	-	-	4.72
Lycos (USA)	244.47	8.12	-	-	0.02	252.61
Sociedades Lycos (USA)	252.91	5.21	-	(207.39)	(8.28)	42.45
One Travel.com, Inc. (USA)	-	2.04	-	3.58	-	5.62
Terra Networks, S.A. (Spain)	12.05	3.16	-	-	-	15.21
Emergia Holding, N.V (Holanda)	0.18	0.12	-	-	-	0.30
T.Centroamerica Guatemala (Guatemala)	3.57	2.81	-	-	(0.27)	6.11
Telefónica El Salvador (El Salvador)	10.56	3.61	-	-	(1.80)	12.37
Brasilcel and subsidiaries (Brazil)	28.95	43.62	-	-	(0.32)	72.25
Móviles México and subsidiaries (Mexico)	88.94	50.39	-	(47.49)	(13.07)	78.77
Other Companies	2.63	0.55	0.01	-	(0.01)	3.18
Total	2,028.61	385.34	(17.71)	(260.17)	(31.63)	2,104.44

Millions of euros

Amortization of consolidation goodwill	Balance at 12/31/02	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/03
Companies accounted for by the equity method						
Venworld (Venezuela)	101.17	4.13	-	-	-	105.30
Mercador (Brazil)	3.56	0.88	-	-	0.07	4.51
Portugal Telecom (Portugal)	52.89	11.37	-	-	-	64.26
Amper (Spain)	1.22	0.28	-	-	-	1.50
Dts D ^a Tv Digital (Spain)	16.64	2.20	(18.84)	-	-	-
Antena 3 (Spain)	49.84	5.96	(55.80)	-	-	-
Sociedades Dependientes de Antena 3 T.V.S.A	-	3.60	(3.60)	-	-	-
Pearson (UK)	81.72	12.93	-	-	-	94.65
Patagonik (Argentina)	1.10	0.37	-	-	-	1.47
Sogecable, S.A. (Spain)	-	14.76	-	-	-	14.76
Uno-e Bank (Spain)	17.37	1.93	-	(19.30)	-	-
One Travel (USA)	3.58	-	-	(3.58)	-	-
Meditel (Morocco)	-	0.37	-	-	-	0.37
Other companies	5.97	(0.01)	-	(5.99)	-	(0.03)
Total	335.06	58.77	(78.24)	(28.87)	0.07	286.79
Total accumulated amortization	2,363.67	444.11	(95.95)	(289.04)	(31.56)	2,391.23
Unamortized consolidation goodwill	6,364.02	691.71	(318.49)	(606.73)	(76.64)	6,053.87

EXHIBIT IV
MINORITY INTERESTS

This caption relates to the equity of minority stockholders in the net worth and results for the year of the fully consolidated Group companies.

As of December 31, 2004, the balance of this caption comprised the holdings of minority stockholders in the following companies:

Millions of euros

Company	% of Ownership	Net Worth	Translation Differences	Income (Loss)	Variation in Ownership Interest	Balance at 12/31/04
Terra Networks, S.A.	23.20%	357.04	(15.95)	38.03	-	379.12
C.T.C., S.A.	55.11%	284.55	71.90	39.77	193.29	589.51
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	30.00%	10.37	-	2.40	-	12.77
Telefónica Argentina S.A.	1.97%	(3.59)	0.20	3.39	-	-
Telefónica del Perú, S.A.	1.81%	12.11	(0.05)	0.56	-	12.62
Telefónica Larga Distancia, Inc	2.00%	1.29	-	0.04	-	1.33
Telefónica Publicidad e Información, S.A.	40.10%	49.38	(1.56)	44.86	-	92.68
Telesp Participações, S.A.	12.51%	306.70	0.83	87.65	-	395.18
Telefónica Móviles, S.A.	7.54%	334.66	(101.37)	108.91	-	342.20
Group 3G UMTS Holding, GmbH (Note 14)	42.80%	(382.44)	-	-	-	(382.44)
Telefónica Móviles Argentina, S.A.	2.07%	(9.72)	1.01	(1.49)	-	(10.20)
Telefónica Finance USA	100.00%	1,916.31	-	83.69	-	2,000.00
Brasilcel (Holdings)	50.00%	373.82	4.78	36.26	(106.84)	308.02
Telefónica Móviles México, S.A.	8.00%	71.93	0.65	(52.77)	-	19.81
Other companies		14.73	3.63	(10.29)	6.91	14.98
Total		3,337.14	(35.93)	381.01	93.36	3,775.58

As of December 31, 2003, the balance of this caption comprised the holdings of minority stockholders in the following companies:

Millions of euros

Company	% of Ownership	Net Worth	Translation Differences	Income (Loss)	Variation in Ownership Interest	Balance at 12/31/03
Terra Networks, S.A.	24.71%	782.50	(98.83)	(85.37)	42.75	641.05
C.T.C., S.A.	56.36%	754.67	54.28	30.87	-	839.82
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	30.00%	9.24	-	2.27	-	11.51
Lola Films, S.A.	30.00%	9.11	-	(1.51)	-	7.60
Impresora y Comercial Publiguias, S.A.	49.00%	17.72	(4.19)	6.54	-	20.07
Telefónica Argentina S.A.	1.97%	0.06	(2.44)	(2.79)	-	(5.17)
Telefónica del Perú, S.A.	2.79%	22.43	(0.03)	0.18	-	22.58
Telefónica Larga Distancia, Inc	2.00%	1.52	0.02	(0.14)	-	1.40
Telefónica Publicidad e Información, S.A.	40.10%	49.47	(1.12)	36.02	-	84.37
Telesp Participações, S.A.	12.51%	338.06	(2.87)	75.87	-	411.06
Telefónica Móviles, S.A.	7.56%	274.27	(90.36)	121.55	-	305.46
Group 3G UMTS Holding, GmbH (Note 14)	42.80%	(382.44)	-	-	-	(382.44)
Telefónica Móviles Argentina, S.A.	2.07%	(11.71)	0.35	1.65	-	(9.71)
Telefónica Finance USA	100.00%	1,916.31	-	83.69	-	2,000.00
Brasilcel (Holding)	50.00%	383.81	2.63	21.88	(20.34)	387.98
Telefónica Móviles México, S.A.	8.00%	133.27	(20.59)	(42.40)	-	70.28
Other companies	-	41.59	(11.98)	(2.82)	(6.43)	20.36
Total		4,339.88	(175.13)	245.49	15.98	4,426.22

Variations in minority interests

The variations in minority interests in 2004 were as follows:

Company	Balance at 12/31/03	Capital Contributions and Inclusion of Companies	Income (Loss) the Year	Variation in Translation Differences	Other Variations	Acquisitions and Exclusion of Companies	Dividend Paid	Balance at 12/31/04
C.T.C., S.A.	839.82	192.81	39.77	13.01	21.48	-	(517.38)	589.51
Terra Networks, S.A.	641.05	(41.15)	38.03	0.67	0.81	-	(260.29)	379.12
Fonditel.	11.51	-	2.40	-	(1.14)	-	-	12.77
Lola Films, S.A.	7.60	-	(0.59)	-	(0.65)	(6.36)	-	-
Impresora y Comercial Publigráficas, S.A.	20.07	(19.67)	(0.52)	0.12	-	-	-	-
Telefónica de Argentina, S.A.	(5.17)	-	3.39	(0.42)	2.20	-	-	-
Telefónica del Perú, S.A.	22.58	-	0.56	(7.28)	-	(3.24)	-	12.62
Telefonica del Salvador, S.A.	2.43	0.05	(1.42)	(0.06)	-	-	-	1.00
Telefónica Larga Distancia Inc.	1.40	-	0.04	(0.11)	-	-	-	1.33
Telefónica Publicidad e Información, S.A.	84.37	-	44.86	(0.43)	0.80	-	(36.92)	92.68
Telesp Participações, S.A.	411.06	-	87.65	1.63	-	-	(105.16)	395.18
Telefónica Móviles, S.A.	305.46	-	108.91	(11.57)	(0.56)	-	(60.04)	342.20
Group 3G UMTS Holding, GmbH (Note 1) (382.44)	-	-	-	-	-	-	-	(382.44)
Endemol Entertainment Holding, N.V.	6.28	1.31	5.65	-	(0.51)	(0.40)	(6.51)	5.82
Telefónica Móviles Argentina, S.A.	(9.71)	-	(1.49)	1.00	-	-	-	(10.20)
Telefónica Centroamerica Guatemala, S.A.	0.09	-	-	-	-	-	-	0.09
Movitel del Noroeste, S.A.	1.64	-	(2.13)	0.13	-	-	-	(0.36)
Telefónica Finance USA	2,000.00	-	83.69	-	-	-	(83.69)	2,000.00
Telefónica Móviles México, S.A.	70.28	-	(52.77)	2.30	-	-	-	19.81
Brasilcel Participaciones	387.98	(108.23)	36.26	4.79	-	-	(12.78)	308.02
Other companies	9.92	0.34	(11.28)	(0.42)	10.07	-	(0.20)	8.43
Total	4,426.22	25.46	381.01	3.36	32.50	(10.00)	(1,082.97)	3,775.58

The variations in minority interests in 2003 were as follows:

Company	Balance at 12/31/02	Capital Contributions and Inclusion of Companies	Income (Loss) the Year	Variation in Translation Differences	Other Variations	Acquisitions and Exclusion of Companies	Dividend Paid	Balance at 12/31/03
C.T.C., S.A.	798.19	-	30.87	6.73	15.84	-	(11.81)	839.82
Terra Networks, S.A.	1,954.21	-	(85.37)	(16.15)	(4.22)	(1,207.42)	-	641.05
Fonditel.	10.24	-	2.27	-	(1.00)	-	-	11.51
Lola Films, S.A.	3.24	6.00	(1.51)	-	(0.13)	-	-	7.60
Impresora y Comercial Publiguias, S.A.	16.29	-	6.54	(0.32)	0.01	-	(2.45)	20.07
Telefónica de Argentina, S.A.	(1.85)	-	(2.79)	(0.53)	-	-	-	(5.17)
Telefónica del Perú, S.A.	18.49	-	0.18	(3.86)	8.88	-	(1.11)	22.58
Telefonica del Salvador, S.A.	4.24	-	(1.06)	(0.61)	-	-	(0.14)	2.43
Telefónica Larga Distancia Inc.	1.83	-	(0.14)	(0.29)	-	-	-	1.40
Telefónica Publicidad e Información, S.A.	70.25	-	36.02	(6.98)	1.14	-	(16.06)	84.37
Telesp Participações, S.A.	481.12	-	75.87	(16.66)	1.73	-	(131.00)	411.06
Telefónica Móviles, S.A.	238.93	-	121.55	(4.33)	6.60	-	(57.29)	305.46
Group 3G UMTS Holding, GmbH(Note 1) (382.44)	-	-	-	-	-	-	-	(382.44)
Endemol Entertainment Holding, N.V.	1.97	4.12	1.74	(0.05)	(0.52)	-	(0.98)	6.28
Telefónica Móviles Argentina, S.A.	(11.72)	-	1.65	0.35	0.01	-	-	(9.71)
Telefónica Centroamerica Guatemala, S.A.	0.12	-	(0.01)	(0.02)	-	-	-	0.09
Movitel del Noroeste, S.A.	(0.30)	-	(1.47)	(0.64)	4.05	-	-	1.64
Telefónica Finance USA	2,000.00	-	83.69	-	0.46	-	(84.15)	2,000.00
Telefónica Móviles México, S.A.	133.25	-	(42.40)	(20.59)	0.02	-	-	70.28
Brasilcel Participaciones	252.05	142.06	21.88	2.63	(25.97)	-	(4.67)	387.98
Antena 3 Televisión, S.A.	-	240.38	4.01	-	-	(244.39)	-	-
Other companies	24.82	3.50	(6.03)	0.45	(12.42)	(0.40)	-	9.92
Total	5,612.93	396.06	245.49	(60.87)	(5.52)	(1,452.21)	(309.66)	4,426.22

EXHIBIT V
DEBENTURES AND BONDS

The detail of the debentures and bonds outstanding as of December 31, 2004, and of the main features thereof is as follows (in millions of euros):

Telefónica and instrumentality Companies	Currency	Interest Rate (%)	Maturity						Subsequent Years	Total
			2005	2006	2007	2008	2009	 		
Debentures and bonds:										
FEBRUARY 1990 SERIES B	Euros	12.60	8.22	-	-	-	-	-	-	8.22
FEBRUARY 1990 SERIES C	Euros	12.60	-	-	-	-	-	-	3.76	3.76
FEBRUARY 1990 SERIES E	Euros	12.85	75.39	-	-	-	-	-	-	75.39
FEBRUARY 1990 SERIES F	Euros	12.58	-	-	-	-	-	-	8.15	8.15
DICIEMBRE 1990	Euros	13.58	715.45	-	-	-	-	-	-	715.45
APRIL 1999	Euros	4.50	-	-	-	-	500.00	-	500.00	
JUNE 1999	Euros	3.02	-	-	-	-	300.00	-	300.00	
JULY 1999 zero-coupon	Euros	6.37	-	-	-	-	-	-	42.00	42.00
MARCH 2000	Euros	5.19(*)	-	-	-	-	-	-	50.00	50.00
APRIL 2000	Euros	5.63	-	-	500.00	-	-	-	-	500.00
Debentures subtotal			799.06	-	500.00	-	800.00	103.91	2,202.97	
MARCH 1998	Euros	4.84	-	-	-	-	420.71	-	-	420.71
GLOBAL BOND	USD	7.35	917.70	-	-	-	-	-	-	917.70
GLOBAL BOND	USD	7.75	-	-	-	-	-	-	1,835.40	1,835.40
GLOBAL BOND	USD	8.25	-	-	-	-	-	-	917.70	917.70
GLOBAL BOND	Euros	6.13	1,000.00	-	-	-	-	-	-	1,000.00
EMTN ISSUE	Euros	5.13	-	1,000.00	-	-	-	-	-	1,000.00
EMTN ISSUE	Euros	0.15	50.00	-	-	-	-	-	-	50.00
EMTN ISSUE	Euros	Eonia+0.47	100.00	-	-	-	-	-	-	100.00
EMTN ISSUE (Tranche A)	Euros	5.13	-	-	-	-	-	-	1,500.00	1,500.00
EMTN ISSUE (Tranche B)	Euros	5.88	-	-	-	-	-	-	500.00	500.00
EMTN ISSUE	Euros	BNPEONIA01+0.23	100.00	-	-	-	-	-	-	100.00
EMTN ISSUE	Euros	3m Euribor+0.14	100.00	-	-	-	-	-	-	100.00
EMTN ISSUE	Euros	Eonia OIS+0.17	50.00	-	-	-	-	-	-	50.00
EMTN ISSUE	Euros	3m Euribor+0.18	-	100.00	-	-	-	-	-	100.00
EMTN ISSUE	Euros	3mEuribor+ 0.18	-	200.00	-	-	-	-	-	200.00
Total issues			2,317.70	1,300.00	-	420.71	-	4,753.10	8,791.51	
Total issues			3,116.76	1,300.00	500.00	420.71	800.00	4,857.01	10,994.48	

(*)The interest rate used (which is floating and set annually) is that of a 10-year pound sterling interest rate swap multiplied by 1.0225.

Foreign operators	Currency	Interest Rate (%)	Maturity					Subsequent Years	Total
			2005	2006	2007	2008	2009		
Debentures and Bonds									
Yankee Bonds	USD	7.63	-	36.42	-	-	-	-	36.42
Yankee Bonds	USD	8.38	-	114.84	-	-	-	-	114.84
Series F	UF	6.00	1.63	1.63	1.63	1.63	1.63	10.96	19.11
Series K 1998	UF	6.75	91.26	-	-	-	-	-	91.26
CTC CHILE		92.89	152.89	1.63	1.63	1.63	1.63	10.96	261.63
Bonds 1st Program T. Perú (1)	N.Sol	VAC+6.94	-	25.29	-	-	-	-	25.29
Bonds 1st Program T. Perú (2)	N.Sol	VAC+7.00	-	-	-	-	11.00	-	11.00
Bonds 2nd Program T. Perú (3)	N.Sol	VAC+6.19	-	23.99	-	-	-	-	23.99
Bonds 2nd Program T. Perú (5)	N.Sol	VAC+6.25	-	-	2.92	-	-	-	2.92
Bonds 5nd Program T. Perú (7 -Series A)	USD	4.38	28.64	-	-	-	-	-	28.64
Bonds 2nd Program T. Perú (7 -Series B)	USD	4.00	8.03	-	-	-	-	-	8.03
Bonds 2nd Program T. Perú (8 -Series A)	N.Sol	6.50	16.78	-	-	-	-	-	16.78
Bonds 2nd Program T. Perú (8 -Series B)	N.Sol	6.19	3.36	-	-	-	-	-	3.36
Bonds 2nd Program T. Perú (9)	USD	2.44	16.67	-	-	-	-	-	16.67
Bonds 3rd Program T. Perú (1)	N.Sol	VAC+5.00	-	-	-	-	-	11.66	11.66
Bonds 3rd Program T. Perú (2 – Series A)	N.Sol	5.31	-	-	6.71	-	-	-	6.71
Bonds 3rd Program T. Perú (3)	N.Sol	8.13	-	-	6.71	-	-	-	6.71
6th Issue T. Perú Bonds	N.Sol	5.19	15.66	-	-	-	-	-	15.66
7th Issue T. Perú Bonds	N.Sol	7.94	-	-	-	14.14	-	-	14.14
8th Issue T. Perú Bonds	USD	3.81	-	-	-	-	12.37	-	12.37
9th Issue T. Perú Bonds	USD	3.13	-	-	15.52	-	-	-	15.52
Telefónica del Perú		89.14	49.28	31.86	14.14	23.37	11.66	219.45	
Marketable debentures	USD	9.13	-	-	-	92.24	-	-	92.24
Marketable debentures	USD	9.88	-	52.40	-	-	-	-	52.40
Marketable debentures	USD	11.88	-	-	136.96	2.32	-	-	139.28
Marketable debentures	USD	9.13	-	-	-	-	-	156.03	156.03
Marketable debentures	ARS	10.38	-	-	-	-	-	0.02	0.02
Marketable debentures	USD	8.85	-	-	-	-	-	98.85	98.85
Marketable debentures	ARS	8.05	38.60	-	-	-	-	-	38.60
Marketable debentures	ARS	8.25	31.88	-	-	-	-	-	31.88
Marketable debentures	ARS	BADLAR+2.4(*)	-	16.06	-	-	-	-	16.06
TASA		70.48	68.46	136.96	94.56	-	254.90	625.36	
Marketable debentures	USD	9.75	-	-	5.54	-	-	-	5.54
Telefónica Holding Argentina		-	-	5.54	-	-	-	5.54	
Non-convertible bonds	BRL	103.5% CDI	-	-	-	414.87	-	-	414.87
TELESP		-	-	-	414.87	-	-	414.87	
Non-convertible bonds	BRL	104.4% CDI	-	-	-	69.14	-	-	69.14
Brasilcel		-	-	-	69.14	-	-	69.14	
Total issues	-	-	252.51	270.63	175.99	594.34	25.00	277.52	1,595.99
Consolidation adjustments	-	-	(18.32)	-	-	-	-	-	18.32)
Tota Group issues	-	-	3,350.95	1,570.63	675.99	1,015.05	825.00	5,134.53	12,572.15
The detail of the maturities and redemption values of the zero-coupon bonds and debentures as of December 31, 2004, is as follows (in millions of euros):									
Zero-coupon Bonds and Debentures (Issue value + Accrued Interest at 12/31/04)			Redemption Date	Redemption	Book Value	Redemption			
FEBRUARY 1990 SERIES E			02/26/05	613.214%	75.39	76.79			
FEBRUARY 1990 SERIES F			02/26/10	1,071.719%	8.15	15.04			
DECEMBER 1990			12/28/05	675.000%	715.45	811.37			
JULY 1999			07/21/29	637.634%	42.00	191.29			
Total issues					840.99	1,094.49			

EXHIBIT VI

The detail, by type of derivative, of the notional values of the derivatives arranged by the Group as of December 31, 2004, is as follows:

<i>Millions</i>	Group Receives			Group Pays	
Type of Risk	Equivalent	Value	Currency	Value	Currency
Euro interest rate swaps	13,788.03				
-from fixed to floating	2,184.34	2,184.34	EUR	2,184.34	EUR
-from floating to fixed	10,276.17	10,276.17	EUR	10,276.17	EUR
-from floating to floating	1,327.52	1,327.52	EUR	1,327.52	EUR
Cross-currency swaps	2,639.35				
-from fixed to floating	1,234.86				
USD/USD	1,234.86	1,682.00	USD	1,682.00	USD
-from floating to fixed	1,404.49				
USD/USD	815.53	1,110.84	USD	1,110.84	USD
BRL/BRL	398.14	2,240.00	BRL	1,439.50	BRL
MXN/MXN	190.82	2,927.89	MXN	2,927.89	MXN
Currency swaps	8,414.03				
-from fixed to fixed	2,944.23				
EUR/CLP	265.86	267.27	EUR	201,848.65	CLP
EUR/USD	96.12	125.13	EUR	130.92	USD
JPY/USD	47.48	6,741.65	JPY	64.67	USD
USD/EUR	2,519.25	2,334.85	USD	2,519.26	EUR
USD/PEN	15.52	20.00	USD	69.39	PEN
-from fixed to floating	1,289.47				
EUR/USD	27.17	30.60	EUR	37.01	USD
EUR/BRL	16.86	16.56	EUR	60.95	BRL
EUR/CLP	16.09	16.49	EUR	12,217.00	CLP
JPY/BRL	94.04	12,573.05	JPY	340.00	BRL
USD/EUR	531.40	543.83	USD	531.40	EUR
USD/BRL	603.91	764.83	USD	2,183.51	BRL
-from floating to fixed	864.53				
EUR/BRL	79.70	96.99	EUR	288.17	BRL
EUR/MAD	31.09	33.76	EUR	349.09	MAD
USD/ARS	89.57	125.00	USD	363.45	ARS
USD/BRL	47.63	140.00	USD	172.20	BRL
USD/CLP	64.20	80.36	USD	48,745.31	CLP
USD/COP	120.47	156.26	USD	392,123.65	COP
USD/PEN	260.26	336.00	USD	1,163.45	PEN
USD/MXN	22.71	34.29	USD	348.46	MXN
USD/UFC	148.90	200.00	USD	6.53	UFC
-from floating to floating	3,315.80				
EUR/USD	812.69	994.77	EUR	1,106.96	USD
EUR/CLP	14.02	14.39	EUR	10,645.55	CLP
JPY/BRL	203.77	24,802.08	JPY	736.76	BRL
USD/EUR	2,011.58	2,024.63	USD	2,011.58	EUR
USD/MXN	273.74	416.00	USD	4,200.17	MXN
Forwards	3,548.68				
USD/ARS	90.76	120.00	USD	368.26	ARS
ARS/USD	25.26	107.31	ARS	34.41	USD
USD/BRL	86.79	111.07	USD	313.78	BRL
USD/CLP	462.55	574.19	USD	351,184.61	CLP
CLP/USD	90.30	71,768.51	CLP	123.00	USD
USD/COP	158.57	195.00	USD	516,145.00	COP
USD/EUR	1,431.07	1,862.95	USD	1,431.08	EUR
EUR/USD	534.53	560.93	EUR	728.08	USD
USD/MXN	21.03	28.40	USD	322.68	MXN
USD/PEN	138.43	176.98	USD	618.85	PEN
USD/UFC	411.16	500.10	USD	18.02	UFC
UFC/USD	98.23	4.39	UFC	133.80	USD
Subtotal	28,390.09				

Notional amounts of structured products with options	Euros	Notional Value	Currency
Interest rate options	8,000.81		
- Caps & Floors	7,842.14		
US DOLLAR	972.77	1,325.00	USD
EURO CURRENCY	6,869.38	6,869.38	EUR
- Swaptions	79.33		
EURO CURRENCY	79.33	-	EUR
Interest rate options	79.33		
Currency options	2,033.33		
USD/EUR	1,833.93	2,498.00	USD
USD/ARS	199.40	271.60	USD
Equity options	235.47		
Subtotal	10,269.61		
Total	38,659.70		

Note: The equity option position basically includes call spread positions on 3 million shares of treasury stock with average exercise prices of €12.62 and \$13.82 and call options bought on 5 million shares of treasury stock with an exercise price of \$13.52.

The detail, by type of derivative, of the notional values of the derivatives arranged by the Group as of December 31, 2003, is as follows:

<i>Millions</i>		Group Receives		Group Pays	
Type of Risk	Equivalent Euro Value	Value	Currency	Value	Currency
Euro interest rate swaps	6,479.85				
-from fixed to floating	1,422.22	1,422.22	EUR	1,422.22	EUR
-from floating to fixed	4,075.18	4,075.18	EUR	4,075.18	EUR
-from floating to floating	982.45	982.45	EUR	982.45	EUR
Cross-currency swaps	4,460.87				
-from fixed to floating	2,984.39				
USD/USD	2,984.39	3,769.29	USD	3,769.29	USD
-from floating to fixed	1,476.48				
USD/USD	855.11	1,080.00	USD	1,080.00	USD
BRL/BRL	304.19	1,110.00	BRL	1,110.00	BRL
GBP/GBP	113.51	80.00	GBP	80.00	GBP
MXN/MXN	203.67	2,890.25	MXN	2,890.25	MXN
Currency swaps	11,319.65				
-from fixed to fixed	2,163.92				
EUR/USD	104.67	126.41	EUR	132.20	USD
JPY/USD	59.08	7,778.82	JPY	74.62	USD
USD/EUR	2,000.17	1,847.46	USD	2,000.17	EUR
-from fixed to floating	1,741.87				
EUR/USD	86.05	102.25	EUR	108.68	USD
EUR/BRL	24.92	26.00	EUR	90.92	BRL
JPY/EUR	56.95	6,200.00	JPY	56.95	EUR
JPY/BRL	84.20	11,890.82	JPY	307.25	BRL
USD/EUR	531.40	543.83	USD	531.40	EUR
USD/BRL	958.35	1,247.28	USD	3,497.07	BRL
-from floating to fixed	1,274.97				
EUR/BRL	78.97	96.99	EUR	288.17	BRL
EUR/MAD	31.49	33.76	EUR	349.09	MAD
USD/EUR	874.97	827.73	USD	874.97	EUR
USD/BRL	95.72	290.00	USD	349.30	BRL
USD/PEN	167.64	210.00	USD	733.41	PEN
USD/MXN	26.18	36.43	USD	371.55	MXN
-from floating to floating	6,138.89				
EUR/USD	1,027.35	1,191.84	EUR	1,297.54	USD
EUR/GBP	283.77	303.72	EUR	200.00	GBP
EUR/BRL	138.21	208.02	EUR	504.32	BRL
JPY/BRL	242.29	29,762.50	JPY	884.11	BRL
USD/EUR	4,147.02	4,015.89	USD	4,147.02	EUR
USD/MXN	300.25	421.63	USD	4,260.89	MXN
Forwardss	1,378.52				

		Group Receives		Group Pays	
Type of Risk	Equivalent Euro Value	Value	Currency	Value	Currency
USD/EUR	215.07	265.21	USD	215.07	EUR
EUR/USD	31.73	40.28	EUR	40.08	USD
USD/ARS	41.24	50.18	USD	152.62	ARS
USD/CLP	83.69	91.00	USD	62,760.91	CLP
USD/UFC	839.60	928.48	USD	37.21	UFC
PEN/USD	7.92	34.91	PEN	10.00	USD
USD/PEN	159.27	193.50	USD	696.80	PEN
Equity Swaps	323.95				
Subtotal	23,962.84				

Notional amounts of structured products with options	Euros	Notional Amount
Interest rate options	2,401.39	
- Caps & Floors	2,242.72	
US DOLLAR	158.35	200.00
EURO CURRENCY	2,084.37	2,084.37
- Swaptions	79.33	
EURO CURRENCY	79.33	79.33
- Interest rate options	79.33	79.33
Currency options	3,837.43	
USD/ARS	59.38	75.00
EUR/USD	1,150.00	1,150.00
USD/EUR	2,126.48	2,685.75
EUR/MXN	243.02	243.02
USD/BRL	241.25	304.70
EUR/BRL	17.30	17.30
Equity options	713.63	
Sub total	6,952.45	
Total	30,915.29	

Note The equity option position basically relates to call options bought on 33 million shares of treasury stock with an average exercise price of €11.43. Also, there are combinations of call options bought at €11.02, call options sold at €12.07 and put options sold at €10.56 with a total positive delta of 4.7 million shares.

The detail, by maturity, of the hedging transactions arranged as of December 31, 2004, is as follows:

<i>Millions of euros</i>	Amount	Up to 1 Year	From 1 to 3 Years	From 3 to 5 Years	Over 5 Years
With underlying instruments					
Loans	21,994.44	10,174.36	3,286.41	5,931.31	2,602.36
In national currency	17,129.34	8,680.72	2,036.06	4,368.77	2,043.79
In foreign currencies	4,865.10	1,493.64	1,250.35	1,562.54	558.57
MTN debentures and bonds	10,847.78	3,490.80	600.00	1,794.15	4,962.83
In national currency	5,032.34	1,400.00	600.00	1,441.49	1,590.85
In foreign currencies	5,815.44	2,090.80	-	352.66	3,371.98
Preferred shares	5,582.01	5,561.91	20.10	-	-
Currency options	2,033.33	2,033.33	-	-	-
Forward	3,548.68	3,528.58	20.10	-	-
Shares	235.47	235.47	-	-	-
Total	38,659.70	19,462.53	3,906.52	7,725.46	7,565.18

Note: The equity option position basically includes call spread positions on 3 million shares of treasury stock with average exercise prices of €12.62 and €13.82 and call options bought on 5 million shares of treasury stock with an exercise price of €13.52

The detail, by maturity, of the hedging transactions arranged as of December 31, 2003, is as follows:

Millions of euros

	Amount	Up to 1 Year	From 1 to 3 Years	From 3 to 5 Years	Over 5 Years
With underlying instruments					
Loans	19,447.86	8,653.82	4,022.45	3,660.52	3,111.07
In national currency	8,206.08	3,819.97	817.86	2,832.91	735.34
In foreign currencies	11,241.78	4,833.85	3,204.59	827.61	2,375.73
MTN debentures and bonds	4,603.66	1,892.29	935.86	142.52	1,632.99
In national currency	605.82	2.12	-	-	603.70
In foreign currencies	3,997.84	1,890.17	935.86	142.52	1,029.29
Preferred shares	1,500.00	-	-	-	1,500.00
In national currency	1,500.00	-	-	-	1,500.00
Other assets and liabilities	4,326.18	4,266.57	31.81	27.80	-
Swaps	467.64	408.03	31.81	27.80	-
Currency options	3,837.43	3,837.43	-	-	-
Forward	21.11	21.11	-	-	-
Subtotal	29,877.70	14,812.68	4,990.12	3,830.84	6,244.06
Shares	1,037.58	1,037.58	-	-	-
Swaps	323.95	323.95	-	-	-
Equity options	713.63	713.63	-	-	-
Total	30,915.28	15,850.26	4,990.12	3,830.84	6,244.06

Note: The equity option position basically relates to call options bought on 33 million shares of treasury stock with an average exercise price of €11.43. Also, there are combinations of call options bought at €11.02, call options sold at €12.07 and put options sold at €10.56 with a total positive delta of 4.7 million shares.

(1) Adjusted variation: eliminates the impact of exchange rate fluctuations and variations in the scope of consolidation.

(2) EBITDA: operating income before depreciation and amortization

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 25). In the event of a discrepancy, the Spanish-language version prevails.

CONSOLIDATED MANAGEMENT REPORT OF THE TELEFÓNICA GROUP

2004

(1) INITIAL SUMMARY

The Telefónica Group's earnings increased in 2004 as a result of the significant commercial drive in all lines of business, making it possible to successfully face up to stiffer competition and to strengthen its position in the strategic markets where it has a presence.

In this regard, operating revenues grew by 6.8% with respect to the previous year, or 8.3% in adjusted terms¹. The increase in expenses was a reflection of the Group's major commercial drive to extend and consolidate its customer base, both in the wireless telephony business and in the broadband market in Spain and Latin America. EBITDA² rose by 4.9% in the year (adjusted growth of 6.0%), which, combined with the lower depreciation and amortization expense due to the containment of investments in recent years, gave rise to a 14.3% increase in operating income. The rise in operating income and the positive trend in non-operating results enabled the Group to report net income of €2,877.3 million, as compared with €2,203.6 million in 2003, representing year-on-year growth of 30.6%.

The process of rationalizing and optimizing investments in property, plant and equipment and in intangible assets continued in 2004. Period additions of assets of this nature amounted to €3,768.1 million, up 1.7% on the figure for 2003. This growth was due basically to the investments made in the wireless telephony business to improve the capacity and coverage of the networks in Latin America and to develop UMTS technology in Spain, and to the capital expenditure for the roll-out of ADSL, both in Spain and Latin America. However, at Group level the ratio of investments in property, plant and equipment and intangible assets to operating revenues fell from 13% in 2003 to 12.4% at 2004 year-end.

The Telefónica Group had to manage its businesses against a difficult backdrop characterized by the slowdown in the growth of the traditional services, the poor economic situation in certain of the countries in which it operates, the stiffer competition and certain unfavorable decisions taken by the regulator. In order to address this situation, Telefónica focused its management priorities on its customers, making them the central linchpin of the Company's strategy. The implementation of a more commercial, customer-oriented corporate model entailed a process of transformation at the Telefónica Group towards a more flexible means of managing the businesses, which enabled the Group to achieve greater operating efficiency and to make more efficient use of resources.

This strategy enabled Telefónica to maintain a prominent position in the industry, where it leads the Spanish- and

Portuguese-speaking wireline and wireless telephony markets, with more than 118 million customers, to enjoy a solid financial position with a significant level of cash flow generation and to earn a place among the leading European operators in terms of stock market capitalization.

Also, the success of this strategy made it possible for Telefónica to strengthen its commitment to its stockholder remuneration policy, improving the returns on the Company's shares. In this regard, the dividend approved by the Stockholders' Meeting for 2003 was €0.40 per share (as compared with the €0.25 paid the previous year), and for 2004, the Board of Directors, at its meeting on January 26, 2005, resolved to propose to the Stockholders' Meeting that a dividend of €0.50 per share be paid, which represents a 25% increase with respect to the 2003 dividend. As part of this strategy, on November 24, 2004, the Board of Directors resolved to propose to the Stockholders' Meeting that shares of treasury stock of Telefónica S.A. be distributed among the stockholders, in the proportion of one share for every 25 shares owned by them, with a charge to additional paid-in capital.

The Telefónica Group's main objective for the future is to become the best and biggest integrated telecommunications group in the world, for which purpose it will embark on a transformation process based on three main pillars: customers, innovation and operating excellence. As regards the first of these three pillars, Telefónica will attempt to amplify its customer base by building up customer loyalty and increasing the share of the disposable income of its customers received by it. Also, Telefónica aims to extend innovation to the various processes in the value chain, including the commercial area. Lastly, the Group's efforts in relation to operating excellence will focus on maintaining its position of leadership by implementing a policy targeted at maximizing efficiency and quality.

ORGANIZATION BY BUSINESS LINE

The new organizational model, the implementation of which commenced in 2003, was fully in place in 2004. The new model has simplified the lines of business in order to achieve an organization that places greater emphasis on the key businesses and has a more flexible asset and cost structure.

In this regard, in 2004 the integration of the Telefónica Empresas business (Data, TIWS and Soluciones) into the wireline telephony businesses in both Spain and Latin America was fully operational. Telefónica de España assumed the business of Telefónica Empresas España and Telefónica Soluciones, and Telefónica Latinoamérica included under its management the Telefónica Empresas business in Latin America and the TIWS business.

The management comments included in this report are presented and refer to the financial trend of the Telefónica Group based on its organizational structure by line of business in place in 2004.

It should be noted that the assumptions used in preparing these comments on the organization by line of business do not in any way alter the total results obtained by the Telefónica Group.

CUSTOMERS

At 2004 year-end the Telefónica Group had 118.1 million managed customers, an increase of 26.4% with respect to the previous year.

Telefónica Móviles, which had 74.4 million managed customers, as compared with 52 million at 2003 year-end, consolidated its position as one of the industry's leading operators. This figure includes the customer base contributed by the eight BellSouth operators acquired in October 2004 (11 million customers). The total customer base, including the BellSouth operators acquired in Argentina and Chile, the purchase of which was clinched in 2005, would be 78.2 million customers.

In Spain, Telefónica Móviles retained its market leadership with a total of 18.9 million customers, following a significant customer base clean-up operation in April 2004, which affected 1.3 million inactive prepaid SIM cards. The most notable development in Latin America was the substantial growth of the Brazilian market in which VIVO maintained its positioning through a good performance in the attraction of new customers, finishing the year with 26.5 million customers. Telefónica Móviles México confirmed its position as the second-largest operator in the market, with 5.6 million customers, as compared with 3.5 million in December 2003.

As regards the wireline telephony business, at 2004 year-end Telefónica de España was managing 17.3 million traditional lines and Telefónica Latinoamérica was managing 21.4 million, representing year-on-year growth of 2.5%, prompted mainly by the upward trend of the number of lines at TASA and Telefónica del Perú.

In the ADSL broadband market, the Group had more than 3.9 million connections, as compared with 2.5 million in 2003; this growth was due mainly to the net gain of 830,000 in Spain in 2004 to 2.5 million connections, and to Brazil, which ended the year with 826,000 lines. This market is expanding basically as a result of Telefónica's firm commitment to this business, to which it is devoting a considerable commercial effort and a sizeable portion of its investments, and for which specific services and content are being developed.

The broadband market in Spain experienced dynamic growth in the last quarter of the year, boosted by the innovative and revolutionary commercial measures adopted by Telefónica de España, which led to an increase in the quality of the services provided and to a customized product offering adapted to the needs of each customer. These measures included most notably the doubling of the access speed of all Telefónica de España's ADSL connections, at no additional cost for users, the new "ADSL to suit you" proposal including a rate system adapted to the needs of each customer, and the combined offer of personal computers and Internet connection at special prices.

In addition, in an attempt to maintain its position at the forefront of the ADSL industry, the Group launched the Imagenio Project which, harnessing the roll-out of ADSL and with a view to encouraging the use of broadband services, enables customers to select, à la carte, their own personal product offering. With this technological support customers

can simultaneously receive high-definition television, à la carte video and music, high-speed Internet access, and telephone, fax messenger and video conference services.

Noteworthy with regard to the broadband market were the retail resale connections relating to T.Deutschland, which totaled nearly half a million users at 2004 year-end.

To conclude, it should be noted that the Group also has over 400,000 pay-per-view television customers, relating mostly to Cable Mágico in Perú.

INTERNATIONAL EXPANSION

In 2004 the Telefónica Group consolidated its position as a long-term investor in Latin America, thereby contributing to the economic and social development of the region. The most notable event in 2004 was the acquisition of BellSouth's wireless operators by Telefónica Móviles as part of this Group company's profitable growth policy.

The agreement for the purchase of BellSouth's ten wireless telephony operators was entered into in March 2004. In October 2004 Telefónica Móviles completed the acquisition of all the shares of the wireless telephony operators in Ecuador, Guatemala, Panama, Venezuela, Colombia, Peru, Nicaragua and Uruguay. Subsequent to year-end, in January 2005, the acquisition of the Chilean and Argentine operators was concluded.

As a result of this transaction, Telefónica consolidated its leading position in the region, strengthening its presence in certain key countries in which it already operated (Argentina, Chile and Peru), where it expects to achieve significant synergies, and, at the same time, it secured a significant position in high-growth markets in which it was not previously present (Venezuela, Colombia, Ecuador and Uruguay) and attained a substantial critical mass in Central America (Guatemala, El Salvador, Panama and Nicaragua).

OTHER RELEVANT MATTERS

In 2004 Terra Networks modified its corporate structure and made a series of divestments, most notably the sale of the ownership interest held by it in Lycos, Inc., its aim being to become a nimbler, more flexible organization oriented toward the obtainment of maximum customer satisfaction. To this end, on October 5, 2004, Terra Networks, S.A. executed the agreement entered into by it on July 31, 2004, with the Korean company Daum Communications, Corp., whereby Terra sold to the latter all its shares of Lycos, Inc.

Prior to this sale, Lycos, Inc. transferred a series of assets to Terra Networks, S.A., including the holdings in Lycos Europe, Terra Networks USA and LLP (a company engaging in the exploitation of the portal for Spanish-speaking people in the United States) and other financial assets. The book value of the transferred assets was €332.9 million.

The sale price of Lycos, Inc., following the transfer of the aforementioned assets, was set at US\$ 108 million, and the transaction gave rise to a gain of €26 million.

Also worthy of mention, as part of the Group's firm commitment to Brazil, was the acquisition in December 2004 of the Brazilian operator Atrium Telecom by Telesp for €31 million. Atrium Telecom engages in the provision of corporate telecommunications services, in particular in buildings used for commercial activities and by the financial services industry, through the installation in such buildings of internal telecommunications infrastructures, which it subsequently links up to the operators' networks.

With a view to strengthening its strategic alliance with Portugal Telecom, Telefónica increased its direct ownership interest in this company's capital stock to 8.55%. The Telefónica Group now has an effective direct and indirect holding in Portugal Telecom of 9.58%.

Lastly, work continued in 2004 on the construction of Telefónica's Ciudad de las Telecomunicaciones, the Group's new headquarters in Madrid (District C), a project which entails the implementation of a new work philosophy based on horizontality and open spaces. District C, whose design is the result of the quest for maximum respect for the environment and for savings in energy and maintenance costs, will be the springboard for the Group's change to a new teamwork culture.

REGULATORY ENVIRONMENT

In 2004 the European Commission continued to develop the regulatory framework for the telecommunications market and approved, *inter alia*, the Document on Application of Remedies (obligations) and the X Report of the European Commission on the implementation of the Regulatory Framework.

In Spain, following the change of government, the General Telecommunications Law (LGT) was implemented and approval was given to the regulations governing benchmark markets for networks and services, the obligations applicable to operators with significant influence in the market, network access and numbering.

Wireline telephony rates continued to evolve as envisaged under the price-cap system currently in place: a 4.35% rise was applied to the monthly line rental charge and a 2% reduction to all services.

Telefónica de España modified the terms of its Local Loop Offer, establishing a 7.9% reduction in the monthly loop rental charge, a 14% reduction in the shared access charge, and an increase in the connection charges for these services.

2004 witnessed heightened activity in broadband services and Telefónica de España submitted to the regulator various offers and commercial packages for ADSL and Imagenio. Several of these packages were authorized by the Spanish Telecommunications Market Commission (CMT), provided they can be replicated by competitors, whereas others are under analysis or are being modified by Telefónica.

With regard to the Universal Service provided by Telefónica de España, the CMT considered that although the provision of this service had represented a net cost of €110.1 million in

2002, it was not necessary to record a Universal Service Financing Fund. All current TRAC customers have been given the option of functional Internet access, and Telefónica de España has thus complied with the provisions of the Law on Information Society Services and Electronic Commerce.

In the wireless telephony business, the CMT, in keeping with developments in other countries, promoted further reductions in the prices for the termination of calls in the wireless networks, and the Ministry of Industry approved the modification of the operators' UMTS commitments to bring them into line with the current situation.

Noteworthy in Latin America as a whole were the authorizations received from the various regulatory bodies, which made it possible for Telefónica Móviles to complete its acquisition of the BellSouth operators, a transaction which in certain countries was conditional upon the post-merger company disposing of a portion of the radio spectrum.

In Argentina, in May 2004 Telefónica and the Argentine government signed a memorandum of understanding which established the freezing of basic telephony rates through December 31, 2004, and the implementation of social plans, and ratified the stability of the contracts for tax purposes. The Public Emergency Law was extended to cover the period through December 2005, as a result of which the Executive's exceptional powers were maintained, and the period in which the government can renegotiate its contracts was extended through that same date.

2004 brought a rate readjustment in wireline telephony in Brazil, which gave rise to an average increase of 15.99%. Also, the Brazilian regulatory and antitrust authorities approved the joint venture of Telefónica Móviles and Portugal Telecom.

In Chile, the new wireline telephony ratemaking framework for 2004-2009, which will be applied retroactively from May 5, 2004, is currently pending completion, whereas the new wireless telephony ratemaking framework for the same period came into force in 2004. In February 2004 the regulations governing rate flexibility were approved, thus permitting the launch of specific plans for various customer segments. No decision has yet been handed down on the appeal filed by the Group against the Chilean Ministry of Economy and Finance in connection with the 1999-2004 Rate Decree.

In Peru, a new productivity factor applicable to the wireline telephony rate review mechanism was approved. This mechanism will remain in force through August 2007. On June 9, 2004, the Ministry officially notified Telefónica of its decision not to renew the Concession Contract for an additional five-year period, thus limiting to 2019 the term of Telefónica de Perú's operating license.

SHARE PERFORMANCE

For the second consecutive year, the international stock markets recorded rises, with overall appreciation of over or close to 10%, underpinned by solid economic growth and two-digit increases in corporate earnings. Against this backdrop, the Telefónica share price rose by 19.1% in 2004, nearly double

the gain recorded by the European telecommunications industry (11.9%).

This sound Telefónica share performance was due to several factors, including most notably the successful combination of growth and profitability, the steady progress made in operations, the attractive stockholder remuneration policy, the improved trend in 2004 in the Latin-American economy, the Group's robust financial position and the favorable opinion of the main investment banks. At 2004 year-end, the stock-market capitalization of the Telefónica Group amounted to €68,689 million (US\$ 93,097 million), placing it in fourth place in the world ranking of telecommunications operators, superseded only by Vodafone (€131,059 million), Verizon (€82,761 million) and Deutsche Telekom (€69,893 million).

INFORMATION ON THE LINES OF BUSINESS

Wireline telephony in Spain

In 2004 the results of the Telefónica de España Group were obtained within the framework of a new corporate structure, following the inclusion of the management and earnings of Telefónica Data España and Telefónica Soluciones in the Parent Company, Telefónica de España.

The operating revenues of the Telefónica de España Group amounted to €10,955.8 million in 2004, representing growth of 2.4% with respect to the previous year. The revenues of the Parent Company Telefónica de España (Telefónica de España, Telefónica Data España, Telefónica Soluciones and Telefónica Soluciones Sectoriales) totaled €10,491.2 million, up 2.1% on 2003. This growth was due to the increased contribution of the Internet and broadband business to total revenues, with year-on-year growth of 34.2%, which, combined with the good performance of the wholesale and data and solutions services, counterbalanced the decrease in the traditional services associated with the voice business, the revenues of which fell by 2.5% with respect to the figure for 2003.

The operating expenses of the Telefónica de España Group amounted to €6,019.0 million, a fall of 0.5% in year-on-year terms. This net decrease arose chiefly as a result of the 9.3% reduction of personnel expenses due to voluntary severances under the labor force reduction plan (ERE 2003-2007) and, with an opposite effect, the increase in expenses relating to procurements and outside work, supplies and services, which was a direct result of the Group's commercial drive in 2004 and the substantial development of broadband services.

2,417 Telefónica de España employees left in 2004 under the 2004 labor force reduction plan. By contrast, job creation focused on the commercial divisions and on the strengthening of the Solutions business, resulting in a headcount of 35,045 people at the Parent Company Telefónica de España, 2,014 fewer than in 2003. The productivity ratio was 566.0 equivalent lines per employee (50.6 lines per employee more than the previous year).

As of December 31, 2004, the Telefónica de España Group's EBITDA stood at €5,054.5 million, a year-on-year increase of 6.1%, giving rise to an EBITDA margin of 46.1%, up 1.6 percentage points on the figure for 2003. At 2004 year-end, net income amounted to €1,112.1 million.

Investments in property, plant and equipment and in intangible assets totaled €1,207.5 million, 18.4% less than in the previous year, evidencing the Group's major drive to rationalize investments based on profitability and optimization criteria.

In operating terms, the equivalent lines in service numbered to 19.8 million at 2004 year-end (year-on-year growth of 3.8%), due chiefly to the sound performance of ADSL, which grew by 50%. Also, the loss of traditional lines (BTS and ISDN Basic Access) slowed again in 2004 thanks to the drive to secure new connections and to contain the number of disconnections. Preassigned lines totaled 2.4 million, virtually the same figure as that recorded for the previous year.

At 2004 year-end, the number of loops leased by Telefónica de España's competitors comprised over 78,000 fully unbundled lines and 37,700 shared lines, the highest growth being shown by the latter option.

The volume of traffic through the network totaled 123,000 million minutes in 2004, down by 6.7% from 2003. Outgoing voice traffic fell by 10.9% and there was a sharp reduction in the number of minutes used for Internet access due to cannibalization by the ADSL broadband services. By contrast, incoming traffic increased with respect to 2003.

In 2004 the Group launched a major commercial drive aimed at slowing the fall in voice services. Particularly successful in this connection were the free connection campaigns (238,000 connection requests) and the so-called combined plans (planes combinados) – an offer integrating the monthly line rental charge with flat- and semi-flat rates for voice consumption – which, since their launch at the end of 2003, have resulted in the subscription of 1.1 million plans.

The Internet and broadband services, spearheaded by the commercial roll-out of ADSL and backed by the campaign launched in October and November to double access speed, contributed highly substantial results to the Group. The good performance of the ADSL services is reflected by the 2.5 million connections achieved by Telefónica de España at 2004 year-end, of which 1.6 million relate to retail ADSL. In addition, in order to facilitate the expansion of this service, new "ADSL a tu medida (ADSL to suit you)" access formats were launched, which make it possible to respond to customers' needs in a more flexible manner. The services providing added value to the retail ADSL offering are experiencing strong growth, with nearly 1.2 million services marketed to date.

A milestone in the Group's efforts to foster the development of broadband services was the launch at the end of 2004 of Imagenio, a service which enables users to simultaneously receive high-definition television, à la carte video and music, high-speed Internet access, and telephone, fax messenger and video conference facilities.

Lastly, notable developments in 2004 in the Data and Solutions business were the migrations from traditional technologies to IP-ADSL, the ramp-up of systems outsourcing services and the growth in management and solutions services.

Telefónica Latinoamérica

Management of the Telefónica Latinoamérica Group was conditioned in 2004 by the 10.1% fall of the U.S. dollar with

respect to the euro, which triggered the depreciation of all Latin-American currencies against the euro.

The Group's operating revenues amounted to €6,883.4 million at 2004 year-end, representing 2.1% growth with respect to the previous year. Disregarding the exchange rate effect, the year-on-year growth would be 7.5%, attributable mainly to Telesp and TASA. By contrast, the Chilean wireline operator reported a drop in revenues at year-end due to the strong competition from wireless telephony, and Telefónica del Perú's revenues fell as a result of the rate reduction.

At 2004 year-end, EBITDA amounted to €3,141.0 million, up 1.3% on 2003 (6.8% disregarding the exchange rate effect). Net income rose by 44.4% from €558.5 million in 2003 to €806.6 million.

The investments in property, plant and equipment and in intangible assets, which totaled €769.2 million, included most significantly the investments made in broadband technology. At 2004 year-end, Telefónica Latinoamérica was managing a total of 21.4 million wireline telephony lines, 2.5% more than in 2003, due mainly to the increase in the number of lines managed at TASA and Telefónica del Perú. The growth recorded at the Argentine subsidiary hit an all-time high in 2004, influenced by the clean-up of lines at the end of 2003 and burgeoning demand in 2004. At Telefónica del Perú there was a 9.5% increase in the number of lines due to the positive impact of the new rate plans.

As regards the broadband market, Telefónica Latinoamérica maintained its aggressive policy aimed at expanding its business through ADSL technology and surpassed the figure of 1.4 million users, an increase of 84.7% with respect to 2003.

In 2004 Telefónica Latinoamérica continued to adapt its operators to the new competitive environment by outsourcing activities. Noteworthy in this connection was the year-end headcount of 25,905 employees, including most notably the 4.7% reduction at Telefónica del Perú following the severance plan implemented in the course of the year.

The most salient matters relating to each operator are as follows:

In 2004 **Telesp** continued to implement its ADSL expansion plan and at year-end had 826,400 users, signifying year-on-year growth of 70.6%. The number of traditional lines in service totaled 12.5 million, up 1.3% on the figure for December 2003, due to the launch of new products targeting lower-consumption segments. Once again in 2004, Telesp improved its long-distance market shares, achieving 88.5% in the Intrastate Domestic Long-Distance market, 58.4% in the Interstate market and 51% in the International Long-Distance market.

Keeping the focus of its management efforts on achieving increased productivity, Telesp recorded a lines/employee ratio of 1,865, 4.1% higher than in 2003. Following the labor force restructuring process carried out last year, the number of employees remained stable in 2004.

The operator reported a 14.9% increase in operating revenues in 2004, due to the growth of its ADSL customer portfolio, the

rate increase and the sound performance of the new businesses (SMP, long-distance from São Paulo and wireline-wireless traffic). However, expenses also rose as a result of a higher volume of business and the increase in contract prices, which are largely indexed to inflation. The good performance of revenues was reflected in Telesp's EBITDA, which grew by 7.4% with respect to 2003.

TASA, in the wake of the severe crisis that beset Argentina in 2002, consolidated in 2004 the recovery that had commenced in 2003. This recovery is reflected in the good performance of line demand which, together with the decrease in disconnections following the clean-up of the existing lines in 2003, enabled TASA to increase the number of lines in service by 3.8% to 4.3 million. The significant increase (9.9%) in total traffic was due to a large extent to the rise in prepaid traffic. TASA also continued with the major expansion of its ADSL business, which grew exponentially in 2004 to reach nearly 190,000 lines, thus bolstering its position as market leader.

The upward trend in the main operating parameters enabled TASA to achieve a 10.6% year-on-year increase in total revenues, despite the fact that rates had been frozen since January 2002. In addition, the operator continued to implement the cost rationalization and control policy adopted following the 2002 crisis, as a result of which it reported 11.2% EBITDA growth. A notable development in 2004 was the effective management of bad debts, achieved mainly through the launch of prepaid and consumption control products. Lastly, TASA increased productivity, its lines/employee ratio rising by 5.5% in the year to 558 lines.

CTC's earnings were hit (revenues fell by 6.2%) by the substantial growth of the wireless market, which resulted in a severe cannibalization of the wireline telephony business, and by lower wireline-wireless rates. Although traffic figures fell considerably, the number of lines in service grew by 0.4% to 2.4 million, boosted by the launch of the "minutes plans" following the approval of rate flexibility. In the prepaid business, CTC continued to launch new products and services that are better adapted to the needs and profiles of its customers. The cost containment policies, which proved to be the order of the day in 2004, made it possible to keep the fall in EBITDA in check (-3.6%). Broadband users, one of the main sources of business, numbered over 200,000 in 2004, enabling CTC to retain its position as market leader.

Telefónica del Perú continued to market the rate plans launched by it in March 2003 in response to the draft bill for the elimination of the basic monthly subscription charge (this bill was subsequently adjudged to be unconstitutional). It ended the year with 639,770 migrations and 576,146 new connections; consequently, at 2004 year-end the number of lines under plans accounted for 50.4% of total lines, as compared with 36.6% in 2003. Once more in 2004, the long-distance business was hit by aggressive competition, which led to a significant reduction of the average rate, and by the requirement established by the regulatory body to provide customer information to the other long-distance operators. Broadband performed well throughout the year, doubling the number of users to more than 205,000 lines. Although operating revenues fell by 1.1%, EBITDA grew by 0.9% as a result of the cost containment policy.

Telefónica Empresas América (TEA), which focuses its activities on the corporate segment, is present in Brazil,

Argentina, Chile, Peru, Colombia, Mexico and the United States. In 2004 it consolidated its improved efficiency, which was accompanied by solid growth. Operating revenues amounted to €467.7 million, up 5.4% on 2003 (11.2% disregarding the exchange rate effect). EBITDA grew by 71.5% (79% before the exchange rate effect) to €54.3 million.

In 2004 **TIWS** made further progress toward achieving profitability and growth, ending the year with EBITDA of €50.1 million, as compared with €17.8 million in 2003. This improvement was underpinned by increased revenues, which totaled €158.0 million (representing 21.2% growth in constant currency terms), accompanied by an optimization of resources, which led to a decrease of 2.4% in operating expenses.

Cellular telephony

As mentioned earlier in the "International Expansion" section, the most notable development in 2004 was the acquisition of BellSouth's ten wireless telephony operators in Latin America (the related agreement was entered into in March 2004, and the acquisitions were completed in October 2004 and January 2005). As a result, Telefónica Móviles consolidated its leading position in the region, strengthening its presence in certain key countries in which it already operated (Argentina, Chile and Peru), and, at the same time, secured a significant position in high-growth markets in which it was not previously present (Venezuela, Colombia, Ecuador and Uruguay) and attained a substantial critical mass in Central America (Guatemala, El Salvador, Panama and Nicaragua).

The operating revenues of the wireless telephony business amounted to €12,054.1 million, up 15.6% on 2003. The adjusted year-on-year variation, assuming constant exchange rates and excluding changes in the scope of consolidation, would be an increase of 12.8%, due mainly to the growth of the customer base.

By geographical area, the operating revenues of Telefónica Móviles in Spain rose by 9.3%, boosted by 12% growth in traffic. Data ARPU (average monthly revenue per user) was €4.3, featuring an increased contribution from GPRS services (mainly connectivity with Internet and Intranet access, content, downloading of games and applications). Operating revenues in Latin America showed year-on-year growth of 33.4% (22.8% in adjusted terms), due mainly to the sharp increase in the number of lines in Mexico and Argentina.

Operating expenses amounted to €7,381.9 million, up 25.5% on 2003. In Spain, Telefónica Móviles incurred higher expenses for procurements (more commercial measures and increased expenses for interconnection with other wireless operators) and outside services (advertising and terminal support expenses). Similarly, in Latin America there was a rise in procurements and outside services expenses due to the increased commercial activity in Mexico, Argentina and Brazil.

EBITDA rose by 3.8% from €4,581.9 million in 2003 to €4,755.0 million in 2004. Adjusted EBITDA growth would be 2.0%. Operations in Spain accounted for 88.4% of the EBITDA of the wireless telephony business, 6.6% more than in 2003. Adjusted EBITDA from operations in Latin America would be down 2.8% on the figure for 2003, due to higher losses in

Mexico and the lower EBITDA in Argentina resulting from the increase in commercial activity.

At 2004 year-end, net income amounted to €1,620.4 million, up 1.6% on 2003.

Investments in property, plant and equipment and in intangible assets in the wireless business totaled €1,665.2 million, up 26.4% on 2003. This rise in expenditure was due mainly to increased investment, both in Brazil (to deploy an enhanced version of the CDMA network and to increase its capacity and coverage), in Argentina (to develop the GSM network) and in Spain (investment in the UMTS network).

In operational terms, the number of customers managed increased by over 22.4 million, representing year-on-year growth of over 43%, due mainly to the acquisition of the BellSouth operators. The Group ended 2004 with more than 74 million customers managed, as compared with the 52 million at 2003 year-end.

Telefónica Móviles España has 18.9 million customers and a 48.5% market share. In view of the increasing trend in the Spanish market for second lines and shared lines to ultimately become inactive, and in order to more accurately monitor the basic ratios of the business and the actual contribution of customers to the generation of revenues, Telefónica Móviles España decided, effective from April 1, 2004, to exclude 1.3 million inactive prepaid SIM cards from the calculation of its declared number of lines.

As of December 31, 2004, Vivo had 26.5 million customers in Brazil, 28.5% more than in December 2003, with an estimated average market share in its areas of operations of 50.9%. Telefónica Móviles México clearly strengthened its competitive position, increasing its number of clients from 3.5 million in 2003 to 5.6 million in 2004, and attaining a market share of 14.5%, as compared with 11.2% in December 2003.

The eight BellSouth operators whose acquisition was completed in October totaled 11 million customers at 2004 year-end. The number of customers of the BellSouth operators in Argentina and Chile, the acquisition of which was completed in January 2005, was 3.8 million.

The Spanish market was characterized by increasing maturity and a significant change in the competitive environment, featuring strong commercial pressure from the other two operators, in particular in the area of portability, which prompted Telefónica Móviles España (TME) to step up its commercial drive in terms of both customer attraction and loyalty-building. TME focused its efforts on higher-value and high-growth potential segments, thus enabling it to maintain its leading position in the Spanish market.

In May 2004 Telefónica Móviles España commenced marketing of the first UMTS videotelephony services to appear in the Spanish market. At the same time, it opened up the possibilities of its wireless connectivity service "Oficin@ MoviStar UMTS/GPRS" (launched in November 2003) to the residential market. At the end of 2004, TME, with 3,800 base stations, was spearheading the deployment of UMTS technology in Spain.

The behavior of the main Latin-American markets was highly dynamic in 2004, the result of increasing competitive pressure and the stability of the region's macroeconomic environment, which led to a significant rise in business activity and to solid year-on-year growth in the number of customers.

Particularly noteworthy in this connection is the substantial expansion of the Brazilian market, in which Vivo still ranks as market leader despite the growing commercial aggressiveness of its competitors. Also worthy of mention is the investment made by Vivo to increase the capacity of its networks in response to the greater demand resulting from growth in its customer base and to enable it to evolve toward an enhanced version of its current CDMA network.

In Mexico, Telefónica Móviles made significant progress in both the enhancement of the capillarity and efficiency of its distribution channel and the deployment of its GSM network, whose coverage as of December 2004 reached a population representing 77% of the country's GDP. Also, in the second half of the year Telefónica Móviles México announced the implementation of EDGE technology in its GSM network, as a result of which it can offer the most advanced broadband wireless service in the Mexican market, thus confirming its position as Mexico's second operator.

The marked dynamism witnessed in other markets such as Argentina and Chile was triggered by heightened commercial activity by all the operators and the deployment of GSM networks. Thus, as of December 2004, Telefónica Móviles had 3.4 million customers in Argentina and 3.3 million in Chile.

Internet

In 2004 the Terra Networks Group's operating revenues amounted to €539 million: 44% related to access subscriptions, 23% to communications, portal and content services, 22% to advertising and e-commerce and the remaining 11% to other revenues. Revenues, which were affected by the change in the scope of consolidation following the sale of the shares of Lycos, Inc. in early October 2004, fell by 1.1% with respect to 2003. Disregarding this effect and the impact of exchange rate fluctuations, the growth of the Group's revenues would have been 8%.

Noteworthy as regards access was the extension and improvement of the broadband services, in particular the doubling of the access speed of the ADSL service in both Spain and the Latin-American countries. In Spain, the Group's commercial drive focused on the sale of the 14-hour "ADSL Home" and the 24-hour "ADSL Plus" products. The ADSL business also experienced significant growth in Brazil, where the Group continues to head the market with a market share of over 50%.

The cost containment drive, which led to a steady improvement in earnings, made it possible to record positive EBITDA in all four quarters, and the Group finished the year with EBITDA of €21 million.

As of December 31, 2004, the Terra Networks Group had 6.3 million pay subscribers (including both access and value-added services), an increase of 25% with respect to the previous year. Total pay access subscribers numbered 1.8

million, 9% more than the figure for 2003 year-end. Worthy of mention is the 66% increase in broadband (mainly ADSL) customers to 1.1 million, of which 68% relate to Brazil, 18% to Spain and 12% to Chile. Value-added service customers grew by 33% to 4.5 million, 3.2 million of which are customers obtained from the alliance with Telefónica.

The Group reported net income of €164 million in 2004, as compared with a net loss of €173 million in 2003.

Directories

At 2004 year-end, the earnings of the directories line of business set up by the TPI Group and Telinver (the Group's subsidiary in the directories business in Argentina) showed a substantial improvement on those for the previous year.

Operating revenues amounted to €628.1 million, representing growth of 6.6% (7.7% excluding the exchange rate effect). This increase was obtained mainly in Spain, where both the traditional directories business and the telephone information business performed well. This, combined with the containment of costs, made it possible to report EBITDA of €215.2 million, up 16.9% on 2003 (17.8% disregarding the exchange rate effect). Net income amounted to €112.6 million, 26.9% higher than in 2003.

The advertising business contributes 86% of TPI's total revenues. Although relatively speaking the most significant business is publishing, other lines are steadily gaining in importance, above all the Internet, which already accounts for 6.0% of advertising revenues. A notable feature of 2004 was the good performance of the telephone business, which consolidated its position following the launch in Spain in 2003 of the 11888 service, achieving growth of 94.8% in telephone traffic revenues.

TPI's strategy is based on three main concepts:

- Endeavor to achieve innovation in both new businesses and the launch of new products. Examples of this in Spain are the consolidation in the telephone information market, the launch of the first Hospitality Guide and the publication of six new pocket guides (which are already published in 15 different locations). Furthermore, once the viability of the initiatives developed in Spain has been analyzed, they are exported to Latin America.

As regards process innovation, work is currently under way on the implementation of a CRM (Customer Relationship Management) system in the commercial area. This system will enable TPI to gain a better knowledge of its advertisers and to adapt its product offering to suit their needs. In addition, a project is being carried out to optimize the Group's production systems by combining production of the publishing product in two centers, one in Spain and another in Latin America.

- Eminently commercial organization focusing on building customer loyalty and attracting new advertisers: over 70% of the labor force perform duties of a commercial nature. Spain has an extensive sales force devoted to the traditional businesses and other teams of employees specializing in the sale of new products and services. In Latin America, a similar commercial organization and

similar work procedures have gradually been implemented, without overlooking the idiosyncrasies of each country.

- Achievement of excellence in its activities with a view to obtaining increased returns on the traditional lines and consolidating the new businesses.

Call centers

In 2004 the Atento Group's operating revenues amounted to €611.7 million, an increase of 24.1% with respect to 2003 (28.4% disregarding the exchange rate effect), due to the burgeoning growth of business, mainly in Spain, Brazil and Mexico, and to the sound trend of the transactions with BBVA following its entry into Atento's stockholder structure. Spain and Brazil continue to account for the highest proportion of the Atento Group's revenues, contributing 39% and 32%, respectively. It should also be noted that the percentage contribution of non-Telefónica Group customers to Atento's total revenues continued to increase (44% in 2004 compared with 39% in 2003).

Atento continues to focus on the search for higher value-added services to enable it to differentiate its offering from those of its competitors, featuring recognized quality processes that will lead it to obtained improved margins.

The Atento Group's operating expenses rose by 22.2% due mainly to the increase in operations. However, the ratio of operating expenses to revenues fell by 1.2 percentage points to 85.2% as of December 31, 2004. This behavior was the result of the cost control drive launched in 2003, mainly with respect to overheads, which led to an increase in the ratio of tele-operator personnel to general line personnel from 32.5% in 2003 to 34.5% at 2004 year-end. This, combined with the good progress of operations, gave rise to EBITDA of €90.8 million, up 36.6% on the figure for 2003 (44.3% disregarding the exchange rate effect).

This consolidation of its operations enabled the Atento Group, for the first time since its formation, to report net income of €18.2 million in 2004.

At 2004 year-end Atento had a network of over 40 call centers, with 30,566 customer service stations and a total headcount of 74,829 employees, signifying the creation of 20,500 jobs in 2004.

The salient events in 2004 included the consolidation of transactions with BBVA following its entry into Atento's stockholder structure, the increase in operating income despite the highly aggressive price scenario, and the provision of services to customers on a supranational scale.

Media and Content

In 2004 this line of business continued with the policy of divestment of non-strategic assets first implemented in 2003. In this connection, Telefónica de Contenidos sold the ownership interests held by it in the movie producer LolaFilms, the Venezuelan record company Rodven, the UK Pearson Group and the thematic channel producer Mediapark. It also entered into agreements for the sale of the Argentine radio networks Radio Continental and Radio Estéreo, which are conditional upon approval by the Federal Radio and Television Commission.

(3) Adjusted variation: eliminates the impact of exchange rate fluctuations and variations in the scope of consolidation.

At 2004 year-end, the consolidated operating revenues of the media and content business units totaled €1,219.1 million, a fall of 11.6% compared with the €1,378.5 million recorded at 2003 year-end. EBITDA amounted to €182.6 million, down 13.2% on the figure for 2003. This decrease was due chiefly to the change in the scope of consolidation, since the ownership interest held by the Group in Antena 3 was fully consolidated for the first six months of 2003 (until the sale to the Planeta Group of a 25% holding). The contribution of Antena 3 to 2003 consolidated revenues and EBITDA was €309.8 million and €51 million, respectively. The effect of this reduction in the consolidated Group was partially offset by the good earnings performance of Endemol and ATCO.

The Endemol Group reported revenues of €1,033.7 million in 2004, representing growth of 13.1%. EBITDA amounted to €180.9 million, up 9.9% on 2003. This sound performance was achieved solely through organic growth, mainly in the more competitive markets such as the U.S. and the U.K., where Endemol increased its billings significantly.

The Endemol Group is continuing to implement its revenue diversification policy, both geographically and in terms of formats. Accordingly, it commenced operations in new markets such as Chile, where in 2004 it operated for the first time through one of its subsidiaries, and it increased its ownership interests in Palomar (Italy) and Southern Star (Australia). In addition, it is continuing to invest a portion of its funds in the development of various formats that can be exploited in on different platforms (such as development of Java-format games, merchandising, telephone calls, SMS messages and the marketing of content on the Internet).

ATCO also displayed a significantly improved earnings performance with respect to the previous year. Revenues totaled €90.5 million, representing growth of 38%, disregarding the exchange rate effect, and EBITDA amounted to €14.8 million, as compared with the €4.9 million recorded at 2003-year end.

EARNINGS

Consolidated income

When analyzing the year-on-year variations, it should be noted that they are affected by the changes in the scope of consolidation, the most significant of which were as follows: in 2003, the exclusions of Antena 3 (effective from July 2003), Atento Japan (June 2003) and Euroleague (November 2003) and the inclusions of TCO (from May 2003), POSA (November 2003) and One Travel (April 2003); and, in 2004, the exclusions of Lycos (October 2004) and Lola Films (August 2004) and the inclusion of eight of the BellSouth operators, effective November 1.

The operating revenues of the Telefónica Group amounted to €30,321.9 million, representing a year-on-year increase of 6.8%. This growth is a reflection of the solid operating performance and the sustained expansion of the customer base resulting from the commercial drive, which was stepped up in 2004 in all lines of business. This upward trend in revenues offset the increased operating expenses associated

with the commercial drive, giving rise to EBITDA of €13,215.4 million, up 4.9% on 2003.

Operating income grew by 14.3% as a result of the aforementioned rise in EBITDA and of the 4.7% reduction in the depreciation and amortization expense, affected by the containment of investments in recent years as part of the Group's policy of reducing the volume of assets in order to simplify the Group's production structure and increase the profitability of its businesses.

The net share in the losses of associated companies, which amounted to €56.1 million, was due mainly to the exclusion from consolidation in 2003 of the holdings in Via Digital and Audio Visual Sport, and to the reduction in the loss incurred by Médi Télécom.

The net financial loss for the year amounted to €1,183.8 million. As indicated below, if this financial result is considered net of the effect of the appreciation of the Argentine peso and of the repayment in 2003 of the debt denominated in U.S. dollars, the period expense in this connection is reduced by 19.8%.

The goodwill amortization expense in 2004 was similar in overall terms to that recorded in the previous year (€433.5 million in 2004 compared with €444.1 million in 2003). The increases in the goodwill amortization balance in 2004 relate most notably to the increase in 2004 in the holding in Portugal Telecom, to the acquisition of the BellSouth operators and to the investment in Sogecable acquired in 2003 that was held throughout 2004. The most noteworthy decreases in goodwill amortization in 2004 with respect to 2003 relate to the effect of the sale of the holding in Lycos in 2004 and of that in Antena 3 de Televisión in 2003, and to the allocation to intangible assets at 2003 year-end of the goodwill that arose on the ownership interest in Telefónica Móviles México.

The net extraordinary loss in 2004, which amounted to €1,165.7 million (6.7% less than in 2003), included most notably the effect of the early amortization of goodwill (€111.1 million) and the period preretirement and retirement provisions recorded at the Group as a whole (€908.0 million).

The positive trend in operating and nonoperating earnings enabled the Group to report net income of €2,877.3 million, representing year-on-year growth of 30.6%.

Revenues

Operating revenues amounted to €31,177.9 million, up 6.7% on 2003.

By item, net sales and services, which accounted for more than 97% of total operating revenues, amounted to €30,321.9 million, with year-on-year growth of 6.8%, or 8.3% in adjusted terms³. The greatest contributions to consolidated operating revenues were made by the Wireless Business (35%), the Telefónica de España Group (34%) and Telefónica Latinoamérica (22%).

The operating revenues of the Wireless Business amounted to €12,054.1 million, up 15.6% on 2003 (12.8% in adjusted terms), due to increased handset sales resulting from the growth in the customer base and to higher service revenues. Spain accounted for 68% of revenues and Latin America for the remaining 32%.

The operating revenues of the Telefónica de España Group totaled €10,955.8 million, 2.4% higher than in 2003, due to the sound performance of wholesale and retail broadband services, which offset the fall in voice traffic revenues.

Operating revenues at Telefónica Latinoamérica amounted to €6,883.4 million, up 2.1% on 2003 (7.5% at constant exchange rates). This growth is mainly attributable, at Telesp, to the development of the broadband services and the rate increase and, at TASA, to the pick-up in demand and improved operating variables. Telefónica Empresas América, which strengthened and consolidated its market position in 2004, also contributed to revenue growth.

Expenses

Operating expenses amounted to €17,962.5 million, with year-on-year growth of 8.1% (adjusted growth of 9.8%), due mainly to the performance of the Wireless Business, in which commercial activity was intense in 2004.

Procurement expenses grew by 17.4% with respect to 2003 year-end to reach €7,525.7 million. This increase was chiefly attributable to the rise in wireless handset purchases resulting from heightened commercial activity, to higher interconnection expenses at Spanish and Latin-American wireline telephony operators, and to the increase in purchases of equipment for the deployment of ADSL services.

Outside services expenses totaled €5,082.5 million, 11.5% higher than in 2003. 2004 was characterized by the intense commercial activity of all the Telefónica Group's lines of business, most notably the Wireless Business, whose expenses rose sharply due to the funds invested by it in attracting new customers and in building the loyalty of its existing customer portfolio. With regard to the wireline operators, the rise in outside services expenses related mainly to increased commercial deployment and to higher line maintenance costs resulting from the expansion of the ADSL service.

The Group's personnel expenses totaled €4,411.8 million, a decrease of 4.9% with respect to 2003, influenced by the Telefónica de España labor force reduction plan for 2004, which affected 2,417 employees. As of December 31, 2004, the Telefónica Group's headcount was 173,554 employees, 17% higher than that of the preceding year, due mainly to the increase in operations at Atento, which led to the creation of 20,500 jobs, and to the inclusion in December 2004 of the personnel of the BellSouth cellular operators, which had a headcount of 7,000 employees.

Noteworthy in connection with the other operating expenses was the significant decrease in the period provision for bad debts in 2004 as a result of the greater control exercised over delinquency in Spain and Latin America.

EBITDA and Operating income

As a result of the aforementioned variations in revenues and expenses, EBITDA amounted to €13,215.4 million at 2004 year-end, a 4.9% increase with respect to 2003, representing adjusted growth of 6.0%.

Consolidated operating income stood at €7,235.2 million, up 14.3% on the figure for 2003 (15.5% adjusted growth). This

substantial year-on-year increase arose as a result of the growth in Ebitda and the good performance of the depreciation and amortization expense, which fell by 4.7%, due mainly to investment rationalization.

Investment activity

In 2004 the Telefónica Group recorded intangible asset and property, plant and equipment additions of €3,768.1 million, 1.7% more than in 2003. This growth was due basically to the increased investment drive in the Wireless Business and Telefónica Latinoamérica. The largest increase in expenditure was that of the wireless telephony business, which had to make greater investments both in Brazil, to evolve toward an enhanced version of the CDMA network and to increase its capacity and coverage; in Spain, to invest in the UMTS network; and in Argentina and Mexico, to deploy the GSM network.

Investments at Telefónica Latinoamérica rose in 2004, principally at TASA and Telefónica del Perú, mainly as a result of the increased expenditure required to deploy the broadband services.

In 2004 Telefónica de España continued to implement the policy of shifting the Company's focus toward broadband by stepping up the deployment of ADSL technology and devoting greater resources to the growing Internet and multimedia businesses, without neglecting the needs of its traditional business. Despite the investment drive in broadband, the reduction of unit costs and the rationalization of investments (re-use of vacant infrastructure, process redesign, etc.) enabled Telefónica de España to significantly reduce its investments with respect to 2003.

The investment rationalization and optimization drive launched in recent years at the Group's other lines of business continued in 2004.

Investments in property, plant and equipment totaled €3,174.1 million, representing an increase of 9.5%, whereas those in intangible assets amounted to €594.1 million, a fall of 26.3% with respect to 2003.

Long-term investments, which amounted to €157.5 million, included most notably the increase in the holding in Portugal Telecom

Innovation and R&D

The Telefónica Group regards innovation as one of the pillars on which its future transformation will be based. This strategy underlines the role of innovation as a key tool with which the Group can attain a sustainable competitive edge, such as the ability to preempt market trends and to differentiate its products, by introducing new technologies in the new products and services it develops and by including Communication and Information Technologies (CITs) in its business processes. The ultimate aim pursued is to become a more effective, efficient, flexible and customer-oriented enterprise.

To this end, Telefónica has established a New Technological Innovation Model, which, implemented through Telefónica I+D, lays the foundations for the closer alignment of technological innovation with the Group's strategy. The New Model also promotes cooperation with other Group stakeholders, which will become its "technological allies" (customers, public authorities, suppliers, business allies, etc.).

In 2004 Telefónica invested €2,398 million in technological innovation. Within the framework of its investment rationalization process, Telefónica continues to increase each year the percentage of investments targeted at new businesses.

As regards the means of obtaining innovative solutions, Telefónica continues to consider that achieving the differentiation of its products with respect to its competitors and a better market positioning cannot be based solely on acquired technology. It is necessary to foster in-house research and development activities to guarantee this differentiation and to drive forward other innovation activities. In 2004 the Telefónica Group's investments in R&D activities amounted to €461 million (1.5% of its revenues).

Most of the R&D activities are undertaken by Telefónica Investigación y Desarrollo, a wholly-owned investee of Telefónica, which works principally for the Group's lines of business. In performing its functions, it receives the assistance of other companies and universities. The driving force behind the Group's innovation, Telefónica I+D has the two-fold task of developing the solutions that Telefónica requires and identifying the emerging technological options that could have a significant impact on its businesses.

In 2004 Telefónica I+D formed a new company in Mexico to share, together with Telefónica Pesquisa e Desenvolvimento, a Telefónica I+D subsidiary based in São Paulo, the mission of supporting the technological innovation of the Group companies operating in Latin America. In addition, Telefónica has embarked upon the creation of a new R&D center in Andalusia, which will supplement the activities currently being performed at the centers in Barcelona, Huesca, Madrid and Valladolid.

The R&D projects undertaken in 2004 by the Telefónica Group targeted profitable innovation, process efficiency, the creation of new sources of revenues, customer satisfaction, the consolidation of the new markets and technological leadership. These projects have played a central role in Telefónica's strategy to create value - through broadband communications and services and wireless data and multimedia services that harness the emerging potential of both UMTS and the latest wireless handsets- and to develop and enhance commercial management systems and networks and services.

Also, in 2004 the Group conducted applied R&D activities, aimed more at the medium and long term, in order to detect, understand, develop and apply - using advisory services, strategic studies, technological monitoring activities and experimental development projects- any issues, particular features, opportunities and above all technologies that will have an effect on the future performance of the Group's various lines of business. These applied R&D activities, which involve extensive participation in European R&D projects promoted and financed in part by the EU, constitute the main reason why Telefónica is the foremost Spanish company in terms of participation in projects of this kind.

Financial earnings

Net financial expenses totaled €1,183.8 million in 2004, including a loss of €10.6 million due to the depreciation of the

Argentine peso. Disregarding this effect, the financial loss for 2004 amounted to €1,173.2 million, down 19.8% on the comparable figure for 2003 (€1,462.6 million), which does not include the gains of €134.4 million and €267.5 million, respectively, resulting from the appreciation of the Argentine peso and from the repayment of the debt denominated in U.S. dollars, events which occurred in 2003.

The free cash flow generated by the Telefónica Group in 2004 amounted to €6,507.0 million, of which €1,924.2 million were used for the payment of dividends by Telefónica S.A., €5,534.5 million were earmarked for financial investments (net of real estate divestments) and €697.2 million were used to settle commitments acquired by the Group, derived mainly from the labor force reduction plans. Consequently, the free cash flow after dividends, which to a large extent explains the increase in the net financial debt, amounted to €1,648.9 million.

Financing

The Telefónica Group's net debt rose by €1,746.9 million from €19,235.3 million at 2003 year-end to €20,982.2 million as of December 31, 2004. This increase was largely attributable to the free cash flow after dividends of €1,648.8 million. Also, the net debt increased by €321.4 million due to variations in the scope of consolidation and other effects on financial accounts; however, this rise was largely offset by a reduction of €223.4 million due to the impact of exchange rate fluctuations on the debt not denominated in euros.

The main financing transactions in 2004 were as follows:

On July 6, 2004, Telefónica arranged a syndicated loan of €3,000 million with several Spanish and foreign banks. This syndicated loan matures in five years (on July 6, 2009) and bears interest of EURIBOR/LIBOR plus a spread that will be based on the Company's credit rating. The commitments and obligations of the parties are those ordinarily assumed in syndicated financing transactions. Banco Bilbao Vizcaya Argentaria, S.A. and Caja de Ahorros y Pensiones de Barcelona ("La Caixa") acted, together with other institutions, as underwriters and lead managers.

Also in July 2004, Telefónica Europe B.V. revalued the EMTN programme (registered on the London Stock Exchange with a limit of €10,000 million).

On October 15, Telesp formalized a local bond program with a limit of 3,000 million Brazilian reais. This program, which is valid for a period of two years from that date, provides for the issue, up to the aforementioned amount, of commercial paper and local bonds, maturing at any date, with interest in reais at fixed rates, floating rates (CDI) or rates tied to other indices, for example inflation (GPI – M or CPI – A). On October 28, a first tranche of 1,500 million reais was used which, bearing interest at a floating rate (103.5% CDI), matures on September 1, 2010.

On November 26, 2004, Telefónica, S.A. and several branches of ABN Amro Bank N.V. entered into a credit facility agreement amounting to US\$ 377.08 million, secured by the export credit agencies of Finland ("Finnvera") and Sweden ("EKN"), bearing fixed interest of 3.26% and with final maturity on November 15, 2010. This financing will cover up to 85% of the purchases of network equipment to be made

by Telefónica Móviles Group companies from Ericsson and Nokia.

At the beginning of December, CTC Chile completed a public offering for the repurchase of its two series of Yankee bonds, for a final amount of US\$ 182 million, thereby not only reducing its level of indebtedness by this amount but also decreasing its financial expenses in view of the high interest rate offered on these bonds with respect to current market conditions in Chile.

Similarly, CTC Chile renegotiated a US\$ 200 million syndicated loan from several international banks, extending the maturity date to December 21, 2009, and reducing the applicable interest rate from Libor plus a spread of 1.125% to Libor plus a spread of 0.40%.

In 2004 Telefónica Europe continued to issue commercial paper under the ECP (Euro Commercial Paper) program secured by Telefónica, S.A. It launched short-term issues with maturities ranging from one week to 364 days. As of December 31, 2004, the ending balance of the outstanding issues under this program amounted to €857.92 million (valued at issue price).

Rating agencies

The credit ratings assigned to Telefónica's long-term debt by the main rating agencies, which underwent no changes in 2004, are as follows: A3 with a stable outlook from Moody's, a rating the Group has held since December 2, 2002; A with a stable outlook, since February 5, 2002, from Standard and Poor's; and, lastly, A with a stable outlook, since August 9, 2002, from Fitch Ibc. The latest rating reviews performed by these agencies on March 8, 2004, July 9, 2004, and September 23, 2004, respectively, did not result in any changes to the ratings.

Subsequent to year-end, on January 27, 2005, Standard and Poor's ratified Telefónica's credit rating, albeit lowering the outlook classification from stable to negative.

Agreements entered into subsequent to December 31, 2004

In the period from December 31, 2004, through the date of preparation of these consolidated financial statements, the following events took place at the Telefónica Group:

BellSouth

The acquisition of all the shares owned by BellSouth in the Chilean and Argentine operators was performed on January 7 and January 11, 2005, thus completing the purchase of the Latin American operators from BellSouth.

The acquisition of BellSouth's Chilean operators was formalized on January 7, 2005. The corporate value of these companies under the share purchase agreement dated March 5, 2004, amounted to US\$ 531.89 million. As a result of the company's net debt at the time of acquisition, the final purchase price was US\$ 405.50 million.

The acquisition of the Argentine companies which belonged to the BellSouth group was formalized on January 11, 2005. The agreed-upon corporate value of these companies amounted to US\$ 988.36 million and the price finally paid, after deducting the company's net debt, was US\$ 673.54 million. The agreement entered into with BellSouth stipulates that, after the acquisition of these companies, Telefónica Móviles

will perform various procedures to validate their cash and debt. If as a result of these procedures the debt and cash figures used in the calculation of the final share price at the closing date were found to be inaccurate, the purchase price could be increased or reduced in order to reflect the difference disclosed. Accordingly, the acquisition price might be adjusted slightly upwards or downwards as a result of the cash and debt audit currently under way.

Restructuring of Telefónica Holding de Argentina, S.A.'s debt

Telefónica Holding de Argentina S.A. has a debt to its majority stockholder, Telefónica Internacional, S.A., amounting to US\$ 616 million of principal plus interest. Telefónica Internacional, S.A. has stated its intention to partially convert this loan into equity through a capital increase for an amount equal to the principal and related interest accrued through the date of the Stockholders' Meeting, translated to Argentine pesos at the closing buying exchange rate of Banco de la Nación Argentina on the business day immediately preceding the date of the aforementioned Stockholders' Meeting (i.e. an amount of up to ARP 2,046 million), and through the issue at par of common registered class B shares of ARP 1 par value each, carrying one voting right each, for the same amount as the amount to be converted into equity. These shares will have the same dividend rights as the other shares outstanding at the issue date. Accordingly, the Board of Directors of Telefónica Holding de Argentina, S.A. resolved to hold a Special Stockholders' Meeting on February 15, 2005, to adopt a resolution on the aforementioned capital increase, which was approved at that Meeting.

Capital increase at Telesp Celular Participações (TCP).

On October 8, 2004, TCP resolved to increase capital by approximately 2.05 million reais. Through this capital increase, which was completed on January 4, 2005, and was fully subscribed, Brasilcel increased its ownership interest from 65.12% to 65.70%.

Assignment of debt owed by Telinver S.A.

On January 3, 2005, Telinver S.A. entered into an assignment agreement with Telefónica Internacional S.A. and Telefónica de Argentina S.A. whereby Telinver, S.A. assigned its debt payable to Telefónica Internacional S.A. to Telefónica de Argentina S.A., which now has a claim on Telinver, S.A. as a consideration for the assigned debt. Telefónica de Argentina, S.A. has stated its intention to convert a portion of this claim into equity for the purpose of balancing the net worth position of Telinver, S.A.

MTN Program for the issuance of debt instruments (Telefónica Emisiones, S.A.U.)

Telefónica Emisiones, S.A.U., a subsidiary of Telefónica, S.A., has launched a program for the issuance of debt instruments ("the Program") for up to a total of €15,000 million, the Prospectus for which was filed with the UK Listing Authority and for which purpose the Dealership Agreement, the Issue and Paying Agency Agreement, the Deed of Covenant, the Deed of Guarantee and the Master Global Notes were formalized on February 4, 2005.

Under the Deed of Guarantee, the issues of debt instruments to be made by Telefónica Emisiones, S.A.U. under the aforementioned Program shall be irrevocably and unconditionally guaranteed by Telefónica, S.A.; all in

conformity with the resolutions adopted by Telefónica, S.A.'s Standing Committee at its meeting on December 22, 2004.

Merger by absorption of Terra Networks, S.A. into Telefónica, S.A.

On February 9, 2005, Telefónica, S.A.'s Standing Committee resolved to propose to Terra Networks, S.A. the commencement of negotiations for the eventual merger of the two companies.

The Boards of Directors of Telefónica, S.A. and Terra Networks, S.A. resolved at their respective meetings held on February 23, 2005, to approve a plan for the merger by absorption of Terra Networks, S.A. into Telefónica, S.A., through the dissolution of the former and the transfer en bloc of all its assets and liabilities to the latter, which will acquire, by way of universal succession, all the rights and obligations of Terra Networks, S.A. The exchange ratio for the shares of the companies to be merged was determined on the basis of the actual net asset value of Telefónica, S.A. and Terra Networks, S.A. and as follows: 2 shares of Telefónica, S.A. of €1 par value each, for 9 shares of Terra Networks, S.A. of €2 par value each. The merger plan will be submitted for approval by the respective Stockholders' Meetings.

Interim dividend out of 2004 income.

In accordance with the stockholder remuneration policy approved by the Company's Board of Directors, and in conformity with the resolution adopted by the Board on January 26, 2005, on February 23, 2005, the Board of Directors of Telefónica, S.A., on the basis of the financial information furnished to it, resolved, pursuant to Article 216 of the Spanish Corporations Law currently in force, to distribute a fixed interim dividend out of 2004 income of €0.23 gross per share for the Company's outstanding shares carrying dividend rights, for a maximum total amount of €1,139.86. This interim dividend will be paid on May 13, 2005.

ACCOUNTING STATEMENT SUPPORTING THE DISTRIBUTION OF THE INTERIM DIVIDEND

Millions of euros

Income obtained in the period from January 1, 2004 to December 31, 2004	1,301.40
Mandatory appropriations to reserves	(130.14)
Distributable income	1,171.26
Proposed interim dividend (maximum amount)	1,139.86

CASH POSITION:

As shown in the 2004 financial statements, which were prepared by the Board of Directors on February 23, 2005, as of December 31, 2004, there was sufficient liquidity for the distribution of the dividend. This liquidity also existed as of January 31, 2005, as evidenced by the following statement of liquidity:

Funds available for distribution	<i>Millions of euros</i>
Cash	31.04
Unused credit	6,836.06
Proposed interim dividend (maximum amount)	(1,139.86)
Difference	5,727.24

Dividend with a charge to additional paid-in capital

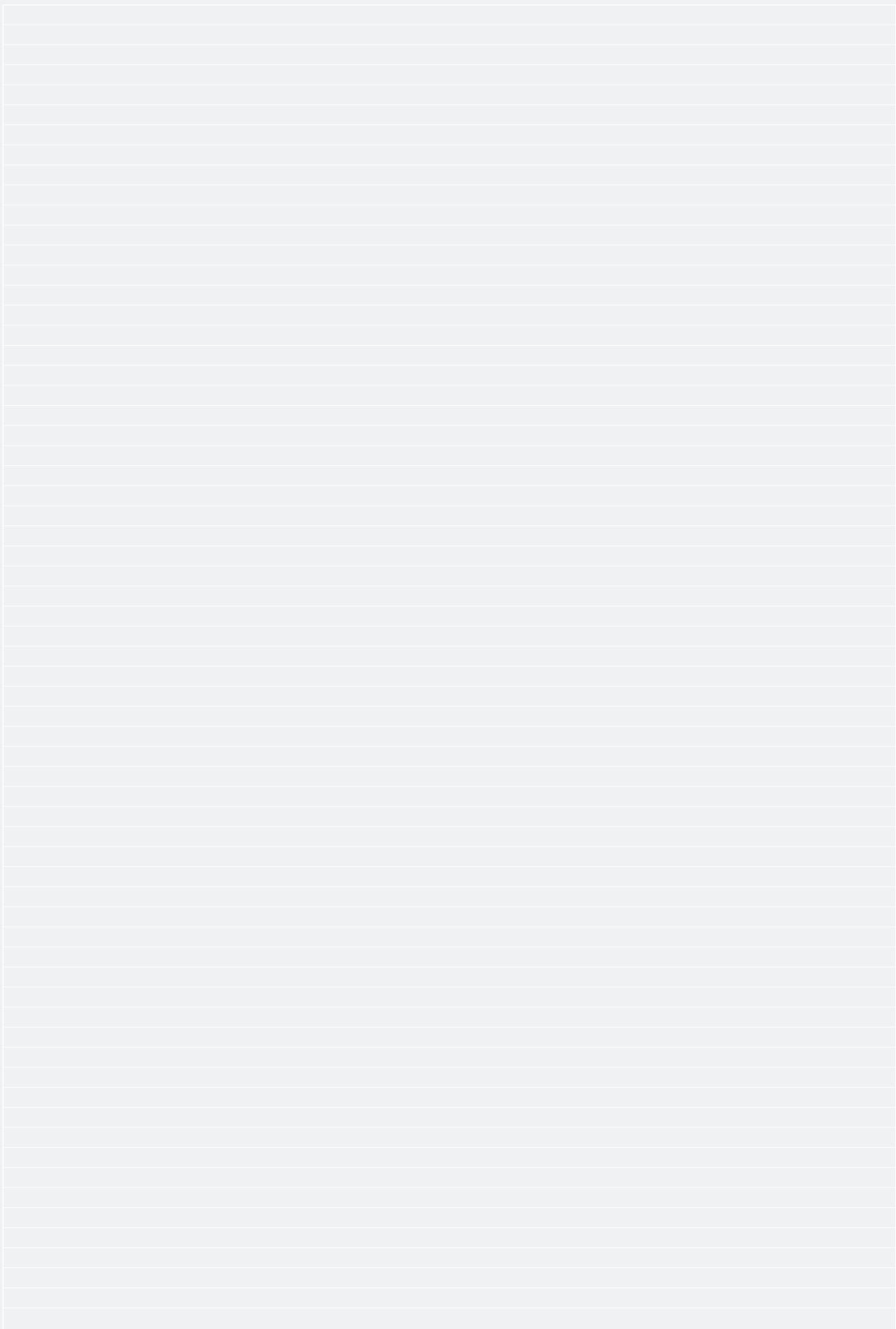
Also, in conformity with the resolution adopted by the Board of Directors on January 26, 2005, the Company's Board resolved to propose to the next Stockholders' Meeting that a fixed cash dividend of €0.27 per share be distributed with a charge to additional paid-in capital. This dividend will be paid, subject to approval by the aforementioned Stockholders' Meeting and as announced by the Company, on November 11, 2005.

Treasury stock

At the beginning of 2004 Telefónica held treasury stock representing 0.81787% of capital stock, i.e. 40,532,869 shares with a book value of €10.39 each, giving a total of €421.26 million and a par value of €40.53 million.

In 2004 the Company acquired for consideration 166,712,310 shares of treasury stock (representing 3.3639% of capital stock and with a par value of €166.71 million) at an average price of €12.98 per share.

As a result, 207,245,179 shares (representing 4.18179% of capital stock) of treasury stock were held at 2004 year-end, acquired at an average price of €11.83 per share, giving a total of €2,542.31 million and a par value of €207.25 million. As indicated in Note 4-i, pursuant to current accounting legislation, these shares of treasury stock were valued at their underlying book value and, consequently, an allowance of €1,762.13 million was recorded.



07/02

Annual Financial Statement
and Management Report for Telefónica, S.A.

Translation of a report and financial statements originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

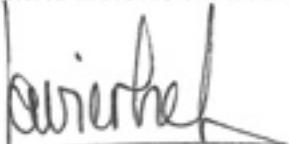
AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Stockholders of Telefónica, S.A.:

1. We have audited the financial statements of Telefónica, S.A. comprising the balance sheet as of December 31, 2004, and the related statement of income and notes to financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. The financial statements for 2004 referred to above are presented in compliance with current Spanish corporate law, despite the fact that the operations of Telefónica, S.A. and of the companies it controls are managed on a consolidated basis. Accordingly, the financial statements of Telefónica, S.A., which acts basically as a holding company, do not reflect the financial and net worth variations resulting from application of consolidation methods to these holdings or to the transactions performed by the related investees, some of which are the result of the application of the Group's overall strategy. However, these variations are reflected in the Telefónica Group's consolidated financial statements for 2004, on which we issued our auditors' report dated March 4, 2005, containing an unqualified opinion. The effect of consolidation is disclosed in Note 4-d.
3. As required by Spanish corporate law, for comparison purposes the directors present, in addition to the 2004 figures for each item in the balance sheet and statements of income and of changes in financial position, the figures for 2004. Our opinion refers only to the 2004 financial statements. Our auditors' report dated February 26, 2004, on the 2003 financial statements contained an unqualified opinion.
4. In our opinion, the financial statements for 2004 referred to above present, in all material respects, a true and fair view of the net worth and financial position of Telefónica, S.A. as of December 31, 2004, and of the results of its operations and of the funds obtained and applied by it in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards in Spain applied on a basis consistent with that of the preceding year.
5. The accompanying management report for 2004 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the management report is consistent with that contained in the financial statements for 2004. Our work as auditors was confined to checking the management report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.

Registered in ROAC under no. S0692



Javier Ares San Miguel
March 4, 2005

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

TELEFÓNICA, S.A.
BALANCE SHEETS AS OF DECEMBER 31
(Millions of euros)

ASSETS	2004	2003
A) FIXED AND OTHER NONCURRENT ASSETS	43,715.40	43,052.65
I. Start-up expenses	12.19	33.64
II. Intangible assets (Note 5)	40.08	40.65
Computer software	95.90	71.72
Other intangible assets	10.53	11.37
Accumulated amortization	(66.35)	(42.44)
III. Property, plant and equipment (Note 6)	261.59	28.06
Land and structures	220.21	0.81
Furniture, tools and other items	103.61	31.70
Accumulated depreciation and allowances	(62.23)	(4.45)
IV. Long-term investments (Note 7)	43,401.54	42,950.30
Investments in Group companies	22,415.48	23,374.86
Investments in associated companies	1,479.16	1,005.42
Other investments	14.42	6.82
Loans to Group and associated companies	20,531.41	19,729.71
Other loans	55.17	70.26
Long-term deposits and guarantees given	35.05	3.22
Tax receivables (Note 14.2)	4,343.19	5,000.10
Allowances	(5,472.34)	(6,240.09)
B) DEFERRED CHARGES (Note 8)	266.22	288.98
C) CURRENT ASSETS	7,515.63	5,847.93
I. Accounts receivable	109.93	111.26
Trade receivables	7.86	7.27
Receivable from Group companies	71.04	72.75
Receivable from associated companies	0.15	0.15
Sundry accounts receivable	6.73	4.87
Employee receivables	0.78	0.85
Tax receivables (Note 14.2)	27.89	30.66
Allowance for bad debts	(4.52)	(5.29)
II. Short-term investments	6,447.97	5,564.55
Loans to Group and associated companies (Note 7.3)	6,184.36	3,990.10
Short-term investment securities (Note 7.5)	263.61	1,574.45
III. Short-term treasury stock (Note 9)	690.18	133.46
IV. Cash	255.72	33.73
V. Accrual accounts	11.83	4.93
TOTAL ASSETS	51,497.25	49,189.56

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these balance sheets.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

TELEFÓNICA, S.A.**BALANCE SHEETS AS OF DECEMBER 31**

(Millions of euros)

STOCKHOLDERS' EQUITY AND LIABILITIES	2004	2003
A) STOCKHOLDERS' EQUITY (Note 9)	14,399.38	16,477.06
I. Capital stock	4,955.89	4,955.89
II. Additional paid-in-capital	5,287.68	7,987.14
III. Revaluation reserves	1,368.89	1,368.89
IV. Reserves	1,485.52	791.43
Legal reserve	789.94	652.57
Reserve for treasury stock	690.18	133.46
Other reserves	5.40	5.40
V. Income for the year	1,301.40	1,373.71
B) PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 16.7)	139.30	149.38
C) LONG-TERM DEBT	20,770.55	22,957.57
I. Debentures, bonds and other marketable debt securities (Note 10)	1,917.52	2,525.97
Nonconvertible debentures and bonds	1,824.62	2,525.97
Other marketable debt securities	92.90	-
II. Payable to credit institutions (Note 11)	2,950.56	2,665.25
III. Payable to Group and associated companies (Note 12)	15,697.40	17,577.64
IV. Other payables	13.02	4.24
V. Taxes payable (Note 14.2)	46.92	39.34
VI. Uncalled capital payments payable	145.13	145.13
Group companies (Note 7.4)	145.13	145.13
D) CURRENT LIABILITIES	16,188.02	9,605.55
I. Debentures, bonds and other marketable debt securities (Note 10)	1,814.65	727.71
Nonconvertible debentures and bonds	799.06	69.24
Other marketable debt securities	963.84	606.45
Interest on debentures and other securities	51.75	52.02
II. Payable to credit institutions	2,619.35	865.73
Loans and other accounts payable (Note 11)	2,607.85	860.91
Accrued interest payable	11.50	4.82
III. Payable to Group and associated companies (Note 12)	11,551.42	7,935.03
IV. Trade accounts payable	53.87	37.42
Accounts payable for purchases and services	53.87	37.42
V. Other nontrade payables	148.73	39.66
Taxes payable (Note 14.2)	17.31	15.43
Other nontrade payables (Note 15)	131.42	24.23
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	51,497.25	49,189.56

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these balance sheets.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

TELEFÓNICA, S.A.**STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31***(Millions of euros)*

DEBIT	2004	2003
A) EXPENSES		
Personnel expenses (Note 16.2)	94.94	113.07
Depreciation and amortization expense	49.89	47.91
Property, plant and equipment (Note 6)	4.62	1.67
Intangible assets (Note 5)	23.75	18.22
Amortizable expenses	21.52	28.02
Other operating expenses	250.52	209.00
Outside services provided by Group companies (Note 16.8)	51.49	51.55
Other outside services	186.93	166.36
Taxes other than income tax	7.09	5.96
Other current operating expenses	5.01	(14.87)
I. OPERATING INCOME	-	-
Financial and similar expenses		
On debts to Group companies (Notes 16.4 and 16.8)	891.56	912.35
On debts to third parties and similar expenses (Note 16.4)	324.96	500.59
Variation in short-term investment valuation allowances	0.26	(30.80)
Amortization of deferred charges	34.31	38.23
Exchange losses (Note 16.5)	651.78	1,635.44
II. FINANCIAL INCOME	726.45	400.68
III. INCOME FROM ORDINARY ACTIVITIES	456.48	136.44
Variation in investment valuation allowances (Note 7.1)	(761.77)	(755.27)
Extraordinary expenses and losses (Note 16.7)	69.70	66.47
IV. EXTRAORDINARY INCOME	708.84	900.06
V. INCOME BEFORE TAXES	1,165.32	1,036.50
Corporate income tax in Spain (Note 14)	(139.99)	(343.51)
Foreign taxes (Note 14)	3.91	6.30
VI. INCOME FOR THE YEAR	1,301.40	1,373.71

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these statements of income.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

**TELEFÓNICA, S.A.
STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31
(Millions of euros)**

CREDIT	2004	2003
B) REVENUES		
Net sales to Group companies (Note 16.1)	26.04	32.82
Other operating revenues	99.34	72.92
Non-core and other current operating revenues – Group companies (Note 16.1)	87.24	65.17
Non-core and other current operating revenues – Non-Group companies	12.10	7.75
I. OPERATING LOSS	269.97	264.24
Revenues from equity investments	823.30	616.59
Group companies (Note 16.8)	795.41	591.65
Associated companies	13.26	12.19
Non-Group companies	14.63	12.75
Revenues from other equity investments and loans (Note 16.4)	1,100.84	1,248.65
Group companies (Note 16.8)	968.32	1,174.51
Other companies	132.52	74.14
Exchange gains (Note 16.5)	705.18	1,591.25
II. FINANCIAL LOSS	-	-
III. LOSS ON ORDINARY ACTIVITIES	-	-
Gains on fixed asset disposals (Note 16.6)	16.26	29.44
Extraordinary revenues (Note 16.6)	0.51	181.82
IV. EXTRAORDINARY LOSS	-	-
V. LOSS BEFORE TAXES	-	-
VI. LOSS FOR THE YEAR	-	-

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these statements of income.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

**TELEFÓNICA, S.A.
Notes to financial statements for the year ended
december 31, 2004**

(1) INTRODUCTION AND GENERAL INFORMATION

Telefónica, S.A. ("Telefónica" or "the Company") was incorporated for an indefinite period of time on April 19, 1924, under the corporate name of Compañía Telefónica Nacional de España, S.A., and it adopted its present name in April 1998.

The Company's registered office is at Gran Vía 28, Madrid (Spain), and its Employer Identification Number is A-28/015865.

Telefónica's corporate purpose, per Article 4 of its bylaws, is the provision and operation of all manner of telecommunications services (including ancillary or supplementary telecommunications services or the services derived therefrom); research and development, the promotion and application of all manner of telecommunications components, equipment and systems; manufacturing, production and, in general, all other types of industrial activity relating to telecommunications; and the acquisition, sale and, in general, all other types of commercial activity relating to telecommunications.

As also stipulated in Article 4 of its bylaws, all the business activities that constitute the corporate purpose described above may be performed either in Spain or abroad and may be carried on either wholly or partially by the Company, or through shareholdings or other equity interests in other companies or legal entities with an identical or a similar corporate purpose.

In keeping with the foregoing, Telefónica is now the Parent Company of a Group of companies which operate mainly in the telecommunications, media and entertainment industries, providing a wide range of services on the international stage.

The Company is taxed under the general tax regime established by the Spanish State, the Spanish autonomous communities and local governments, and files consolidated tax returns with most of the Spanish subsidiaries in its Group under the consolidated tax regime applicable to corporate groups.

(2) BASIS OF PRESENTATION

True and fair view

The accompanying financial statements were prepared from Telefónica's accounting records by the Company's directors in accordance with the accounting principles and standards contained in the Commercial Code as implemented by the Spanish National Chart of Accounts and, accordingly, give a true and fair view of the net worth, financial position and results of operations and of the funds obtained and applied in 2004.

The financial statements for 2004 will be submitted for approval by the Stockholders' Meeting, and it is considered that they will be approved without any changes. The financial

statements for 2003 were approved by the Stockholders' Meeting on April 30, 2004.

Comparative information

There were no changes in the structure of the balance sheet or the statement of income with respect the previous year. Also, no changes with a material effect were made in accounting methods with respect to 2003.

Inmobiliaria Telefónica, S.L.U., a wholly-owned subsidiary of Telefónica, S.A., was dissolved without liquidation through the overall transfer of its assets and liabilities to its sole stockholder and its subsequent extinction.

These notes to financial statements disclose the main effects of this transfer so that the 2004 figures may be compared with those for 2003. The effects of this transfer were recognized for accounting purposes from January 1, 2004, as stated in the *public deed of dissolution without liquidation, overall transfer of assets and liabilities and extinction of Inmobiliaria Telefónica, S.L.U.* executed in Madrid on July 17, 2004.

No additional significant events took place preventing a comparison of the figures for 2004 with those for 2003.

The figures in these financial statements and in the management report are expressed in millions of euros unless otherwise indicated.

(3) PROPOSED DISTRIBUTION OF INCOME

Telefónica, S.A. obtained income of €1,301.40 million in 2004.

The proposed distribution of 2004 income that the Company's Board of Directors will submit for approval by the Stockholders' Meeting is as follows: a) to appropriate 10% of income for the year (€130.14 million) to the legal reserve; b) to pay a fixed dividend of €0.23 gross per share for the Company's outstanding shares carrying dividend rights; and c) to appropriate the remainder to voluntary reserves.

	<i>Millions of Euros</i>
Total distributable income	1,301.40
Distribution to:	
Legal reserve	130.14
Dividend (maximum distributable amount of €0.23/share for all the shares into which the Company's capital stock is divided (4,955,891,361 shares)	1,139.86
To voluntary reserve (minimum)	31.40
Total	1,301.40

It is hereby stated that on February 23, 2005, the Company's Board of Directors resolved (see Note 19) to distribute a fixed interim dividend out of 2004 income of €0.23 gross for the Company's outstanding shares carrying dividend rights, up to a total amount of €1,139.86 million. This interim dividend will be paid on May 13, 2005. Consequently, the proposed dividend to be paid out of 2004 income will be fully settled through payment of the aforementioned interim dividend.

(4) VALUATION STANDARDS

The main valuation methods used in preparing the 2004 financial statements were as follows:

a) Start-up expenses

Start-up expenses, which comprise incorporation and capital increase expenses, are recorded at cost and are amortized on a straight-line basis over five years.

b) Intangible assets

Intangible assets include mainly software licenses, which are recorded at cost and are amortized on a straight-line basis over three years.

c) Property, plant and equipment

Property, plant and equipment are carried at cost.

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.

The interest and other financial expenses incurred during the construction of fixed assets are capitalized. €1.72 million were capitalized in 2004 relating to interest incurred in the construction of the new office buildings housing the Company's headquarters (see Note 16.1).

Upkeep and maintenance expenses are expensed currently.

Property, plant and equipment are depreciated by the straight-line method at annual rates based on the following years of estimated useful life:

	Years of Estimated Useful Life
Buildings	33- 40
Plant and machinery	12
Furniture, office equipment and other tangible fixed assets	4-10

d) Long-term investments

Investments in marketable securities are recorded as follows:

1. Listed securities (excluding shares of Group or associated companies).

At the lower of cost or market. The market value was taken to be the lower of the average market price in the last quarter or market price at year-end.

2. Investments in Group and associated companies.

At the lower of acquisition cost or underlying book value of the holdings, adapted to generally accepted accounting principles in Spain, adjusted by the amount of the unrealized gains disclosed at the time of the acquisition and still existing at the date of subsequent valuation.

3. Unlisted securities.

At cost, net, where appropriate, of the required investment valuation allowances to reduce them to their underlying book value, adjusted, where appropriate, by the amount of the unrealized gains disclosed at the time of the acquisition and still existing at the date of subsequent valuation.

Unrealized losses (cost higher than market value) are recorded in the "Allowances" account (see Note 7). However, an additional provision was recorded with a charge to the "Extraordinary Expenses" caption to cover possible third-party liability arising from the negative net worth of investees, and this provision is recorded under the "Provisions for Contingencies and Expenses" caption.

Dividends are recorded as a revenue as soon as their distribution is approved, and gains or losses on the sale of holdings are recorded as revenues or expenses in the year in which they are realized.

The Company has prepared separate consolidated financial statements. In 2004 the effect of consolidation, with respect to the accompanying individual financial statements, was to increase (decrease) the following balances by the amounts shown:

<i>Millions of euros</i>	
Assets	11,969.09
Stockholders' equity	1,825.74
Net sales	30,295.86
Income for the year	1,575.89

e) Deferred charges

This caption basically includes the following items:

- Interest on long-term promissory notes
This relates to the difference between the face value and the effective value of the promissory notes issued at over one year. This interest is charged to income by the interest method.
- Debt arrangement expenses
These relate to long-term debt arrangement expenses and issue premiums on debentures and bonds and are amortized by the interest method on the basis of the principal amounts outstanding.
- Prepayments
These relate to the unincurred portion at year-end of the payments made on the purchase of services.

f) Treasury stock

Treasury stock is valued at the lower of average cost, comprising the total amount paid for the shares, or market. Since these shares were acquired without any prior resolution having been adopted by the Stockholders' Meeting to reduce capital, it is considered that they could be used for subsequent sale or, alternatively, for a capital reduction, and, accordingly, the market value is taken to be the lowest of average official market price in the last quarter of the year, year-end market price, or the related underlying book value. A provision was recorded with a charge to the statement of income for the difference between the acquisition cost and the lower of the year-end market price or the average market price in the last quarter, and with a charge to reserves for the difference between the aforementioned market value and the related underlying book value.

g) Foreign currency transactions

Fixed-income securities and receivables and payables denominated in foreign currencies are translated to euros at the exchange rates ruling at the transaction date, and are adjusted at year-end to the exchange rates then prevailing.

Exchange differences arising on adjustment of foreign currency fixed-income securities and receivables and payables to year-end exchange rates are classified by currency and due date, and for this purpose currencies which, although different, are officially convertible are grouped together.

The positive net differences in each group of currencies are recorded under the "Deferred Revenues" caption on the liability side of the balance sheet, unless exchange losses in a given group have been charged to income in prior years, in which case the positive net differences are credited to period income up to the limit of the negative net differences charged to income in prior years.

The positive differences deferred in prior years are credited to income in the year in which the related accounts receivable and payable fall due or are repaid early, or as negative exchange differences for the same or a higher amount are recognized in each homogeneous group.

h) Pension and other commitments to employees

Telefónica has entered into an agreement with its employees, the most salient features of which are as follows:

- Occupational Pension Plan pursuant to Legislative Royal Decree 1/2002 approving the revised Pension Plans and Funds Law.
- Defined contribution of 4.51% of the participating employees' regulatory salary. The defined contributions of employees transferred to Telefónica from other Group companies at which these defined contributions were different (6.87% in the case of Telefónica de España) will be maintained.
- Obligatory contribution by the participant of a minimum of 2.2% of his/her regulatory salary.
- Individual and financial capitalization systems.

This fund was externalized in the Fonditel B pension fund managed by the subsidiary Fonditel Entidad Gestora de Fondos de Pensiones, S.A.

As of December 31, 2004 and 2003, 632 and 767 employees, respectively, were included in the plan and the cost for the Company amounted to €2.30 million and €2.48 million in 2004 and 2003, respectively (see Note 16.2).

i) Accounts payable

Accounts payable are recorded at repayment value, except in the case of zero-coupon debenture and bond issues, which are recorded in the balance sheet at issue value plus the related accrued interest (see Note 10.3).

j) Derivative

Transactions whose purpose and effect are to eliminate or significantly reduce exchange, interest rate or market risks on asset and liability positions or on other transactions are treated as hedging transactions. The gains or losses arising during the life of these derivatives are taken to income using the same timing of recognition method as that used to recognize the gains or losses on the underlying hedged asset or transaction.

Transactions that, exceptionally, were not assigned to hedge risks are not treated as hedging transactions. In transactions of this kind, which can arise as a result of risk hedges at Group companies, the differences in market price are recorded for accounting purposes when the transactions are canceled or finally settled. However, if potential losses are anticipated at year-end, the related provision is recorded with a charge to the statement of income.

k) Corporate income tax

The expense for corporate income tax of each year is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income. Tax relief and tax credits, excluding tax withholdings and prepayments, are deducted from the corporate income tax charge in the year in which they are definitively taken. The difference between the accrued expense and the tax paid is due to the above-mentioned deferral and to revenue and expense recognition timing differences giving rise to deferred tax assets and liabilities (see Note 14).

Also, pursuant to a resolution of the Spanish Accounting and Audit Institute (ICAC) dated March 15, 2002, Telefónica S.A. recorded the tax assets relating to the tax relief and tax credits (mainly the tax credits arising pursuant to Transitional Provision Three of Law 24/2001) not yet taken for tax purposes and regarding which there is no doubt, in accordance with the accounting principle of prudence, that they can be deducted in the future.

l) Recognition of revenues and expenses

Revenues and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

In accordance with the accounting principle of prudence, only realized income is recorded at year-end, whereas foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known (see Note 16).

m) Provisions for contingencies and expenses

The Company records provisions for contingencies and expenses based on its best estimate in order to cover quantifiable probable or certain third-party liability arising from litigation in progress, from indemnity payments and obligations or from expenses of undetermined amount, and collateral and other similar guarantees provided by the Company.

(5) INTANGIBLE ASSETS

The detail of the balances of intangible asset accounts, of the related accumulated amortization and of the variations therein in 2004 and 2003 is as follows:

Millions of euros

	Computer Software	Other Intangible Assets	Total
Cost			
Balance at 12/31/02	52.20	10.84	63.04
Additions	19.52	0.53	20.05
Balance at 12/31/03	71.72	11.37	83.09
Inclusion of Inmobiliaria			
Telefónica, S.A.U. (Note 2)	1.02	-	1.02
Additions	14.63	1.38	16.01
Retirements	-	(2.13)	(2.13)
Transfers	8.53	(0.09)	8.44
Balance at 12/31/04	95.90	10.53	106.43
Accumulated amortization			
Balance at 12/31/02	21.64	2.58	24.22
Additions	17.06	1.16	18.22
Balance at 12/31/03	38.70	3.74	42.44
Inclusion of Inmobiliaria			
Telefónica, S.A.U. (Note 2)	0.16	-	0.16
Additions	22.52	1.23	23.75
Transfers	0.09	(0.09)	-
Balance at 12/31/04	61.47	4.88	66.35
Intangible assets, net	34.43	5.65	40.08

(6) PROPERTY, PLANT AND EQUIPMENT

The detail of the balances of property, plant and equipment accounts, of the related accumulated depreciation and of the variations therein in 2004 is as follows:

Millions of euros

	Balance at 12/31/03	Inclusion of Inmobiliaria Telefónica, S.A.U. (Note 2)	Additions	Retirements	Transfers	Balance at 12/31/04
Cost						
Land and structures	0.81	137.57	10.72	-	71.11	220.21
Furniture, tools and other items	31.70	88.77	63.77	(1.08)	(79.55)	103.61
Property, plant and equipment, gross						
	32.51	226.34	74.49	(1.08)	(8.44)	323.82
Accumulated depreciation						
Land and structures	0.18	49.87	2.79	(0.16)	-	52.68
Furniture, tools and other items	4.27	0.50	1.83	-	-	6.60
Total accumulated depreciation	4.45	50.37	4.62	(0.16)	0.00	59.28
Allowance for decline in value	-	2.57	0.38	-	-	2.95
Property, plant and equipment, net	28.06	173.40	69.49	(0.92)	(8.44)	261.59

The detail of the balances of property, plant and equipment, of the related accumulated depreciation and of the variations therein in 2003 is as follows:

Millions of euros

	Balance at 12/31/02	Additions	Balance at 12/31/03
Cost			
Land and structures	0.81	-	0.81
Furniture, tools and other items	24.35	7.35	31.70
Property, plant and equipment, gross	25.16	7.35	32.51
Accumulated depreciation			
Land and structures	0.16	0.02	0.18
Furniture, tools and other items	2.62	1.65	4.27
Total accumulated depreciation	2.78	1.67	4.45
Property, plant and equipment, net	22.38	5.68	28.06

As of December 31, 2004, the Company's fully depreciated property, plant and equipment amounted to €1.51 million.

The "Land and Structures" caption includes the value of the assets relating to the construction of the Telefónica Group's new central office buildings in Las Tablas (Madrid) (the so-called *Distrito C*), provided that they are deemed to be completed and available for use. The other assets which are currently under construction or in the process of improvement which are not yet available for use are classified as construction in progress under the "Furniture, Tools and Other Items" caption.

In January 2004 a contract was entered into between the Company and the contractor for the construction of phase I of the Group's new headquarters. This phase is expected to be in operation in the second half of 2005.

The retirements in 2004 relate to the sales of real estate as part of the Telefónica Group's current Real Estate Efficiency Plan. The gain on these sales amounted to €6.09 million and is recorded under the "Gains on Fixed Asset Disposals" caption in the accompanying statement of income (see Note 16.6).

The Company has leased out buildings with a total area of 43,422 square meters to various Telefónica Group companies, which represents occupancy of 95.91% of the property for lease. The revenues from property lease amounted to €6.32 million in 2004 (see Note 16.1).

Telefónica, S.A. has taken out insurance policies with appropriate limits to cover the possible risks to which its property, plant and equipment are subject.

(7) LONG-TERM INVESTMENTS

7.1 The detail of the balances of the long-term investments, of the related investment valuation allowances and of the variations therein in 2003 and 2004 is as follows:

a) Variations in long-term investments:

Millions of euros

	Balance at 12/31/02	Additions	Retirements	Transfers	Balance at 12/31/03	Additions	Retirements	Transfers and Other	Balance at 12/31/04
Investments in Group companies	22,806.83	1,936.48	(1,369.36)	0.91	23,374.86	22.80	(877.71)	(104.47)	22,415.48
Investments in associated companies	408.83	41.91	(0.94)	555.62	1,005.42	475.14	(1.40)	-	1,479.16
Other investments	565.65	0.55	(2.81)	(556.57)	6.82	0.49	(0.01)	7.12	14.42
Loans to Group and associated companies	22,261.11	4,445.72	(3,043.92)	(3,933.20)	19,729.71	3,381.79	(1,673.61)	(906.48)	20,531.41
Other loans	111.60	257.10	(253.36)	(45.08)	70.26	-	(1.89)	(13.20)	55.17
Deposits and guarantees	86.50	336.57	(419.85)	-	3.22	29.32	-	2.51	35.05
Tax receivables (Note 14.2)	4,932.90	181.58	(114.38)	-	5,000.10	139.99	-	(796.90)	4,343.19
Total	51,173.42	7,199.91	(5,204.62)	(3,978.32)	49,190.39	4,049.53	(2,554.62)	(1,811.42)	48,873.88

b) Variations in the long-term investment valuation allowances:

Millions of euros

	Balance at 12/31/02	Variation in the Allowance	Reduction	Transfers	Balance at 12/31/03	Variation in the Allowance	Reductions	Transfers	Balance at 12/31/04
Investments in Group companies	7,413.55	(802.31)	(493.72)	3.56	6,121.08	(801.55)	(2.85)	(3.13)	5,313.55
Investments in associated companies	67.39	46.99	(0.94)	-	113.44	39.78	-	-	153.22
Other investments	6.01	-	(0.44)	-	5.57	-	-	-	5.57
Total investment valuation allowances	7,486.95	(755.32)	(495.10)	3.56	6,240.09	(761.77)	(2.85)	(3.13)	5,472.34
Total investments, net	43,686.47	7,955.23	(4,709.52)	(3,981.88)	42,950.30	4,811.30	(2,551.77)	(1,808.29)	43,401.54

In 2004 the variation in investment valuation allowances reflects the increase in the net worth per books of investees, mainly as regards the investments in the Telefónica Internacional Group (€1,056.87 million) and the Terra Networks Group (€139.60 million).

Provisions were recorded for certain investments, mainly in the Telefónica International Wholesale Services (TIWS) Group (€61.73 million), the Telefónica de Contenidos Group (€296.83 million) and the DataCorp Group (€47.14 million).

In 2003 the trend in the "Variation in Investment Valuation Allowances" caption in the statement of income was positive as a result of the increase in the net worth of certain investees, mainly as regards the investments in the Telefónica Internacional Group (€81.44 million), Telefónica Móviles (€283.32 million) and Telefónica de Contenidos (€161.39 million).

Provisions were recorded for certain investments, mainly in the Terra Networks Group (€246.15 million), the TIWS Group (€184.60 million) and the Atento Group (€47.68 million).

The reductions of allowances in 2004 relate to the holdings sold, liquidated or contributed in the year, mainly the dissolution of Telefónica USA, Inc. (€1.06 million).

The reductions of allowances in 2003 related mainly to the investments in Emergia Holding, N.V. (€365.00 million) and Katalyx Inc. (€128.17 million).

7.2 The detail of the subsidiaries, associated companies and investees is shown in Exhibit I.

7.3 The detail of loans to Group and associated companies is as follows:

Millions of euros

Company	2004		2003	
	Long term	Short term	Long term	Short term
Telefónica Internacional, S.A.	5,081.88	459.09	5,556.53	1,413.69
Telefónica Data España, S.A.-	-	50.51	-	64.33
Telefónica Publicidad e Información, S.A.	86.98	11.21	32.21	35.80
Atento, N.V.	144.48	28.06	190.73	20.91
Lotca, Servicios Integrales, S.A.U.	25.69	2.64	28.33	8.12
Telefónica de España, S.A.U.	5,365.97	1,361.52	6,224.58	933.56
Telefónica de Contenidos, S.A.U.	1,783.41	147.59	2,030.89	182.67
Terra Networks, S.A.	26.18	-	26.18	-
Portugal Telecom, S.A.	-	-	-	21.00
Telefónica Móviles, S.A.	7,276.43	1,739.86	4,526.68	1,175.23
Telefónica Datacorp, S.A.U.	285.80	155.78	543.81	23.73
Comunicapital Inversiones, S.A.U.	55.06	-	64.75	-
Katalyx, Inc.	0.55	-	0.59	-
Telefónica Móviles España, S.A.U.	0.40	2,057.60	0.94	-
Telefónica International Wholesale Services, S.A.	283.62	120.87	400.89	63.55
Telefónica Soluciones de Informática y Comunicación S.A.	-	12.77	-	-
Telefónica Gestión de Servicios compartidos España, S.A.	2.00	8.74	-	-
Telefónica B2B Licensing Inc.	10.20	-	11.00	-
Telefónica Internacional Wholesale Services, S.L.	86.40	12.44	86.40	3.78
Telecomunicações de São Paulo, S.A.	-	-	-	0.50
Other	16.36	15.68	5.20	43.23
Total	20,531.41	6,184.36	19,729.71	3,990.10

The information on the loans to Group and associated companies is as follows:

- The financing granted to Telefónica de España, S.A.U. consists mainly of a loan arising in the unbundling of this company from Telefónica, which had an outstanding balance of €5,580.19 million as of December 31, 2004, of which €4,882.68 million mature at long term and €697.51 million at short term. This loan earns interest at 6.80%.
- The loans to Telefónica Internacional, S.A. consist mainly of the following:
 - A subordinated long-term interest-free loan of €3,305.57 million, repayable in 12 equal quarterly installments from September 30, 2005, through June 30, 2008.
 - A participating loan which amounted to €1,414.26 million as of December 31, 2004, with a repayment schedule and final maturity on December 30, 2006. The interest is established on the basis of the company's net income, and it can only be repaid early if capital is increased by the same amount.

A multicurrency credit line of US\$ 1,962.00 million earning floating interest tied to Libor or Euribor plus 1.04%, depending on whether it is drawn down in a foreign currency or euros, respectively, and maturing on April 15, 2005. The balance drawn down against this credit line as of December 31, 2004, which amounted to US\$ 322.36 million (€236.67 million), was recorded under short term investments.

A US\$ 447 million loan maturing in 2006 and earning interest tied to Libor plus 1.6%. The principal outstanding as of December 31, 2004, amounted to US\$ 407.18 million (€298.94 million).

- The loans to Telefónica Móviles, S.A. relate mainly to the following:

- Long-term credit lines, against which an amount equal to €1,170.39 million have been drawn down (€950.14 million and US\$ 300 million). These credit lines earn market interest rates, consist of a fixed-interest tranche and a floating-interest tranche, and mature in 2005.
- Sundry loans for the acquisition of the various Latin American operators from BellSouth amounting to €2,451.56 million and US\$ 1,357.28 million (€996.46 million) earning interest tied to three-month Euribor and three-month Libor plus a market spread. The loans in euros mature in 2006 and the loans in US dollars mature in 2009 and 2016.
- Financing for an amount equal to €1,383.87 million and US\$2,308.72 million (€1,694.97 million), which earns interest at market rates tied to Libor or Euribor plus a spread and is repayable in 2011. This financing was granted in order to enable the company to make its investments in Mexico, Puerto Rico, Chile, Guatemala, Brazil and Argentina.

- The loans granted to Telefónica de Contenidos, S.A.U. include most notably the following:

- A ten-year participating loan of €1,141.81 million which had been fully drawn down as of December 31, 2004, which earns interest based on the performance of the business of Telefónica de Contenidos, S.A.U.
- Two long-term loans of €52.38 million and g181.12 million granted to meet the financing requirements of Telefónica de Contenidos, S.A.U. consisting of the participating loan granted to this company and the disbursement of the subordinated loan granted in 2003 by this company to Sogecable, S.A. for the merger of DTS, Distribuidora de Televisión Digital, S.A. (Vía Digital) into Sogecable, S.A.

- A participating loan of US\$ 536.32 million (€393.75 million) to Telefónica International Wholesale Services, S.A., which earns interest on the basis of the performance of the company's operating results, with repayments from July 2004 to July 31, 2007. All the loan amount had been used as of December 31, 2004.
- A credit facility granted to Telefónica International Wholesale Services, S.A., amounting to US\$ 60.00 million

which is repayable on September 30, 2005, and is tied to three-month Libor, the outstanding balance of which was US\$ 14.64 million (approximately €10.75 million) as of December 31, 2004.

- Financing provided by Telefónica, S.A. to Atento N.V. in the form of a participating loan of €75 million, maturing in 2013 and earning interest tied to the operating income of Atento, N.V.
- Financing for €213.74 million granted to Atento, N.V. to cater for the subrogation in Atento Holding's position with its subsidiaries, earning market interest and maturing in 2008. The outstanding balance amounted to €97.54 million as of December 31, 2004.
- The financing provided to Telefónica Datacorp, S.A.U. relates to several credit facilities and loans arising from refinancing totaling €491.26 million and US\$ 67.88 million (€49.83 million), earning floating-rate interest tied mainly to three-month Euribor and maturing in 2005, 2006 and 2007. The outstanding balance amounted to €441.58 million as of December 31, 2004.
- Loans to Telefónica Móviles España, S.A.U. arising from the taxation of Telefónica, S.A. under the consolidated tax regime applicable to corporate groups as the head of the Tax Group (see Note 14).

The transfers relate basically to amounts transferred to short term on the basis of the related loan repayment schedules.

7.4 The detail of the equity investments sold and acquired by Telefónica is as follows:

a) Acquisitions of equity interests and capital increases:

2004

	<i>Millions of euros</i>
Subsidiaries	
Terra Networks, S.A.	10.69
Telefónica Móviles, S.A.	6.92
Telfisa Perú SAC	2.75
Other companies	2.44
Total Subsidiaries	22.80
Associated companies	
Portugal Telecom, S.G.P.S., S.A.	475.14
Total associated companies	475.14

The main additions in 2004 were as follows:

Telefónica, S.A. acquired 52,820,862 shares of Portugal Telecom, S.G.P.S., S.A. for €475.14 million. Additionally, on December 29, 2004, Portugal Telecom reduced capital by retiring 87,799,950 shares of treasury stock, representing 7% of capital stock. Following these transactions, Telefónica increased its direct holding in this company to 8.55%.

In 2004 Telefónica, S.A. acquired 3,753,140 shares of Terra Networks, S.A. on the stock market for €10.69 million. The

direct holding in this company as of December 31, 2004, was 76.80%, taking into account the treasury stock held by Terra Networks, S.A.

Telefónica, S.A. also acquired 804,689 shares of Telefónica Móviles, S.A. for €6.92 million, thereby increasing the direct holding in this company to 71.03% as of December 31, 2004.

Telfisa Perú, S.A.C. was incorporated in December 2004 with an initial capital of 12 million new soles, consisting of 120,000 shares, 119,999 of which were paid by the Company for €2.75 million.

2003

	<i>Millions of euros</i>
Subsidiaries	
Terra Networks, S.A.	1,070.21
Antena 3 de Televisión, S.A.	829.31
Atento, N.V.	20.00
Telefónica DataCorp, S.A.U.	4.73
Telefónica Gestión de Servicios Compartidos, S.A.U.	2.75
Telefónica Ingeniería de Seguridad, S.A.U.	3.58
Other companies	5.90
Total subsidiaries	1,936.48
Associated companies	
Sogecable, S.A.	41.91
Total associated companies	41.91

The main additions in 2003 were as follows:

In July Telefónica, S.A. concluded the tender offer for Terra Networks, S.A. shares by acquiring 202,092,043 of this company's shares for €5.25 per share, which represented 33.6% of its total capital stock. Following this transaction, Telefónica's direct holding in Terra was 71.97% and its indirect holding at year-end was 75.29% (taking into account the treasury stock held by Terra).

Telefónica, S.A. acquired from its wholly-owned subsidiaries Telefónica de Contenidos, S.A.U. and Corporación Admira Media, S.A.U. 79,194,996 shares and 19,532,625 shares, respectively, of Antena 3 de Televisión, S.A., representing 59.24% of this company's capital stock for €829.31 million, in order to centralize the Telefónica Group's divestment of this company, as described in Note 7.4.b)

Pursuant to the Strategic Alliance Framework Agreement entered into on February 11, 2000, by Telefónica and BBVA, the Telefónica Group subsidiary Atento N.V. increased capital several times in November in order to include the BBVA Group in its stockholder structure through the BBVA Group subsidiary General de Participaciones Empresariales, S.L. As a result of these transactions, the capital stock and additional paid-in capital of Atento N.V. increased by €25 million and €20,735 million, respectively. Telefónica, S.A. subscribed and paid in cash €15 thousand of capital stock and €19,984 thousand of additional paid-in capital in this connection, while the BBVA Group subscribed and paid capital stock amounting to €10 million and additional paid-in capital totaling €751 thousand. The inclusion of the BBVA Group in

the stockholder structure of Atento N.V. reduced Telefónica, S.A.'s holding in the latter from 100% to 91.35%.

In November 2003 Telefónica DataCorp, S.A.U. increased capital stock by €4.73 million by issuing 4,732,824 shares of €1 par value each, which were fully subscribed and paid in cash by Telefónica, S.A.

On December 19, 2003, Telefónica Gestión de Servicios Compartidos España, S.A. increased capital stock by issuing 22,000 new shares of €1 par value each with additional paid-in capital of €124 per share. Telefónica, S.A. fully subscribed and paid in cash all the new shares issued for €2.75 million.

In December 2003 the wholly-owned subsidiary Telefónica Consultora y Servicios, S.A.U. was absorbed by its parent company Telefónica Consultora de Proyectos, S.A.

Subsequently, also in December, Telefónica Consultora de Proyectos, S.A., a wholly owned subsidiary of Telefónica, S.A., was dissolved and liquidated (see Note 7.4.b). As a result of this liquidation, Telefónica Ingeniería de Seguridad, S.A.U., which was wholly owned by the dissolved company Telefónica Consultora de Proyectos, S.A.U., became a wholly-owned subsidiary of Telefónica, S.A.

In October 2003 Telefónica, S.A. acquired 2,020,000 shares of Sogecable, S.A. on the stock market for €41.91 million. These shares represent 1.60% of Sogecable, S.A.'s capital stock.

b) Disposal of investments

2004

	<i>Gross Book Value</i>
Subsidiaries	
Terra Networks, S.A.	868.65
Corporación Admira Media, S.A.U.	6.06
Telefónica Procesos y Tecnología de la Información, S.A.U.	3.00
Total subsidiaries	877.71

In 2004 Terra Networks, S.A. paid a dividend of €2 per share with a charge to additional paid-in capital. This refund of contributions entailed a reduction in the value of the holding by the amount received. This transaction did not change Telefónica, S.A.'s percentage of ownership in this company, which was 76.80% at 2004 year-end, taking into account the treasury stock held by Terra Networks, S.A.

In the first quarter of 2004 Telefónica, S.A. sold its 100% holding in Corporación Admira Media, S.A. to its subsidiary Telefónica de Contenidos, S.A.U. at its underlying book value, as part of the Company's corporate reorganization. Subsequently, Corporación Admira Media, S.A. was merged into Telefónica de Contenidos, S.A.U. The gain obtained by Telefónica, S.A. on this sale at individual level amounted to €4.12 million (see Note 16.6).

Telefónica, S.A. also sold its 100% holding in Telefónica Procesos y Tecnología de la Información, S.A.U. to its investee Telefónica Gestión de Servicios Compartidos, S.A.U. at the underlying book value of the investment, obtaining a gain of €5.70 million (see Note 16.6).

		c) Nonmonetary contributions of holdings to Group companies
2003		
	Gross Book Value	
Subsidiaries		
Antena 3 de Televisión, S.A.	829.31	
Emergia Holding, N.V.	368.61	
Katalyx Inc.	138.25	
Telefónica Móviles, S.A.	23.65	
Telefónica Consultora de Proyectos, S.A.U. (see note 7.4.a)	9.10	
Other disposals	0.44	
	1,369.36	
In 2003 Telefónica, S.A. carried out a process of divesting its holding in Antena 3 de Televisión, S.A., which commenced on April 30, 2003, with the acceptance of the bid of €364 million made by the Planeta Group for 25.1% of the capital stock of Antena 3 de Televisión, S.A.. This sale was subject to the condition subsequent, already fulfilled, that the shares of Antena 3 de Televisión were admitted to listing on the Spanish stock exchange.		
Also, as indicated in Note 9, on April 11, 2003, the Stockholders' Meeting of Telefónica, S.A. approved the distribution of shares representing 30% of the capital stock of Antena 3 de Televisión, S.A. as a dividend in kind for its stockholders, which took place in October after this company had been admitted to listing on the stock exchange.		
Lastly, in October and November 2003 Telefónica, S.A. sold on the stock market all the remaining shares owned by it (2,928,893 shares) for €95.72 million.		
These transactions for the divestment of the holding in Antena 3 de Televisión, S.A. gave rise to the recording of an extraordinary revenue in the 2003 statement of income amounting to €27.18 million (see Note 16.6).		
In December 2003 Telefónica, S.A.'s wholly-owned investee Emergia Holding N.V. was dissolved and liquidated through the contribution of assets and liabilities to its stockholder.		
On October 10, 2003, Telefónica, S.A. sold the 999 shares of the U.S. company Katalyx, Inc. owned by it to Telefónica DataCorp, S.A.		
The €23.65 million decline in the value of the holding in Telefónica Móviles, S.A. was due to the reimbursement of stockholders' contributions as part of the distribution of additional paid-in capital carried out by that company in 2003.		
		2004
		In 2004 Telefónica Gestión de Servicios Compartidos, S.A.U. increased capital through the issuance of 5,468,186 new shares of €1 par value each, which were fully subscribed by its sole stockholder Telefónica, S.A., through the contribution of its 100% holding in Zeleris, Soluciones Integrales, S.A.U.
		2003
		In 2003 there were no nonmonetary contributions of holdings to Group companies.
		d) Transfers due to conversion of loans into equity
		In 2004 and 2003 there were no transfers due to conversion of loans into equity.
		e) Transactions protected for tax purposes
		Following is a detail of the transactions protected for tax purposes carried out in 2004 and 2003, as defined in Articles 97.5 and 108, as applicable, of Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995. The transactions performed prior to 2003 were duly disclosed in prior years' financial statements.
		2004
		The sole transaction protected for tax purposes carried out in 2004 was the dissolution without liquidation, overall transfer of assets and liabilities and extinction of Inmobiliaria Telefónica, S.L.U. (see Note 2). The value of this company per Telefónica, S.A.'s books was €103.44 million and the difference from the net worth contributed in the transfer of assets and liabilities, amounting to €19.43 million, was classified as unrestricted reserves under stockholders' equity in the accompanying balance sheet.
		2003
		In 2003 there were no transactions protected for tax purposes.
		7.5 Short-term investment securities
		In 2003 this caption included mainly placements of temporary cash surpluses in short-term investments.

(8) DEFERRED CHARGES

The breakdown of the balances of this caption as of December 31, 2004 and 2003, and the related amortization schedule are as follows:

	Maturity						Subsequent years	Balance at 12/31/04	Balance at 12/31/03
	2005	2006	2007	2008	2009				
Interest on long-term promissory notes	7.00	7.05	7.13	7.27	7.42	8.61	44.48	51.60	
Debt arrangement expenses	29.10	21.33	21.28	19.81	18.86	52.28	162.66	189.87	
Audiovisual rights	1.62	1.62	1.62	1.62	1.62	3.25	11.35	-	
Other deferred charges	7.47	7.18	6.87	6.75	5.89	13.57	47.73	47.51	
Total	45.19	37.18	36.90	35.45	33.79	77.71	266.22	288.98	

(9) STOCKHOLDERS' EQUITY

The detail of the balances of equity accounts and of the variations therein in 2003 and 2004 is as follows:

Millions of euros

	Balance at 12/31/02	Allocation of 2002 loss	Capital increase	Distribution of Dividends	Other variations	Balance at 12/31/03	Distribution of 2003 Income	Distribution of dividends	Other variations	Balance at 12/31/04
Capital stock	4,860.66	-	196.37	-	(101.14)	4,955.89	-	-	-	4,955.89
Additional paid-in capital	11,670.02	(1,516.22)	-	1,653.15	(513.51)	7,987.14	-	(951.64)	(1,747.82)	5,287.68
Revaluation reserves	2,881.94	(1,316.67)	(196.37)	-	-	1,368.89	-	-	-	1,368.89
Legal reserve	652.57	-	-	-	-	652.57	137.37	-	-	789.94
Voluntary reserve	1,645.80	(1,645.80)	-	-	-	-	1,236.34	(972.53)	(263.81)	-
Reserve for treasury stock	334.56	-	-	-	(201.10)	133.46	-	-	556.72	690.18
Other restricted reserves	5.40	-	-	-	-	5.40	-	-	-	5.40
Income (Loss) for the year	(4,478.69)	4,478.69	-	-	1,373.71	1,373.71	(1,373.71)	-	1,301.40	1,301.40
Total	17,572.26	-	-	1,653.15	557.96	16,477.06	(1,924.17)	(153.51)	14,399.38	

a) Capital stock

As of December 31, 2004, Telefónica, S.A.'s capital stock amounted to €4,955,891,361 and consisted of 4,955,891,361 fully paid common shares of a single series and of €1 par value each, all recorded by the book-entry system and traded on the Spanish computerized trading system ("Continuous Market") (in the selective "Ibex 35" Index), on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and on the New York, London, Paris, Frankfurt, Tokyo, Buenos Aires, São Paulo and Lima Stock Exchanges.

On June 15, 2001, the Stockholders' Meeting of Telefónica, S.A. authorized the Board of Directors to increase the Company's capital, at one or several times within a maximum period of five years from that date, under the terms of Article 153.1.b) of the Spanish Corporations Law (authorized capital) up to a maximum of €2,274.68 million, by issuing for this purpose the related new common shares, whether redeemable or of any other type permitted by the Law, with a fixed or variable premium, with or without preemptive subscription right and, in all cases, with disbursements for the new shares issued in the form of monetary contributions. As of December 31, 2004, the Board of Directors had not made use of this authorization.

In addition, on April 12, 2002, the Stockholders' Meeting approved two successive capital increases with a charge to unrestricted reserves, each for an amount equal to 2% of the subscribed and paid-in capital stock, through two successive issues of new shares to be assigned free of charge to the Company's stockholders at a ratio of one new share for every 50 shares held by them, and empowered the Board of Directors accordingly to execute the resolution in question within one year from the date on which it was adopted. These two capital increases were carried out in the first few months of 2003, as indicated below.

Also, on April 11, 2003, the Stockholders' Meeting granted the Board of Directors the necessary powers to issue fixed-income securities at one or several times within a maximum period of five years from the date of adoption of the related resolution. The fixed-income securities issued can be debentures, bonds, promissory notes or any other kind of fixed-income security, both simple and, in the case of debentures and bonds, exchangeable for shares of the Company or of any of the Group companies and/or convertible into shares of the Company. As of December 31, 2004, the Board of Directors had not exercised these powers, except in relation to the approval of two corporate promissory note issue programs for 2004 and 2005.

On April 30, 2004, the Stockholders' Meeting resolved to authorize the Board of Directors to derivatively acquire treasury stock, for a consideration, up to the limits and pursuant to the terms and conditions established by the Stockholders' Meeting, within a maximum period of 18 months from that date. However, it established that in no case could the par value of the shares acquired, added to that of the treasury stock already held by Telefónica, S.A. and any of its controlled subsidiaries, exceed 5% of the capital stock of Telefónica.

As of December 31, 2004 and 2003, Telefónica S.A. held the following shares of treasury stock:

	Euros per share (*)				
	Number of shares	Acquisition	Market Price	Market Value	%
Treasury stock at 12/31/04	207,245,179	11.833	13.228	2,741.44	4.18179
Treasury stock at 12/31/03	40,532,869	10.393	10.847	439.66	0.81787

(*) As indicated in Note 4-f, a drop in the market value of the shares to below acquisition cost would lead to the recording of additional provisions with a charge to income, but would not affect the total amount of equity.

In 2004 the Company acquired for a consideration 166,712,310 shares of treasury stock for €2,031.05 million.

The balance sheets as of December 31, 2004 and 2003, include the acquisition cost of the shares of treasury stock (€2,452.31 million and €421.26 million, respectively) net of allowances of €1,762.13 million and €287.80 million, respectively, the provisions to which were recorded, in accordance with current accounting regulations (see Note 4-f), with a cumulative charge to unrestricted reserves in respect of the amount by which cost exceeds the underlying book value. The allowance released with a credit to 2003 income amounted to €159.95 million, as a result of the positive performance of the share price in the period, which enabled the Company to release the provisions recorded in prior years in which the market price of the share was lower than cost (see Note 16.6).

The Company has recorded the related restricted reserve for the amount of these shares of treasury stock. Also, in 2004 and 2003 it recorded provisions of €1,474.33 million and €448.84 million, respectively, with a charge to the "Unrestricted Reserves" caption to reflect the shares of treasury stock at their underlying book value (see Note 4-f).

Variations in capital stock and additional paid-in capital in 2004

The variations in 2004 in the "Capital Stock" and "Additional Paid-in Capital" captions were as follows:

			<i>Millions of euros</i>	
	Date	Number of shares	Capital Stock	Additional Paid-in Capital
Balance at 12/31/03			4,955,891,361	4,955.89
Cash dividend	04/30/04	-	-	(951.64)
Restricted reserve for treasury stock		-	-	(556.72)
Valuation of treasury stock		-	-	(1,191.10)
Balance at 12/31/04		4,955,891,361	4,955.89	5,287.68

In 2004 the Company did not perform any capital increase or reduction transaction.

On April 30, 2004, the Stockholders' Meeting resolved to pay a cash dividend out of 2003 income consisting of the payment of €0.20 for each Company share outstanding. This dividend was paid on May 14, 2004, and the total amount paid was €972.53 million.

Also on April 30, 2004, the Stockholders' Meeting approved the distribution of a portion of the additional paid-in capital recorded in the Company's balance sheet, through the payment of €0.20 for each Company share outstanding, with a charge to the "Additional Paid-in Capital" caption. This amount was paid on November 12, 2004, and the total amount paid was €951.64 million.

Variations in capital stock and additional paid-in capital in 2003

The variations in 2003 in the "Capital Stock" and "Additional Paid-in Capital" captions were as follows:

			<i>Millions of euros</i>	
	Date	Number of shares	Capital Stock	Additional Paid-in Capital
Balance at December 31, 2002		4,860,661,286	4,860.66	11,670.02
Capital increase at no cost to stockholders	02/12/03	97,213,225	97.21	-
Capital increase at no cost to stockholders	04/11/03	99,157,490	99.16	-
Retirement of treasury stock	06/05/03	(101,140,640)	(101.14)	(265.77)
Cash dividend	Jul.-Oct./03	-	-	(1,233.15)
Dividend in kind	-	-	-	(420.00)
Restricted reserve for treasury stock		-	-	(247.74)
Allocation of 2002 loss		-	-	(1,516.22)
Balance at December 31, 2003		4,955,891,361	4,955.89	7,987.14

The capital increases and decreases formalized in 2003 were as follows:

On February 12, 2003, the notarial deed of formalization and execution of a capital increase at Telefónica S.A. was executed. This capital increase, for a par value of €97,213,225, was carried out with a charge to unrestricted reserves through the issuance of an equal number of new common shares of the Company, of €1 par value each, which were assigned to the Company's stockholders free of charge at a ratio of one new share for every 50 shares held by them. Following registration of the aforementioned public deed at the Mercantile Registry, the new shares were admitted to listing on official markets from February 27, 2003.

On April 11 2003, the notarial deed of formalization and execution of a capital increase at Telefónica S.A. was executed. This capital increase, for a par value of €99,157,490, was carried out with a charge to unrestricted reserves through the issuance of an equal number of new common shares of the Company, of €1 par value each, which were assigned to the Company's stockholders free of charge at a ratio of one new share for every 50 shares held by them. Following registration of the aforementioned public deed at the Mercantile Registry, the new shares were admitted to listing on official markets from May 2, 2003.

On June 5, 2003, the deed of capital reduction formalizing the implementation by the Company's Board of Directors of the resolution adopted by the Stockholders' Meeting on April 11, 2003, was executed. Capital was reduced through the retirement of treasury stock previously acquired by the Company pursuant to the authorization of the Stockholders' Meeting. As a result, 101,140,640 shares of treasury stock of Telefónica S.A. were retired and the Company's capital stock was reduced by a par value of €101,140,640. Article 5 of the bylaws in relation to the capital stock figure, which from that date was set at €4,955,891,361 was reworded accordingly. At the same time, pursuant to Article 167.3 of the Spanish Corporations Law, and in order to render null and void the right of opposition provided for in Article 166 of the Corporations Law, it was decided to record a reserve for retired capital stock for an amount equal to the par value of the retired shares, which can only be used if the same requirements as those applicable to the reduction of normal capital stock are met. The retired shares were excluded from official listing on June 18, 2003.

In addition, on April 11, 2003, the Stockholders Meeting resolved to distribute a portion of the additional paid-in capital recorded in the Company's balance sheet, through the payment of €0.25 per share for each of the Company's outstanding shares. The related charge was made to the "Additional Paid-in Capital" account. This amount was paid in two installments, the first of €0.13 per share on July 3, 2003, and the second of €0.12 per share on October 15, 2003. The total amount paid amounted to €1,233.17 million.

Also, on April 11, 2003, the Stockholders' Meeting approved the distribution in kind of a portion of the additional paid-in capital, for a total amount of up to €420,003,360, through the distribution to the stockholders of Telefónica S.A. of shares representing up to 30% of the capital stock of Antena 3 de Televisión, S.A. This distribution, which was

carried out in November 2003, was subject to the condition precedent, already fulfilled in 2003, that the Spanish National Securities Market Commission (CNMV) approved the admission to listing of the shares of the aforementioned company (see Note 7.4).

b) Legal reserve

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Otherwise, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

c) Revaluation reserves

The balance of the "Revaluation Reserves" caption arose as a result of revaluations made from 1946 to 1987 and of the revaluation made pursuant to Royal Decree-Law 7/1996.

The detail as of December 31, 2004 and 2003, of the balances of the revaluation reserves, which amounted to €1,368.89 million, and of the variations therein in 2003 is as follows:

	<i>Millions of euros</i>
Balance at 12/31/02	2,881.94
Capital increase on February 12, 2003	(97.21)
Capital increase on April 11, 2003	(99.16)
Amounts used to offset 2002 losses	(1,316.67)
Balance at 12/31/03 and 12/31/04	1,368.89

(10) DEBENTURES, BONDS AND OTHER MARKETABLE DEBT SECURITIES

10.1 The detail of the balances as of December 31, 2004 and 2003, of the debentures, bonds and corporate promissory notes and of the variations therein in the years then ended is as follows:

Millions of euros

	Non convertible Debentures and Bonds	Corporate Promissory Notes	Total
Balance at 12/31/02	2,509.21	699.34	3,208.55
New issues	-	1,346.15	1,346.15
Redemptions	-	(1,439.04)	(1,439.04)
Adjustments and other variations	86.00	-	86.00
Balance at 12/31/03	2,595.21	606.45	3,201.66
New issues	-	1,672.20	1,672.20
Redemptions	(69.24)	(1,314.81)	(1,384.05)
Adjustments and other variations	97.71	92.90	190.61
Balance at 12/31/04	2,623.68	1,056.74	3,680.42
Maturity			
Long term	1,824.62	92.90	1,917.52
Short term	799.06	963.84	1,762.90
Unmatured accrued interest	51.75	-	51.75

10.2 The detail of the debentures and bonds outstanding as of December 31, 2004, and of their main features, is as follows:

Debentures and Bonds	Type of Interest	Interest rate %	Maturity						Subsequent years		Total
			2005	2006	2007	2008	2009	years			
DEBENTURES											
FEBRUARY 1990 SERIES B	FIXED	12.6000	8.22	-	-	-	-	-	-	8.22	
FEBRUARY 1990 SERIES C	FIXED	12.6000	-	-	-	-	-	3.76	3.76		
FEBRUARY 1990 SERIES E	ZERO CUPON	12.8532	75.39	-	-	-	-	-	-	75.39	
FEBRUARY 1990 SERIES F	ZERO CUPON	12.5793	-	-	-	-	-	8.15	8.15		
DECEMBER 1990	ZERO CUPON	13.5761	715.45	-	-	-	-	-	-	715.45	
APRIL 1999	FIXED	4.5000	-	-	-	-	-	500.00	500.00		
JUNE 1999	FLOATING	2.9860	-	-	-	-	-	300.00	300.00		
JULY 21, 1999	ZERO CUPON	6.3700	-	-	-	-	-	42.00	42.00		
MARCH 2, 2000	FLOATING	5.1270(*)	-	-	-	-	-	50.00	50.00		
APRIL 2000	FIXED	5.6250	-	-	500.00	-	-	-	-	500.00	
BONDS											
MARCH 1998	FIXED	4.8414	-	-	-	420.71	-	-	-	420.71	
Total issues			799.06	-	500.00	420.71	-	903.91	2,623.68		

(*) The applicable interest rate (floating, set annually) is that relating to the ten-year pound sterling interest rate swap multiplied by 1.0225.

10.3 The zero-coupon debentures and bonds are included in the balance sheet at their issue value plus the related accrued interest.

The detail of the maturities and redemption values of these debentures and bonds is as follows:

Issue	Redemption Date	Redemption Date	Current Value	Redemption Value
DEBENTURES				
FEBRUARY 1990 SERIES E	02/26/05	613.338 %	75.39	76.79
FEBRUARY 1990 SERIES F	02/26/10	1,069.479 %	8.15	15.04
DECEMBER 1990	12/28/05	675.000 %	715.45	811.37
JULY 1999	07/21/29	637.638 %	42.00	191.29
Total			840.99	1,094.49

10.4 As of December 31, 2004, there was a seriesd promissory note issue program outstanding, the detail being as follows:

Amount (millions of euros)	Method of Placement	Face Value	Maturity	Placement
2,000	Through auctions	€1,000	At 3, 6, 12, 18 and 25 months	Competitive auctions at least once a month
	Customized, intermediated by participating entities	€100,000		
			At 7 to 750 days	Specific transactions

With respect to the transaction performed with La Estrella, S.A. de Seguros consisting of the issuance of 42 bearer promissory notes, which matured on February 15, 2001, and included a commitment to issue new promissory notes, on February 15, 2001, Telefónica, S.A. issued 74 bearer promissory notes with a principal amount of €126.29 million and final maturity in February 2011. The principal outstanding at year-end was €99.64.

10.5 The average interest rate on the outstanding debentures and bonds at year-end was 7.12% in 2004 (8.85% in 2003), and the average interest rate on the corporate promissory notes was 2.244% in 2004 (2.461% in 2003).

(11) PAYABLE TO CREDIT INSTITUTIONS

11.1 The detail of the balances of this caption as of December 31, 2004 and 2003, is as follows:

	Millions of euros							
	Average Interest rate		2004			2003		
	2004	2003	Short term	Long term	Total	Short term	Long term	Total
Promissory notes	-	13.52	-	-	-	6.92	99.64	106.56
Loans and credits	3.44	2.33	2,520.06	2,346.10	4,866.16	718.38	2,420.78	3,139.16
Foreign currency loans and credits	1.77	1.29	87.79	604.46	692.25	135.61	144.83	280.44
Total			2,607.85	2,950.56	5,558.41	860.91	2,665.25	3,526.16

11.2 These balances mature as follows:

	Maturity					Subsequent years	Balance at 12/31/04
	2005	2006	2007	2008	2009		
Loans and credits	2,520.06	683.79	160.04	49.77	500.00	952.50	4,866.16
Foreign currency loans and credits	87.79	46.50	-	-	557.96	-	692.25
Total	2,607.85	730.29	160.04	49.77	1,057.96	952.50	5,558.41

11.3 On July 6, 2004, Telefónica, S.A. arranged a syndicated loan of €3,000 million with several Spanish and foreign banks. This syndicated loan matures in five years and bears interest of EURIBOR/LIBOR plus a spread that will be based on the Company's credit rating. The commitments and obligations of the parties are those ordinarily assumed in syndicated financing transactions. Banco Bilbao Vizcaya Argentaria, S.A. and Caja de Ahorros y Pensiones de Barcelona ("La Caixa") acted, together with other institutions, as underwriters and lead managers.

On November 26, 2004, Telefónica, S.A. and several branches of ABN Amro Bank N.V. entered into a credit facility agreement amounting to US\$ 377.08 million, secured by the export credit agencies of Finland ("Finnvera") and Sweden ("EKN"), bearing fixed interest of 3.26% and with final maturity on November 15, 2010.

The "Loans and Credits" account includes a syndicated loan of €1,200 million arranged by the Company in 1999 with 38 financial institutions. The term of this loan is five or seven years, at the option of each lending institution, and it will be repaid at one time on the maturity of each tranche. The loan bears interest at a floating rate tied to Euribor.

In December 2001 a loan of US\$ 115 million maturing in July 2006 was arranged with BBVA.

11.4 Unused credit facilities

The "Loans and Credits" balances relate only the amounts drawn down.

As of December 31, 2004, the undrawn credit facility balances amounted to €7,213 million.

The claimability of certain financing arranged by Telefónica is subject to compliance with certain financial covenants. All the covenants were being complied with at the date of preparation of these financial statements.

(12) PAYABLE TO GROUP AND ASSOCIATED COMPANIES

12.1 The detail of this caption as of December 31, 2004 and 2003, is as follows:

Millions of euros

	2004			2003		
	Long term	Short term	Total	Long term	Short term	Total
Loans	10,129.08	9,956.47	20,085.55	12,469.47	7,614.78	20,084.25
Accounts payable to Group companies for purchases and services	-	116.38	116.38	-	71.57	71.57
Accounts payable to subsidiaries due to taxation on a consolidated basis	5,568.32	1,478.57	7,046.89	5,108.17	248.68	5,356.85
Total	15,697.40	11,551.42	27,248.82	17,577.64	7,935.03	25,512.67

12.2 In 2004 Telefónica Europe, B.V. did not grant any long-term (maturing at over 1 year) loan to the Company. The detail of the loans granted by it in 2003 and of the related maturities is as follows:

Year Granted	Maturity	Millions of euros
2003	2005	100
2003	2013	1,500
2003	2033	500
2003	2005	100
2003	2005	100
2003	2005	50
2003	2006	100
2003	2006	200

The financing arranged includes as an associated cost the commissions or premiums which are charged to the statement of income in the period for which the financing is arranged (see Note 8).

- I. These loans bear interest at market rates (Euribor plus a spread). The average interest rate in 2004 was 5.76 %.
- II. The total financing received from Telefónica Europe, B.V. as of December 31, 2004, amounted to €11,269.72 million.

Additionally, the Company had been granted financing from Telefónica Finanzas, S.A. as of December 31, 2004, amounting to €7,332.80 million, and from Telefónica de España, S.A.U. amounting to €1,042.39 million.

12.3 The detail of the short-term accounts payable to Group companies for purchases and services is as follows:

<i>Millions of euros</i>	2004	2003
Telefónica de España, S.A.U.	49.60	42.11
Telefónica de Contenidos, S.A.U.	13.17	-
Telefónica Procesos y Tecnología de la Información	4.91	1.28
Telefónica Móviles, S.A.	21.91	-
Telefónica Móviles España, S.A.	2.48	3.42
Terra Networks, S.A.	2.69	2.70
Terra España, S.A.	3.39	6.25
Educaterra	0.43	2.31
Telefónica Holding Argentina, S.A.	6.11	7.47
Other	11.69	6.03
Total	116.38	71.57

12.4 The balance of the “Accounts Payable to Subsidiaries Due to Taxation on a Consolidated Basis” account includes basically the accounts payable to these companies for their contribution of tax losses to the tax group headed by Telefónica, S.A. (see Note 14.2). The Company classifies this balance as short or long term on the basis of the projected maturity of these payments.

These amounts include most notably those relating to Telefónica Internacional, S.A. (€2,977.86 million), Telefónica Móviles España, S.A.U. (€1,177.00 million), Telefónica Móviles, S.A. (€1,071.67 million), Telefónica de Contenidos, S.A.U. (€897.34 million), Telefónica Data Corp, S.A.U. (€403.47 million) and Terra Networks, S.A (€291.83 million).

(13) DERIVATIVES

In 2004 the Company continued to use derivatives both to limit interest rate and exchange risks on unhedged positions and to adapt its debt structure to market conditions.

As of December 31, 2004, the total outstanding balance of derivatives transactions was €40,361.81 million (€27,158.04 million as of December 31, 2003), of which €24,069.84 million related to interest rate risk and €16,056.50 million to exchange risk (€13,394.17 million and €12,726.29 million as of December 31, 2003, respectively).

It should be noted that as of December 31, 2004, Telefónica S.A. had arranged transactions with financial institutions to hedge interest rate and exchange risks for other Telefónica Group companies amounting to €1,482.64 million and €6,515.80 million, respectively (€1,846.13 million and €4,313.16 million, respectively, as of December 31, 2003). The balancing entries for these external transactions were intercompany hedging transactions with identical conditions and maturities arranged between Telefónica S.A. and the Group companies, and, accordingly, the transactions do not involve any risk for Telefónica S.A.

Most of the derivatives transactions are assigned directly to individual asset or liability positions in the balance sheet. Also, there is a transaction portfolio hedging financial risks of

the Company. The net financial gain obtained in 2004 in relation to these latter transactions amounted to €123.80 million (€48.33 million in 2003).

13.1 The detail of the portfolio by type of derivative as of December 31, 2004, is as follows:

<i>Millions</i>		2004			
Type of Risk	Equivalent Euro Value	Telefónica Receives		Telefónica Pays	
		Value	Currency	Value	Currency
Euro interest rate swaps	13,437.99				
Fixed to floating	2,951.90	2,951.90	EUR	2,951.90	EUR
Floating to fixed	9,719.37	9,719.37	EUR	9,719.37	EUR
Floating to floating	766.72	766.72	EUR	766.72	EUR
Cross-currency swaps	2,446.70				
Fixed to floating	1,554.15				
USD/USD	1,367.01	1,862.00	USD	1,862.00	USD
MXN/MXN	187.14	2,871.43	MXN	2,871.43	MXN
Floating to fixed	892.55				
USD/USD	705.41	960.84	USD	960.84	USD
MXN/MXN	187.14	2,871.43	MXN	2,871.43	MXN
Exchange rate swaps	9,506.86				
Fixed to fixed	2,670.89				
USD/EUR	2,405.03	2,214.85	USD	2,405.03	EUR
EUR/CLP	265.86	267.27	EUR	201,848.65	CLP
Fixed to floating	1,407.31				
ARS/USD	91.77	363.45	ARS	125.00	USD
BRL/EUR	96.99	288.17	BRL	96.99	EUR
CLP/EUR	242.57	183,405.15	CLP	242.57	EUR
COP/USD	114.79	392,123.65	COP	156.36	USD
EUR/CLP	16.10	16.49	EUR	12,217.00	CLP
EUR/USD	27.17	30.60	EUR	37.01	USD
MAD/EUR	33.76	349.09	MAD	33.76	EUR
MXN/USD	25.17	348.46	MXN	34.29	USD
PEN/USD	227.59	1,073.29	PEN	310.00	USD
USD/EUR	531.40	543.83	USD	531.40	EUR
Floating to fixed	733.21				
EUR/BRL	79.70	96.99	EUR	288.17	BRL
EUR/MAD	31.09	33.76	EUR	349.09	MAD
EUR/USD	85.38	126.21	EUR	116.29	USD
USD/ARS	89.57	125.00	USD	363.45	ARS
USD/CLP	64.20	80.36	USD	48,745.31	CLP
USD/COP	120.47	156.36	USD	392,123.65	COP
USD/MXN	22.71	34.29	USD	348.46	MXN
USD/PEN	240.09	310.00	USD	1,073.29	PEN
Floating to floating	4,695.45				
EUR/USD	1,422.80	1,807.87	EUR	1,937.99	USD
USD/EUR	2,785.78	2,888.25	USD	2,785.78	EUR
CLP/EUR	30.88	22,862.55	CLP	30.88	EUR
EUR/CLP	14.02	14.39	EUR	10,645.55	CLP
USD/MXN	209.98	316.00	USD	3,221.87	MXN
MXN/USD	231.99	3,221.87	MXN	316.00	USD
Forwards	4,516.31				
USD/EUR	1,683.62	2,174.50	USD	1,683.62	EUR
EUR/USD	1,656.91	1,740.03	EUR	2,256.87	USD
USD/PEN	48.21	65.00	USD	215.52	PEN
PEN/USD	47.72	215.52	PEN	65.00	USD
USD/COP	126.17	155.00	USD	410,705.00	COP
COP/USD	84.43	305,265.00	COP	115.00	USD
USD/BRL	86.79	111.07	USD	313.78	BRL
BRL/USD	81.54	313.78	BRL	111.07	USD
USD/CLP	260.14	317.39	USD	197,507.50	CLP
CLP/USD	233.02	197,507.50	CLP	317.39	USD
USD/ARS	105.42	139.41	USD	427.76	ARS
ARS/USD	102.35	427.76	ARS	139.41	USD
Subtotal	29,907.85				

Notional amounts of structured products with options	Euros	Notional	Currency
Interest rate options	8,185.16		
Caps & Floors	8,026.49		
External counterparties			
US DOLLAR	972.77	1,325.00	USD
EURO CURRENCY	6,869.38	6,869.38	EUR
Intermediated Group companies			
US DOLLAR	184.34	251.10	USD
Swaptions	79.33		
EURO CURRENCY	79.33	79.33	EUR
Interest rate options	79.33	79.33	EUR
Currency options	2,033.33		
USD/EUR	1,833.93	2,498.00	USD
USD/ARS	199.40	271.60	USD
Equity options	235.47		
Subtotal	10,453.95		
Total	40,361.81		

Note: The equity option position basically includes call spread positions on 3 million shares of treasury stock with average exercise prices of €12.62 and €13.82 and call options bought on 5 million shares of treasury stock with an exercise price of €13.52.

13.2 The detail of the portfolio by type of derivative as of December 31, 2003, is as follows:

Millions

2003

Type of Risk	Equivalent Euro Value	Telefónica receives		Telefónica Pays	
		Value	Currency	Value	Currency
Euro interest rate swaps	7,004.89				
Fixed to floating	1,761.76	1,761.76	EUR	1,761.76	EUR
Floating to fixed	4,260.42	4,260.42	EUR	4,260.42	EUR
Floating to floating	982.71	982.71	EUR	982.71	EUR
Cross-currency swaps	4,146.57				
Fixed to floating	3,330.58				
USD/USD	3,126.91	3,949.29	USD	3,949.29	USD
MXN/MXN	203.67	2,898.99	MXN	2,898.99	MXN
Floating to fixed	815.99				
USD/USD	498.81	630.00	USD	630.00	USD
GBP/GBP	113.51	80.00	GBP	80.00	GBP
MXN/MXN	203.67	2,898.99	MXN	2,898.99	MXN
Exchange rate swaps	11,934.89				
Fixed to fixed	2,007.43				
USD/EUR	1,885.94	1,727.46	USD	1,885.94	EUR
GBP/EUR	121.49	80.00	GBP	121.49	EUR
Fixed to floating	838.99				
USD/EUR	531.40	543.83	USD	531.40	EUR
JPY/EUR	56.95	6,200.00	JPY	56.95	EUR
BRL/EUR	96.99	288.17	BRL	96.99	EUR
MAD/EUR	33.76	349.09	MAD	33.76	EUR
PEN/USD	91.05	402.25	PEN	115.00	USD
MXN/USD	28.84	371.55	MXN	36.43	USD
Floating to fixed	1,271.46				
EUR/BRL	78.97	96.99	EUR	288.17	BRL
EUR/USD	167.91	182.82	EUR	212.08	USD
USD/EUR	874.97	827.73	USD	874.97	EUR
MAD/EUR	31.49	33.76	MAD	349.09	EUR
USD/PEN	91.94	115.00	USD	402.25	PEN
USD/MXN	26.18	36.43	USD	371.55	MXN
Floating to floating	7,817.00				
EUR/USD	1,859.19	2,237.15	EUR	2,348.16	USD
USD/EUR	5,005.84	4,962.59	USD	5,005.84	EUR
EUR/GBP	283.77	303.72	EUR	200.00	GBP
GBP/EUR	182.23	120.00	GBP	182.23	EUR
USD/MXN	231.31	321.63	USD	3,282.59	MXN
MXN/USD	254.66	3,282.59	MXN	321.63	USD
Forward	262.25				
USD/EUR	217.23	267.41	USD	217.23	EUR
EUR/USD	3.96	5.28	EUR	5.00	USD
USD/ARS	21.12	25.18	USD	78.17	ARS
ARS/USD	19.94	78.17	ARS	25.18	USD
Subtotal	23,348.59				

Notional amounts of structured products with options	Euros	Notional	Currency
Interest rate options	2,242.72		
Caps & Floors	2,242.72		
US DOLLAR	158.35	200.00	USD
EURO CURRENCY	2,084.37	2,084.37	EUR
Swaptions	-		
EURO CURRENCY	-	-	EUR
Currency options	529.14		
USD/EUR	529.14	668.31	USD
Equity Swaps	323.95		
Equity options	713.63		
Subtotal	3,809.44		
Total	27,158.03		

The detail, by average maturity, of the hedging transactions in 2004 and 2003 is as follows:

Hedged Underlying Asset	Amount	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	2004
With underlying instrument						
Promissory notes						
Loans	18,932.23	6,540.81	3,297.93	6,564.53	2,528.96	
In national currency	14,264.69	5,762.10	1,805.44	4,692.52	2,004.63	
In foreign currencies	4,667.54	778.71	1,492.49	1,872.01	524.33	
MTN debentures and bonds	14,070.19	7,073.08	640.85	1,554.28	4,801.98	
In national currency	7,943.46	4,582.63	640.85	1,289.98	1,430.00	
In foreign currencies	6,126.73	2,490.45	-	264.30	3,371.98	
Liabilities	7,123.92	6,640.14	270.30	-	213.48	
Swaps	574.28	91.34	269.46	-	213.48	
Currency options	2,033.33	2,033.33	-	-	-	
Interest rate options	-	-	-	-	-	
Forward	4,516.31	4,515.47	0.84	-	-	
Shares	235.47	235.47	-	-	-	
Total	40,631.81	20,489.50	4,209.08	8,118.81	7,544.42	

Note: The equity option position basically includes call spread positions on 3 million shares of treasury stock with average exercise prices of €12.62 and €13.82 and call options bought on 5 million shares of treasury stock with an exercise price of €13.52.

The debentures and bonds hedged relate to those issued both by Telefónica, S.A. and by Telefónica Europe B.V.

	2003				
	Amount	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
With underlying instrument					
Loans	19,345.98	7,503.30	4,635.74	4,272.94	2,934.00
In national currency	9,268.34	3,677.96	1,586.32	3,193.74	810.32
In foreign currencies	10,077.64	3,825.34	3,049.42	1,079.20	2,123.68
MTN debentures and bonds	4,308.38	1,652.65	817.13	285.04	1,553.56
In national currency	524.27	-	-	-	524.27
In foreign currencies	3,784.11	1,652.65	817.13	285.04	1,029.29
Preferred shares	1,500.00	-	-	-	1,500.00
In national currency	1,500.00	-	-	-	1,500.00
Other assets and liabilities	966.10	914.42	51.68	-	-
Swaps	391.94	340.26	51.68	-	-
Exchange rate options	529.14	529.14	-	-	-
Forward	45.02	45.02	-	-	-
Subtotal	26,120.46	10,070.37	5,504.55	4,557.98	5,987.56
Shares	1,037.58	1,037.58	-	-	-
Swaps	323.95	323.95	-	-	-
Equity options	713.63	713.63	-	-	-
Total	27,158.04	11,107.95	5,504.55	4,557.98	5,987.56

Note: The stock options position basically relates to call options bought on 33 million shares of treasury stock with an average exercise price of €11.43. Also, there are combinations of call options bought at €11.02, call options sold at €12.07 and put options sold at €10.56 with a total positive delta of 4.7 million shares.

(14) TAX MATTERS

Pursuant to a Ministerial Order dated December 27, 1989, since 1990 Telefónica, S.A. has filed consolidated tax returns with certain Group companies. 54 companies formed the consolidated tax group in 2004.

14.1 Deferred tax assets and liabilities.

The detail as of December 31, 2004 and 2003, of Telefónica's deferred tax assets and liabilities, and of the variations therein in 2004 and 2003, is as follows:

	Deferred Tax Assets	Intercompany Deferred Tax Assets	Intercompany Deferred Tax Liabilities
	Long term	Long term	Long term
Balance at December 31, 2002	59.18	-	34.71
Reversal	(15.90)	-	(0.13)
Arising in the year	10.72	-	4.76
Other variations	26.18	-	-
Balance at December 31, 2003	80.18	-	39.34
Reversal	(8.62)	-	(0.24)
Arising in the year	7.78	31.96	7.57
Other variations	6.25	-	0.25
Balance at December 31, 2004	85.59	31.96	46.92

Telefónica's deferred tax assets relate mainly to accounting provisions recorded for investments in companies with negative underlying book values.

The other intercompany timing differences relate to the effects arising from consolidated taxation.

14.2 Taxes payable and tax receivables.

The detail of the "Taxes Payable" and "Tax Receivables" captions as of December 31, 2004 and 2003, is as follows:

	<i>Millions of euros</i>	
	Balance at 12/31/04	Balance at 12/31/03
Taxes payable		
Long-term taxes payable	46.92	39.34
Deferred tax liabilities	46.92	39.34
Short-term taxes payable	17.31	15.43
Personal income tax withholdings	2.37	3.18
VAT	-	8.62
Withholdings from income		
from movable capital and other	14.94	2.87
Accrued social security taxes	-	0.76
Total	64.23	54.77

Millions of euros

	Balance at 12/31/04	Balance at 12/31/03
Tax receivables		
Long-term tax receivables (Note 7)	4,343.19	5,000.10
Deferred tax assets	117.55	80.18
Long-term tax loss carryforwards	4,225.64	4,919.92
Short-term tax receivables	27.89	30.66
Tax withholdings	11.62	11.58
Corporate income tax refundable	0.32	0.33
Taxes recoverable and other	-	0.03
VAT and Canary Islands general indirect tax refundable	15.95	18.72
Total	4,371.08	5,030.76

14.3 Reconciliation of the income per books to the tax base and determination of the corporate income tax revenue and the net tax refundable.

The detail of the determination of the corporate income tax revenue and the net tax refundable for 2004 and 2003 is as follows.

Millions of euros

	2004	2003
Book income before taxes	1,165.32	1,036.50
Permanent differences	(1,484.74)	(1,962.50)
Timing differences		
Arising in the year	22.24	30.62
Arising in prior years	(24.62)	(44.97)
Tax base	(321.80)	(940.35)
Gross tax payable	(112.63)	(329.12)
Tax credits capitalized	(29.32)	(22.43)
Corporate income tax refundable	(141.95)	(351.55)
Timing differences	0.83	5.02
Corporate income tax accrued in Spain	(141.12)	(346.53)
Foreign taxes	3.91	6.30
Other	1.13	3.02
Total income tax	(136.08)	(337.21)

The tax credits taken relate basically to double taxation.

The permanent differences relate mainly to the investment valuation provisions recorded by the tax group companies included in the consolidated corporate income tax return in order to avoid duplication, since these companies recorded the tax asset in their own individual financial statements, to dividends received from tax group companies or foreign companies taxed at source and to nondeductible provisions.

The detail of the variation in the adjustments for timing differences in 2004 is as follows:

	<i>Millions of euros</i>
Timing differences	6.79
Commitments to employees	(9.17)
Period provisions	(2.38)
Total	(2.38)

The taxes incurred abroad relate mainly to the corporate income tax borne by the permanent establishment in Argentina.

14.4 On September 25, 2002, tax audits commenced at several of the companies included in tax group 24/90 of which Telefónica, S.A. is the parent company. The taxes subject to review are corporate income tax (for the years from 1998 to 2000) and VAT and tax withholdings and prepayments relating to personal income tax, tax on income from movable capital, property tax and nonresident income tax (1998 to 2001). Although the tax audits have not yet been completed, the final outcome of the tax assessments signed under protest is not expected to disclose the need to record significant liabilities in the financial statements of Telefónica S.A.

The years open for review by the tax inspection authorities for the main applicable taxes and as a result of the tax audit currently in progress are as follows: the years since 2002 for tax withholdings and prepayments relating to personal income tax, tax on income from movable capital, property tax, nonresident income tax and VAT; the years since 2001 for corporate income tax; and the last five years for the taxes applicable to the Company's permanent establishment in Argentina.

The tax audit of the open years is not expected to give rise to additional material liabilities for the Company.

(15) OTHER NONTRADE PAYABLES

The balance of this caption relates mainly to compensation payable, to other payables relating to fixed asset purchases and to the amount payable for certified construction work relating to the Telefónica Group's new Central Offices.

(16) REVENUES AND EXPENSES**16.1** Operating revenues

The revenues from sales and services in 2004 and 2003 related to sales to Group companies and, principally, to the management contract with Telefónica de Argentina, S.A.

In November 1990 Telefónica and Telefónica Argentina, S.A. entered into a renewable management contract expiring in 2003 regulating the counseling services rendered by Telefónica and the price thereof. The revenues received in this connection in 2004 and 2003 amounted to €20.85 million and €28.02 million, respectively, and these amounts are recorded under the "Net Sales to Group Companies" caption in the accompanying statements of income.

The "Non-Core and Other Current Operating Revenues – Group Companies" caption relates to revenues from centralized services provided by Telefónica, S.A., as the head of the Group, for its subsidiaries. The Company bears the full cost of the service and charges each company for the applicable portion. This amount includes most notably the billings to Telefónica de España, S.A.U. for €32.81 million

(€20.87 million in 2003), to Telefónica Móviles España, S.A. for €39.65 million (€30.74 million in 2003) and to Terra Networks, S.A. for €3.68 million (€4.25 million in 2003).

Operating revenues also include the income from property leases amounting to €6.32 million (see Note 6) and the interest capitalized to property, plant and equipment amounting to €1.72 million (see Note 4.c).

16.2 Personnel expenses

The detail of the personnel expenses is as follows:

	2004	2003
Compensation, incentive schemes, etc.	75.40	97.30
Pension plans (Note 4-h)	2.30	2.48
Employee welfare expenses and other	17.24	13.29
Total	94.94	113.07

The "Compensation, Incentive Schemes, etc." caption includes in 2003 the expense relating to the Telefónica stock option plan (TOP), amounting to €8.69 million. This plan expired in 2003 and no expense was incurred in this connection in 2004.

16.3 Average number of employees

Category	2004	2003
University graduates and other line personnel	504	611
Junior college graduates and technicians (draftsmen)	5	8
Supervisors and data processing assistants	157	167
Building and services personnel	2	5
Total	668	791

The total number of employees as of December 31, 2004, was 622 (767 in 2003).

Compensation systems tied to share market price

At 2004 year-end Telefónica only had one compensation system tied to the market price of its shares, the TIES Program, which is aimed at all the serving personnel of Telefónica and of most of its Spanish and foreign subsidiaries.

The other compensation system tied to the market price of Telefónica shares ended in September 2003. The so-called TOP Plan was aimed exclusively at executive personnel of Telefónica, S.A. and of certain Group companies including the executive directors of Telefónica, S.A. This Plan was implemented by Telefónica on June 28, 1999, and was approved by the Company's Stockholders' Meeting on April 7, 2000.

In view of the fact that when the aforementioned TOP Plan expired after the last opportunity for beneficiaries (participants) to exercise the Telefónica, S.A. stock options held by them the exercise prices were substantially higher than the market price of the shares at that time, the option-holders did not exercise the options which, accordingly, expired.

Following is a detailed account of the TIES Program.

On February 23, 2000, the Board of Directors of Telefónica, S.A. approved the establishment of a new compensation system tied to the market price of the Company's shares, with the grant of options on Company shares, known as the TIES Program. This Program is aimed at all the employees of Telefónica, S.A. and its Spanish and foreign subsidiaries who meet the requirements established in the rules governing the Program and who are not participating in any other similar employee stock or stock option plan.

In order to achieve the purposes of the Program, on April 7, 2000, the Stockholders' Meeting of Telefónica, S.A. approved two capital increases with disapplication of preemptive subscription rights, for a par value of €1,197,880 and €31,504,244, respectively, through the issuance of 1,197,880 and 31,504,244 new common shares, respectively, of €1 par value each, with additional paid-in capital of 400% of the par value.

Telefónica, S.A. duly registered separate prospectuses for the aforementioned capital increases, which were verified by the CNMV on November 16, 2000, and February 16, 2001, respectively. It was clearly explained therein which options could be exercised in each tranche, and the procedures for exercising and settling these options.

The main features of the TIES Program are as follows:

1. Number of shares offered for initial acquisition by the beneficiaries: 1,197,880.
2. Issue price: €5.
3. Maximum number of shares under option assigned to beneficiaries: 31,504,244. This figure, which is the maximum amount necessary to cover the total rights carried by the shares initially assigned, also includes a reserve for new beneficiaries of the Program equal to 4.5% of the initial beneficiaries.
4. Method of assignment of shares under option: depends on the appreciation of Telefónica, S.A. shares with respect to an initial reference value to be set by the Board of Directors and on the number of shares of Telefónica, S.A. initially acquired. The initial reference value was set at €20.5 per share.
5. Exercise price: €5.

At its meeting on June 28, 2000, the Board of Directors of Telefónica, S.A. resolved to commence implementation of the TIES Program (the features and general terms of which had been established on February 23, 2000, by the Board of Directors' meeting that approved the creation of the Program), and established the requirements to be met by the employees of the subsidiaries of Telefónica, S.A. in order to become beneficiaries of the TIES Program.

Subsequently, on November 29, 2000, the Board of Directors of Telefónica, S.A. adapted to the date on which the Program was ultimately launched the conditions and requirements to be met by the employees of the companies participating in

the Program in order to become beneficiaries of the Program and the reference value initially set.

On February 14, 2001, the notarial deed of formalization and execution of the first capital increase at Telefónica indicated above was executed. The par value of the capital was increased by €1,123,072, through the issuance of an equal number of common shares with additional paid-in capital of 94 per share. The new shares were fully subscribed and paid, through a monetary contribution, by the beneficiaries of the TIES Program.

On February 20, 2001, the notarial deed of formalization and execution of the second capital increase to cater for the TIES Program was executed. The par value of the capital was increased by €31,504,244, through the issuance of an equal number of common shares with additional paid-in capital of €4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by BBVA (50%) and La Caixa (50%).

On December 31, 2004, 72,298 persons were participating in the TIES program, holding a total of 29,792,427 purchase options on Telefónica, S.A. shares.

February 15, 2005, was the third and final Exercise Date under the Program but there were no exercisable options at that date since the initial reference value was higher than the market value of the Company shares. Consequently, all the unexercised options expired and were cancelled for all purposes and the TIES Program was thus terminated and the shares which were acquired in the past as the initial assignment to participate in the Program ceased to be covered by it.

Lastly, in February 2005, in accordance with a report issued by the Board of Directors on the resolutions adopted by the Stockholders' Meeting on April 7, 2000, in connection with item IX on the agenda (relating to the establishment of the TIES Program), Telefónica, S.A. acquired 34,760,964 shares classified as treasury stock. A proposal will foreseeably be submitted for approval by the next Stockholders' Meeting of the Company to reduce capital with the consequent retirement of these shares.

16.4 Other interest on accounts payable and similar expenses and revenues from other equity investments and loans

The detail of these captions is as follows:

	2004	2003
Debentures, bonds and other marketable debt securities	206.97	202.14
Euro loans and credits	672.61	857.93
Foreign currency loans	336.94	352.87
Total interest on accounts payable and similar expenses	1,216.52	1,412.94
Interest on loans to subsidiaries and associated companies	968.95	993.72
Revenues from investments in euros	39.13	46.28
Revenues from investments in foreign currencies	-	0.21
Revenues from financial derivatives	92.76	208.44
Total revenues from other equity investments and loans	1,100.84	1,248.65

€891.56 million and €912.35 million of the expenses related to interest on accounts payable to Group companies in 2004 and 2003, respectively (see Note 16.8).

16.5 Exchange differences

The detail of the exchange losses charged to income is as follows:

	2004	2003
Repayment of loans maturing in the year	12.61	126.90
Potential losses in the current and subsequent years	192.18	308.73
Current operations and derivatives	446.99	1,199.81
Total	651.78	1,635.44

The detail of exchange gains credited to income is as follows:

	2004	2003
Repayment of loans maturing in the year	6.44	42.73
Adjustment of foreign loans	395.14	959.78
Current operations and derivatives	303.60	588.74
Total	705.18	1,591.25

The variation in exchange gains and exchange losses in 2004 with respect to 2003 was due basically to the significant fluctuations in the US\$/euro exchange rate (a fluctuation of 7.85% in 2004 as compared with 20.43% in 2003), which was offset by the effect of hedges arranged for this purpose.

16.6 Extraordinary revenues

The "Extraordinary Revenues" caption in the accompanying statement of income relates to nonrecurring revenues obtained by the Company. The detail of the extraordinary revenues is as follows:

	2004	2003
Gains on fixed asset disposals	16.26	29.44
Release of reserve for treasury stock (Note 9)	-	159.95
Other extraordinary revenues	0.51	21.87
Total	16.77	211.26

The "Gains on Fixed Asset Disposals" caption includes mainly the gains on the divestments of Corporación Admira Media, S.A.U. and Telefónica Procesos y Tecnología de la Información, S.A.U., amounting to €4.12 million and €5.70 million, respectively (see Note 7.4.b), and gains on the disposal of property, plant and equipment, amounting to €6.09 million, relating to the real estate sale process under way at the Telefónica Group (see Note 6).

In 2003 the gains on fixed asset disposals included mainly the gain of €27.18 million obtained from the divestment of the holding in Antena 3 de Televisión, S.A. (see Note 7.4.b).

As indicated in Note 9, the Company recorded an extraordinary revenue for the release of the provision for

treasury stock recorded in prior years, due to the positive performance of the share price in 2003.

In 2003 the "Other Extraordinary Revenues" caption included mainly €12.63 million relating to the settlement for the acquisition of Telefónica Holding Argentina, S.A. and the gain of €7.12 million on the sale of treasury stock (see Note 9).

16.7 Extraordinary expenses

The detail of the extraordinary expenses is as follows:

	2004	2003
Prior years' losses	0.64	21.72
Losses on long-term investments	0.04	10.08
Other extraordinary expenses	69.02	34.67
Total	69.70	66.47

Bidland Systems Inc. and TI Capital Management, LLC reached a final agreement with Katalyx, Inc. and Telefónica, S.A. to resolve in court the two claims filed by the former alleging noncompliance with certain contractual obligations for the creation of a joint venture. Under this agreement, the damages initially sought were reduced to \$38 million and each party undertook to bear its respective lawyers' fees. The €15.31 million borne by Telefónica, S.A. in this connection were recorded under the "Other Extraordinary Expenses" caption.

With respect to the arbitral award in connection with the complaint submitted by the Radio Blanca Group to Uniprex (an Antena 3 de Televisión, S.A. Group company), on May 21, 2003, Telefónica, S.A. and Kort Geding, S.L. entered into an agreement whereby the former sold to the latter a 25.1% holding in the capital stock of Antena 3 de Televisión, S.A. This agreement contains a covenant whereby the seller undertakes to reduce the sale price by an amount equal to 25.1% of the possible adverse economic impact arising from the content of the award relating to the arbitration between Uniprex and Radio Blanca. Uniprex filed an appeal with the Provincial Appellate Court against the arbitral award rendered on March 15, 2004. No decision has yet been handed down in this connection. The accompanying financial statements include an extraordinary expense of €46.43 million, which is recorded under the "Other Extraordinary Expenses" caption.

16.8 Transactions with Group companies

Telefónica's main transactions with Group companies in 2004 and 2003 were as follows:

	2004	2003
Dividends received	795.41	591.65
Accrued interest	968.32	1,174.51
Financial expenses (Note 16.4)	(891.56)	(912.35)
Acquisitions of goods and services from the Telefónica Group	(50.45)	(50.15)
Telefónica de Argentina management fee transferred to Telefónica de España	(1.04)	(1.40)

The dividends received in 2004 include most notably the dividend of €165.15 million paid by Telefónica de España, S.A.U., that of €55.14 million paid by Telefónica Publicidad e Información, S.A. and the distribution of additional paid-in capital and reserves received from Telefónica Móviles, S.A. amounting to €565.22 million. The dividends received in 2003 included most notably the dividend of €49.50 million paid by Telefónica de España, S.A.U., that of €24.05 million paid by Telefónica Publicidad e Información, S.A. and the distribution of additional paid-in capital received from Telefónica Móviles, S.A. amounting to €514.51 million.

The accrued interest in 2004 includes most notably that obtained from the financing to Telefónica de España, S.A.U. (€419.84 million), to Telefónica Móviles, S.A. (€318.17 million), to Telefónica Internacional, S.A. (€64.25 million), to Telefónica de Contenidos, S.A.U. (€127.70 million) and to Telefónica Data Corp, S.A.U. (€18.63 million).

The accrued interest in 2003 included most notably that relating to Telefónica de España, S.A.U. (€466.85 million), to Telefónica Móviles, S.A. (€312.61 million), to Telefónica Internacional, S.A. (€252.97 million), to Telefónica de Contenidos, S.A.U. (€78.78 million) and to Emergia, S.A. (€16.5 million).

The financial expenses paid to Group companies include most notably those arising from the financing received from Telefónica Europe, B.V. and Telefónica Finanzas, S.A.U., the cost of which in 2004 amounted to €689.37 million and €177.50 million, respectively (€707.07 million and €176.61 million, respectively, in 2003) (see Note 12.2).

(17) DIRECTORS' COMPENSATION AND OTHER BENEFITS AND OTHER DISCLOSURES

a) Directors' compensation and other benefits

The compensation of Telefónica, S.A.'s directors is governed by Article 28 of the bylaws, which states that the amount of the compensation to be paid by the Company to its directors shall be that determined by the Stockholders' Meeting for this purpose and this amount shall remain in force until the Stockholders' Meeting resolves to change it. The Board of Directors is responsible for setting the exact amount to be paid within the stipulated limits and distributing it among the directors. In this connection, on April 11, 2003, the Stockholders' Meeting set the maximum gross annual amount to be paid to the Board of Directors at €6 million, which includes a fixed payment and attendance fees for attending the Board of Directors advisory committee or control committee meetings. In 2004, the Appointments and Compensation and Best Practice Corporate Governance Committee reviewed, in accordance with Article 25)b)5 of the Rules of the Board of Directors, the compensation system for the Company's directors, which had not been revised since March 1997. As a result, the Committee submitted a proposal to the Board of Directors to change the compensation system in view of the long period of time elapsed since it had been set up (1997). On September 29, 2004, the Board of Directors resolved to revise the fixed annual amount to be paid as compensation to the members of the Board of Directors and of its Standing Committee and the amount of the attendance fees for attending the meetings of the other Board Committees, and to establish a fixed annual amount to be paid as compensation to the members of these Board Committees, all within the maximum limit set by the Stockholders' Meeting on April 11, 2003.

Therefore, the compensation of Telefónica's directors in their capacity as members of the Board of Directors and/or of the Standing Committee and the advisory and control committees consists of a fixed amount payable monthly and attendance fees for attending the meetings of the Board's advisory or control committees. Additionally, executive directors receive the appropriate amounts for discharging their executive duties as stipulated in their respective contracts.

In 2004 the members of the Board of Directors of Telefónica, S.A. earned the following total compensation for discharging their duties as such: €3,707,904.71 of fixed payments (including the compensation earned as members of the Boards of Directors or of the advisory or control committees of other Telefónica Group companies) and €166,828.32 of attendance fees for attending the Board of Directors advisory committee meetings (including the attendance fees for attending Board of Directors advisory committee meetings of other Telefónica Group companies).

In their capacity as Company executives the executive directors César Alierta Izuel, Antonio J. Alonso Ureba, Luis Lada Díaz, Mario E. Vázquez and Antonio Viana-Baptista earned the following compensation: €6,558,265.38 of salaries and variable compensation; €129,412.46 of compensation in kind, which includes life insurance premiums; and €44,500.00 of contributions paid by the Company, as sponsor, to pension plans.

The breakdown of the compensation and benefits received by Telefónica's directors in 2004 is as follows:

Board of Directors: annual amount of the fixed payment received by each director (in euros):

Position	2004
Chairman	127,613.94
Deputy Chairmen	162,689.82
Directors (1):	
Executive directors	97,613.94
Nominee directors	97,613.94
Independent directors	97,613.94

(1) Additionally, one director, who is not resident in Spain, receives an additional annual payment of €52,639.14 because his experience and work in relation to Latin America are of special interest to the Company

Standing Committee: amount of the fixed payment received by each director who is a member of the Standing Committee (in euros):

Position	2004
Chairman	65,075.88
Deputy chairman	65,075.88
Directors	65,075.88

The directors do not receive any attendance fees for attending meetings of the Board of Directors or of the Standing Committee.

Other committees of the Board of Directors.

A) Fixed amount received by each director who is a member of any of the Board committees, based on the position held, for October, November and December 2004 (in euros):

Position	2004
Chairman	5,000.00
Directors	2,500.00

B) Total annual amounts paid in 2004 for attending meetings of the advisory and control committees of the Board of Directors, received by the directors who are members thereof taken as a whole (in euros):

Committees	2004	
Audit and Control	Attendance fee per meeting (through 09/30/04): 858.61 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 11 Total received: 38,258.30	The Company does not grant and did not grant in 2004 any advances, loans or credits to the directors, or to its top executives, thus complying with the requirements of the Sarbanes-Oxley Act passed in the U.S. which is applicable to Telefónica as a listed company in that market.
Appointments and Compensation and Best Practice Corporate Governance	Attendance fee per meeting (through 09/30/04): 858.61 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 9 Total received: 33,889.42	Lastly, the five Company directors who are members of the Catalonia and Andalusia advisory committees (set up in April and October 2004, respectively) received a total amount of €48,750.00 in 2004.
Human Resources and Corporate Reputation	Attendance fee per meeting (through 09/30/04): 858.61 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 5 Total received: 16,161.93	b) Detail of the equity interests in companies engaging in an activity that is identical, similar or complementary to that of the Company and the performance of similar activities by the directors for their own account or for the account of others
Regulation	Attendance fee per meeting (through 09/30/04): 858.61 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 10 Total received: 30,922.20	Pursuant to Article 127 ter. 4 of the Spanish Corporations Law, introduced by Law 26/2003, which amends Securities Market Law 24/1988, and the revised Spanish Corporations Law, in order to reinforce the transparency of listed corporations, following is a detail of the companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the corporate purpose of Telefónica, S.A., in which the members of the Board of Directors own equity interests, and of the functions, if any, that they discharge thereat:
Service Quality and Commercial Service	Attendance fee per meeting (through 09/30/04): 858.61 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 5 Total received: 12,727.49	
International Matters	Attendance fee per meeting (through 09/30/04): 858.61 Attendance fee per meeting (from 10/01/04): 1,250.00 Number of meetings paid: 2 Total received: 7,727.49	

Executive directors: total amounts received by the executive directors César Alierta Izuel, Antonio J. Alonso Ureba, Luis Lada Díaz, Mario E. Vázquez and Antonio Viana-Baptista taken as a whole for the items indicated below (in euros):

	2004
Salaries	3,337,526.82
Variable compensation	3,220,738.56
Compensation in kind	129,412.46
Contributions to pension plans	44,500.00

Additionally, it should be noted that the nonexecutive directors do not receive and did not receive in 2004 any compensation in the form of pensions or life insurance, and they do not participate in the compensation plans linked to share market price.

Owner	Investee	Activity	% of Ownership	Function
D. Isidro Fainé Casas	Terra Networks, S.A.	Telecommunications	< 0.01	-
D. José Fernando de Almansa Moreno Barreda	Lucent Technologies, Inc	Telecommunications	< 0.01	-
D. Maximino Carpio García	Telefónica Móviles, S.A.	Telecommunications	< 0.01	Director
D. Miguel Horta e Costa	Portugal Telecom, SGPS, S.A.	Telecommunications	< 0.01	Executive Chairman
D. Luis Lada Díaz	Telefónica Móviles S.A.	Telecommunications	< 0.01	Director
	Sogecable S.A.	Television Telecommunications and audiovisual production services	< 0.01	Director
D. Antonio Massanell Lavilla	Telefónica Móviles S.A.	Telecommunications	< 0.01	Director
D. Enrique Used Aznar	Amper, S.A.	Telecommunications equipment supplier	0.39	Chairman
D. Antonio Viana Baptista	Portugal Telecom, SGPS, S.A PT Multimedia-Serviços de Telecomunicações e Multimedia, SGPS, S.A. Telefónica Móviles, S.A.	Telecommunications Internet	< 0.01	Director
		Telecommunications	< 0.01	Executive Chairman

(1) If the holding is less than 0.01% of the capital stock, "< 0.01%" is shown.

Also, pursuant to the aforementioned Law, set forth below are the activities carried on, for their own account or for the account of others, by the various members of the Board of Directors that are identical, similar or complementary to the activity that constitutes the corporate purpose of Telefónica, S.A.

Name	Activity Carried On	Type of Arrangement under which the Activity is Carried on	Company through which the Activity is Carried on (2)	Positions Held or Functions Performed at the Company
D. José Antonio Fernández Rivero	Internet and e-commerce	For account of others	Adquira España, S.A.	Chairman
D. José Fernando de Almansa Moreno-Barreda	Telecommunications	For account of others	Telefónica Móviles, S.A.	Director
	Telecommunications	For account of others	Telefónica del Perú, S.A.A.	Director
	Telecommunications	For account of others	Telefónica de Argentina, S.A.	Director
	Telecommunications	For account of others	Telecomunicaciones de São Paulo, S.A.	Director
	Telecommunications	For account of others	Telefónica Internacional, S.A.	Director
D. Maximino Carpio García	Telecommunications equipment supplier	As Independent professionals	Abengoa, S.A	Member of Advisory Committee
D. Alfonso Ferrari Herrero	Telecommunications	For account of others	Telefónica Móviles, S.A.	Director
	Telecommunications	For account of others	Compañía de Telecomunicaciones de Chile, S.A.	Director
D. Miguel Horta e Costa	Telecommunications	For account of others	Telefónica de Perú, S.A.A.	Director
	Telecommunications	For account of others	Telefónica Internacional, S.A.	Director
	Telecommunications	For account of others	Portugal Telecom, SGPS S.A.	Executive Chairman
	Telecommunications	For account of others	PT Comunicações, S.A.	Executive Chairman
	Telecommunications	For account of others	PT Multimédia-Serviços de Telecomunicações e Multimédia, SGPS, S.A.	Chairman
	Telecommunications	For account of others	PT Móveis-Serviços de Telecomunicações e Multimédia, SGPS, S.A.	Chairman
	Telecommunications	For account of others	TMN-Telecomunicações Móveis Nacionais, S.A.	Chairman
	Telecommunications	For account of others	PT Sistemas de Informação, S.A.	Chairman
	Telecommunications	For account of others	PT Corporate-Soluções Empresariais de Telecomunicações e Sistemas, S.A.	Chairman
	Telecommunications	For account of others	PT Compras Serviços de Consultoria e Negociação, S.A.	Chairman
	Telecommunications	For account of others	PT Investimentos Internacionais Consultoria Internacional, S.A.	Chairman
D. Luis Lada Díaz	Telecommunications	For account of others	Telefónica Móviles, S.A.	Director
	Television, telecommunications and audiovisual production services	For account of others	Sogecable, S.A.	Director
D. Antonio Massanell Lavilla	Telecommunications	For account of others	Telefónica Internacional, S.A.	Director
D. Enrique Used Aznar	Telecommunications equipment provider	For account of others	Telefónica Móviles, S.A.	Director
	Telecommunications	For account of others	Amper, S.A.	Chairman
D. Mario Eduardo Vázquez	Telecommunications	For account of others	Telecomunicaciones de São Paulo, S.A.	Director
	Telecommunications	For account of others	Telefónica de Perú, S.A.A.	Director
	Telecommunications	For account of others	Terra Networks, S.A.	Director
	Telecommunications	For account of others	Telefónica Internacional, S.A.	Director
	Telecommunications	For account of others	Telefónica de Argentina, S.A.	Chairman
	Telecommunications	For account of others	Telefónica Holding de Argentina, S.A.	ViceChairman
	Telecommunications	For account of others	Compañía Internacional de Telecomunicaciones, S.A.	ViceChairman
	Telecommunications	For account of others	Telefónica Móviles Argentina, S.A.	Chairman
	Telecommunications	For account of others	Telefónica Comunicaciones Personales, S.A.	Chairman
	Telecommunications	For account of others	Radio Móvil Digital Argentina, S.A.	Chairman
	Telecommunications	For account of others	Radio Servicios S.A.	Chairman
	Telecommunications	For account of others	Telinver, S.A.	Chairman
	Telecommunications	For account of others	Katalyx Argentina, S.A.	Chairman
	Telecommunications	For account of others	Katalyx Food Service Argentina, S.R.L.	Manager

Name	Activity Carried On	Type of Arrangement under which the Activity is Carried on	Company through which the Activity is Carried on (2)	Positions Held or Functions Performed at the Company
D. Antonio Viana Baptista	Telecommunications	For account of others	Katalyx Cataloguing Argentina, S.R.L.	Manager
	Telecommunications	For account of others	Katalyx Construction Argentina, S.R.L.	Manager
	Telecommunications	For account of others	Katalyx Transportation Argentina, S.R.L.	Manager
	Internet and e-commerce	For account of others	Adquira Argentina, S.A.	Chairman
	Internet and e-commerce	For account of others	Terra Networks Argentina, S.A.	ViceChairman
	Telecommunications	For account of others	Telefónica Data Argentina, S.A.	Chairman
	Telecommunications	For account of others	Telefónica Móviles, S.A.	Executive Chairman
	Telecommunications	For account of others	Telefónica Internacional, S.A.	Director
	Telecommunications	For account of others	Telefónica Móviles España, S.A.	Director
	Telecommunications	For account of others	Telefónica de Argentina, S.A.	Director
	Telecommunications	For account of others	Telecomunicaciones de São Paulo, S.A.	Director
	Telecommunications	For account of others	Brasilcel, N.V.	Director
	Telecommunications	For account of others	Portugal Telecom, SGPS, S.A.	Director
	Telecommunications	For account of others	Telefónica de España, S.A.	Director

(2) Only shown if the activity is carried on as an employee and, therefore, is carried on through a company.

Pursuant to Article 114.2 of the Spanish Corporations Law, also introduced by Law 26/2003, it is hereby stated that in the fiscal year to which these consolidated financial statements refer, the directors, or persons acting on their behalf, did not perform any transactions with Telefónica or any other company in the Telefónica Group other than in the course of the Company's ordinary operations or in conditions other than normal market conditions.

(18) OTHER INFORMATION

a) Financial guarantees

	2004	2003
Guarantees provided for financial transactions	13,534.71	14,284.93

The "Guarantees Provided for Financial Transactions" account relates mainly to guarantees provided by Telefónica for its subsidiaries and investees, mainly Telefónica Europe, B.V. to secure the transactions with third parties.

No significant losses are expected to arise for the Company in connection with these commitments.

The amount indicated for guarantees provided by Telefónica S.A. includes most notably the guarantee provided to certain credit institutions to cover the obligations of Ipse 2000, S.p.A. arising from the deferral of payment for the third-generation wireless telephony license in Italy. These guarantees are in turn counterguaranteed by the Group's subsidiaries that own the investment in Ipse 2000, S.p.A.

b) Litigation

Telefónica, S.A. and its Group companies are party to several lawsuits which are currently in progress in the law courts and the arbitration courts of the various countries in which the Telefónica Group is present.

Based on the reports of counsel engaged to act in the lawsuits of Telefónica, S.A., it is reasonable to consider that the adverse outcome of any of these as yet unresolved lawsuits will not materially affect the Telefónica Group's economic and financial position or solvency. These lawsuits include most notably the following

- 1) A proceeding contesting the resolutions adopted by the Special Stockholders' Meeting of Telefónica, S.A. on February 4, 2000.

The stockholder Javier Sotos García, who owns 300 shares of the Company, filed a complaint contesting the resolutions adopted by the Special Stockholders' Meeting on February 4, 2000, based on the purported contravention of the rules regulating the holding of the Meeting and on the purported contravention of the rules for disapplication of preemptive rights of subscription in capital increases.

On May 8, 2003, Court of First Instance no. 33 handed down a judgment wholly dismissing the complaint filed by the plaintiff stockholder, holding that it was inappropriate to rule on the voidness or voidability of the resolutions adopted by the Special Stockholders' Meeting of Telefónica, S.A. on February 4, 2000, and awarding the costs of the proceeding against the plaintiff. On July 26, 2003, an appeal was filed by the latter at the Madrid Provincial Appellate Court. On December 11, 2003, Telefónica, S.A. filed a reply brief contesting the appeal. On January 18, 2005, the appeal hearing was held. On February 9, notice was given of the judgment by the Provincial Appellate Court dismissing the appeal filed by Javier Sotos García and awarding costs against the appellant. On February 18, notice was given of the filing of a pleading by Javier Sotos García preparing an extraordinary appeal against procedural infringements and a cassation appeal against the judgment of the Madrid Provincial Appellate Court on January 24, 2005.

- 2) A proceeding contesting certain resolutions adopted by the Annual Stockholders' Meeting of Telefónica, S.A. on June 15, 2001.

The aforementioned stockholder, Javier Sotos García, also filed a complaint contesting some of the resolutions adopted by the Company's Annual Stockholders' Meeting on June 15, 2001.

The aforementioned complaint is based on the purported infringement of the stockholder's right to information and on the purported contravention of the legal rules for disapplication of preemptive rights of subscription in capital increases.

On January 23, 2004, the Company was notified that the proceeding had been stayed until such time as either of the parties applies for its resumption or the instance lapses.

Based on the opinion of its legal counsel, the Company is convinced that the outcome of the aforementioned court proceeding will be wholly satisfactory for the Company.

- 3) Complaint filed by IDT against Telefónica, S.A., Terra Networks, S.A. and Lycos, Inc.

International Discount Telecommunications Corporation (IDT) filed a complaint at the New Jersey State Courts in the U.S. against Telefónica, S.A., Terra Networks, S.A., Terra Networks U.S.A., Inc., and Lycos, Inc.

This complaint is based on the purported breach of the joint venture agreement entered into between IDT and Terra Networks, S.A. in October 1999, on the purported nonperformance of the obligations under the agreement to terminate the joint venture agreement, on purported fraud and contravention of the legislation governing the purchase and sale of securities (Federal Securities Exchange Act) and, lastly, on purported fraudulent concealment of information.

The lawsuit is currently for an unspecified amount, without prejudice to the possibility of the claim by the plaintiff for damages being specified and quantified in the course of the proceeding.

Subsequently, IDT added a new claim to the complaint alleging that Telefónica was liable, as a control person, for the fraud alleged against Terra in its negotiations with IDT that led to the termination agreement. Telefónica has filed objections against this claim.

The defendants have filed an answer and, in turn, Terra Networks S.A. has filed a counterclaim.

In October 2002 the New Jersey State Court decided to dismiss the part of the complaint relating to certain purported breaches of the joint venture agreement, which also resulted in the exclusion of Terra Networks, U.S.A., Inc. from the proceeding.

On July 2, 2003, in light of the evidence taken, Terra Networks, S.A., Lycos, Inc. and Telefónica, S.A. filed pleadings seeking summary trial to determine the claims and have others dismissed. In turn, IDT has petitioned to have the counterclaim filed by Terra Networks, S.A. dismissed.

On September 1, 2004, the Court confirmed the decision in September 2002 granting IDT leave to file a third complaint against Telefónica, S.A.

Terra Networks, S.A. and Telefónica, S.A. have filed answers refuting the allegations of IDT in the third complaint.

On September 27, 2004, Telefónica, S.A. filed a motion to have the third complaint declared inadmissible for want of personal jurisdiction. The Court has not yet ruled on the motion.

On September 30, 2004, the Court ruled on two of the motions filed by the defendants in July 2003. In particular, the Court accepted the motion to have the complaint against Lycos declared inadmissible, but refused the request by Terra for summary trial.

The Court has not ruled on the other motions filed by Terra.

Based on the opinion of its legal counsel, the Company considers that it has a sound defense against the claims filed against it and, accordingly, Telefónica is confident that the outcome for Telefónica of the litigation arising from IDT's complaint should not be adverse but, if it were, considers that the economic and financial impact on the Telefónica Group should not be material.

4) Sistemas e Instalaciones de Telecomunicación, S.A.U. (Sintel).

As a result of the voluntary bankruptcy proceeding being conducted at Madrid Court of First Instance no. 42, case number 417/2001, which is the continuation of the petition for Chapter 11-type insolvency filed by the director of Sintel on June 8, 2000, two criminal proceedings have commenced which affect Telefónica, S.A.

Under the bankruptcy order, *inter alia*, the effects of the bankruptcy were backdated to June 8, 1998. As a result of the backdated effects of the bankruptcy pursuant to the order, the bodies in the bankruptcy sent Telefónica a payment demand for €22.87 million, which represented the total amount paid by Sintel, since they considered null and void as a matter of law the involvement of Sintel in the contract dated December 30, 1998, in which a debt of €21.35 million was recognized by reason of the sale of the shares of Sintel to Mastec Internacional, S.A. and the amounts paid by Sintel, which in the aforementioned contract appeared as a joint and several guarantor for the fulfillment of these payment obligations.

Telefónica filed an ancillary complaint in which it proposed that the effects of the bankruptcy be backdated to a date closer to that of the bankruptcy order, so that the contract dated December 30, 1998, would not be affected. The representatives of the employees filed another complaint to the contrary, proposing that the effects of the bankruptcy be backdated to the date of the sale of the shares of Sintel (April 1996).

The arrangement proposed by the bankrupt company and approved by the Court was the subject of an appeal to a superior court.

On June 14, 2004, an order was made dismissing all of the appeals filed and confirming the order approving the bankruptcy arrangement. An appeal was filed against this order and has been dismissed by the Supreme Court, thus making the bankruptcy arrangement final.

The two criminal proceedings are as follows:

"Abbreviated" proceeding no. 273/2001, in relation to which, on September 24, 2002, Telefónica, S.A. and

Telefónica de España, S.A. appeared before Central Examining Court no. 1 filing a civil suit as parties suffering loss against the directors of Sintel and of Mastec Internacional, S.A. Leave was given for them to appear as parties to the proceeding.

Preliminary proceeding no. 362/2002, which was commenced on October 23, 2002, by Central Examining Court no. 1 for a possible offense of extortion. This proceeding arises from the preceding one, concerns the possible commission of an offense of extortion in the assumption by Sintel of joint and several liability with Mastec for the obligation to pay the related sale price. This preliminary proceeding has been joined to proceeding no. 273/2001. In April 2004, the motion filed by counsel for Telefónica, S.A. to have the case dismissed on the ground that the investigation should have continued was rejected. However, it must be stressed that no charges have been pressed to date, and the claim in the expanded criminal complaint that led to this proceeding has been expressly dismissed.

On June 29, 2004, notice was given of a pleading filed by counsel for the former employees of Sintel seeking to further expand the criminal complaint to include, this time, the existence of an offense of criminal insolvency purportedly committed in the sale of Sintel to Mastec Internacional, Inc. in April 1996. On July 4 and August 5, 2004, Telefónica, S.A. filed submissions seeking to have the aforementioned pleading declared inadmissible, although the judge has not yet granted leave to expand the criminal complaint.

5) Collective lawsuits filed by stockholders of Terra in the U.S., in connection with the tender offer by Telefónica, S.A. for Terra Networks, S.A.

On May 29, 2003, two class actions were filed at the Supreme Court of New York State by stockholders of Terra Networks, S.A. against Telefónica, S.A., Terra Networks, S.A. and certain former and current directors of Terra Networks, S.A.

These actions are founded mainly on the claim that the price offered to the stockholders of Terra Networks, S.A. was not in keeping with the intrinsic value of the shares of that company, and seek to not have the tender offer approved or, alternatively, to have damages awarded to them.

It should be noted that since the filing of the complaints, the related proceedings have remained inactive.

Based on the opinion of its legal counsel, the Company considers that it has a sound defense against both the form and the substance of the claims filed against it and, accordingly, is confident that the outcome of the litigation should not be adverse for Telefónica.

6) Appeal for judicial review no. 6/461/03 filed at the National Appellate Court by the World Association of Stockholders of Terra Networks, S.A. (ACCTER) against the administrative decision made by the Spanish National Securities Market Commission (CNMV) to authorize the tender offer by Telefónica, S.A. for Terra Networks, S.A.

<p>ACCTER filed an appeal for judicial review against the decision of the CNMV to authorize the tender offer made to Terra Networks, S.A. stockholders on June 19, 2003.</p>	<p>Exclusive provider of Telefónica Group employee on-line training services.</p>
<p>Telefónica, S.A. has filed an application, admitted for consideration, to appear in the proceeding as an intervening nonparty to defend the lawfulness of the decision by the CNMV.</p>	<p>Preferential provider of on-line integral marketing services with the Telefónica Group companies.</p>
<p>In turn, the National Appellate Court has rejected the appellant's request for an ex parte or inter partes injunctive stay of the aforementioned decision.</p>	<p>2) Guaranteed minimum volume of acquisitions of Terra Group on-line advertising space by Telefónica Group companies.</p>
<p>ACCTER filed a complaint for judicial review, and Telefónica, S.A. and the Government Legal Service filed their answers.</p>	<p>3) Exclusive acquisition of connectivity and wholesale Internet access services by Terra Group companies from Telefónica Group companies under the legally permitted most-favored-customer conditions.</p>
<p>At present, the proceeding is ready for the rendering of judgment.</p>	<p>4) Outsourcing by Terra Group companies to Telefónica Group companies of all or part of the services and/or operation of the Internet access elements for the provision of ISP services to its residential, SOHO and, when so agreed, SME customers under the legally permitted most-favored-customer conditions.</p>
<p>Based on the opinion of its legal counsel, the Company is convinced that the outcome of the aforementioned proceeding will be satisfactory for the Company.</p>	<p>5) Exclusive acquisition by Terra Group companies from Telefónica Group companies of the advanced broad and narrow band network and platform services required to construct the range of services to be offered to residential, SOHO and, when so agreed, SME customers under the legally permitted most-favored-customer conditions.</p>
<p>c) Commitments</p>	<p>The Framework Strategic Alliance Agreement guarantees the generation for the Terra Group of a minimum annual amount throughout the term of the Agreement of €78.5 million. This amount is the difference between the revenues arising from the services provided to Telefónica Group companies under the aforementioned Framework Strategic Alliance Agreement and the costs and investments directly associated therewith. In compliance with the terms of the aforementioned Framework Agreement, the minimum annual amount was generated for the Terra Group in 2003 and 2004.</p>
<p>Strategic alliance between Telefónica and Terra</p>	<p>On February 12, 2003, Telefónica and Terra Networks, S.A. entered into a Framework Strategic Alliance Agreement to replace the Strategic Agreement dated May 16, 2000, to which Bertelsmann AG was also a party (whereby, in the framework of the acquisition of Lycos Inc. by Terra Networks, S.A., Telefónica, S.A. undertook to commission from Terra the portion of the advertising services committed by Bertelsmann AG that the latter did not commission from Terra Networks, S.A., up to a maximum amount of US\$ 675 million).</p>
<p>Additionally, on February 12, 2003, Telefónica, S.A., Terra Networks, S.A., Lycos Inc. and Bertelsmann AG entered into a preferential interest agreement which will enable them to continue to explore opportunities for the mutual provision of communications, development and content services in the on-line market.</p>	<p>The term of the Framework Strategic Alliance Agreement is six years, ending on December 31, 2008. The agreement is automatically renewable for one-year periods unless it is expressly terminated by the parties.</p>
<p>The main features of this Framework Strategic Alliance Agreement are summarized as follows:</p>	<p>Agreements with Portugal Telecom (Brazil)</p>
<p>1) Strengthening of the Terra Group as:</p>	<p>On January 23, 2001, Telefónica, S.A. and its subsidiary Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Moveis, SGPS, S.A., on the other, entered into an agreement in order to group together all their wireless telephony businesses in Brazil and, accordingly, they undertook to contribute all their wireless telephony assets in Brazil to a joint venture, which, subject to the obtainment of the necessary regulatory authorizations, would be a subsidiary of the two groups, and in which they would each have a 50% ownership interest. Also, under the terms of this agreement, the two parties expressed their interest in increasing their reciprocal ownership interests, subject to compliance with the applicable regulatory and bylaw conditions.</p>
<p>The exclusive provider of essential portal elements, including brand image, and aggregator of the broad and narrow band Internet content and services targeted at the residential, SOHO and, when so agreed, SME market segments, for the Telefónica Group companies' connectivity and ISP services.</p>	<p>On October 17, 2002, Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Moveis SGPS, S.A., on the other, entered into the definitive agreements (Stockholders' Agreement and Subscription Agreement) that implement the aforementioned agreement signed in January 2001. On December 27, 2002 (after having obtained the necessary authorizations), the two Groups' holdings in their respective Brazilian wireless telephony</p>
<p>Preferential provider of consulting, management and maintenance services for the country portals of the Telefónica Group companies.</p>	

operators were contributed to a Dutch joint venture, Brasilcel N.V., in accordance with the provisions of the aforementioned Subscription Agreement.

In accordance with the aforementioned definitive agreements, Telefónica Móviles, S.A. and the Portugal Telecom Group will have the same voting rights at Brasilcel, N.V. This equality in voting rights will cease to exist if, as a result of capital increases at Brasilcel, N.V., the percentage of ownership of either of the parties falls below 40% during an uninterrupted period of six months. In this event, if the Group with the reduced interest were the Portugal Telecom Group, it would be entitled to sell to Telefónica Móviles, S.A., which would be obliged to buy (directly or through another company), all the Portugal Telecom Group's ownership interest in Brasilcel N.V. This right expires on December 31, 2007. The price for the acquisition of the Portugal Telecom Group's holding in Brasilcel, N.V. would be calculated on the basis of an independent appraisal (in the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. Subject to certain conditions, the payment could be made, at Telefónica Móviles' choice, in (i) cash, (ii) Telefónica Móviles S.A. shares and/or Telefónica, S.A. shares, or (iii) a combination of the two. This put option would be exercisable in the 12 months subsequent to the end of the aforementioned six-month period, provided that the Portugal Telecom Group had not increased its ownership interest to 50% of the total capital stock of Brasilcel N.V.

Also, in accordance with the definitive agreements, the Portugal Telecom Group will be entitled to sell to Telefónica Móviles, S.A., which will be obliged to buy, its holding in Brasilcel, N.V. should there be a change in control at Telefónica, S.A., at Telefónica Móviles, S.A. or at any other subsidiary of the latter that held a direct or indirect ownership interest in Brasilcel N.V. Similarly, Telefónica Móviles, S.A. will be entitled to sell to the Portugal Telecom Group, which will be obliged to buy, its holding in Brasilcel, N.V. if there is a change of control at Portugal Telecom SGPS, S.A., at PT Móveis SGPS, S.A. or at any other subsidiary of either company that held a direct or indirect ownership interest in Brasilcel N.V. The price will be determined on the basis of an independent appraisal (in the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. The related payment could be made, at the choice of the group exercising the put option, in cash or in shares of the wireless telephony operators contributed by the related party, making up the difference, if any, in cash.

Agreements for the acquisition of Pegaso (Mexico)

In accordance with the agreements entered into by Telefónica Móviles, S.A. on April 26, 2002, with Sprint, Leap Wireless, Qualcomm and other financial investors, the acquisition by Telefónica Móviles, S.A. of 65% of the capital stock of the Mexican company Pegaso Telecommunicaciones, S.A. de C.V. (Pegaso) was definitively concluded on September 10, 2002.

Also, in compliance with the agreements adopted on that date, Telefónica Móviles, S.A. and the Burillo group, which owned 35% of the remaining capital stock of Pegaso, all the shares of Pegaso were contributed to a company formed for this purpose called Telefónica Móviles México, S.A. de C.V. Telefónica Móviles, S.A. also contributed to this new company

the companies which it owned in northern Mexico. After these contributions, Telefónica Móviles, S.A. had a 92% holding in the new company.

Under the agreements entered into, the Burillo group has certain mechanisms with which it can cease to be a stockholder, instrumented through an option to sell its holding in Telefónica Móviles México, S.A. de C.V. The Burillo group can exercise its put option in 2007 or 2008, or, if its holding in the company falls below 50% of its original ownership interest, on the date on which such decrease occurs. If the Burillo group did not exercise its put option, Telefónica Móviles could exercise its purchase option on the shares of the company owned by the Burillo group. In this case, the purchase price for the shares will be determined on the basis of a valuation of the company on the date on which the rights were exercised. The agreements entered into envisage that a portion of the purchase price will be paid in cash, the amount of which will depend upon the Burillo group's original investment in the company, to which interest will be added and from which any cash distribution received by the Burillo group will be deducted. The remaining portion of the purchase price, if any, will be paid, at Telefónica Móviles' choice, in cash, in shares of Telefónica Móviles or a combination of the two.

Also, under the stockholders' agreement entered into the Burillo group has certain rights to veto agreements on the conversion of shares from one class to another, declarations of bankruptcy or Chapter 11-type insolvency proceedings, dissolution or liquidation, bylaw amendments which adversely affect the rights of the Burillo group and mergers or corporate reorganizations which do not afford the Burillo group the opportunity to maintain a given percentage of ownership.

Newcomm Wireless Services, Inc. (Puerto Rico)

On September 29, 2003, Telefónica Móviles, S.A. arranged a counterguarantee for Telefónica Internacional, S.A. for the obligation of Telefónica Móviles Puerto Rico (a subsidiary of Telefónica Móviles) regarding a loan of US\$ 11 million granted by Banco Santander de Puerto Rico. On January 11, 2005, Telefónica Móviles Puerto Rico repaid the principal and paid the interest outstanding on the aforementioned loan, and the guarantee provided by Telefónica Internacional, S.A. and, consequently, the counterguarantee of Telefónica Móviles, were released from that date.

On December 23, 2003, Telefónica Móviles, S.A. arranged a counterguarantee for Telefónica, S.A. for the obligation of Newcomm Wireless Services, Inc. de Puerto Rico, regarding a bridge loan of US\$ 61 million granted by ABN AMRO which matures on June 30, 2005. These guarantees are deemed to be recoverable on the basis of the company's business plan and of their seniority for credit ranking purposes with respect to capital stock.

Atento

Within the framework of the strategic agreement entered into on February 11, 2000, by Banco Bilbao Vizcaya Argentaria S.A. (BBVA) and Telefónica, on December 4, 2001, the two entities signed an agreement establishing the procedure and conditions for the integration in Atento, a Telefónica Group subsidiary, of the BBVA Group's Spanish and international contact center business.

The transaction agreed on consisted of the initial contribution by Telefónica S.A. of all its contact center business to a newly-formed subsidiary (Atento N.V.) and the subsequent inclusion of the BBVA Group in the stockholder structure of Atento N.V. through the contribution of the Spanish companies Procesos Operativos, S.A. and Leader Line, S.A., which entailed the transfer to Atento of the BBVA Group's Spanish and international contact center business.

The transaction also envisaged the signing of various specific agreements for the provision to the BBVA Group by Atento of contact center services in Spain and Portugal and in several Latin American countries.

Atento N.V. was incorporated on May 30, 2002. All Telefónica, S.A.'s contact center business was contributed to it on that date. The contributions by the BBVA Group under the terms of the agreement discussed in this section have not yet been made.

On October 24, 2003, BBVA, Telefónica, S.A. and Atento N.V. entered into an Agreement establishing the terms and conditions under which BBVA, through General de Participaciones Empresariales, S.L. (GPE) became a stockholder of Atento N.V. by contributing all the shares of Procesos Operativos, S.A. As a result of the performance of this Agreement, Telefónica, S.A. currently owns shares representing 91.35% of the capital stock of Atento N.V., and GPE (a BBVA Group company) owns the remaining 8.65%.

Subsequently, on December 1, 2003, the Atento Group company Atento Teleservicios España, S.A. acquired all the shares of Leader Line, S.A.

On November 27, 2003, BBVA and Atento N.V. entered into a framework contract for services, with a term of four years, establishing the terms under which Atento N.V. and its subsidiaries will provide contact center activities and services to the BBVA Group.

At the same time as the aforementioned acquisition of Leader Line, S.A., Telefónica and GPE entered into a put option contract whereby GPE has the right to sell to Telefónica, which will be obliged to buy, all the shares of Atento N.V. that GPE owns at the time the option is exercised.

Commitments in relation to Sogecable

As a result of the agreements dated May 8, 2002 and January 29, 2003, between Telefónica, S.A., Telefónica de Contenidos, S.A.U. and Sogecable, S.A., relating to the merger of Via Digital into Sogecable, on August 7, 2003, Telefónica de Contenidos acquired a commitment to contribute funds up to a maximum of €45,281,500 to offset Sogecable's cash deficit if it is unable to repay any amount owed under a syndicated loan and credit facility granted to Sogecable on August 7, 2003, by several financial institutions. This guarantee to contribute funds to cover possible cash deficits at Sogecable expires on June 30, 2005, the date on which it is estimated that the restructuring process brought about by the merger of the digital platforms will have been completed.

Also, on August 7, 2003, Telefónica de Contenidos, S.A.U. acquired a commitment, up to a maximum of €80 million, to

guarantee compliance with the payment obligations arising for Sogecable under the aforementioned syndicated loan and credit facility, or to indemnify the syndicate of banks and savings banks up to the same amount against the damage and loss that the syndicate may suffer if any of Sogecable's obligations in relation to the contract were to be rendered null, void or ineffective for Sogecable.

In any case, the maximum amount guaranteed by Telefónica de Contenidos, S.A.U. in relation to the aforementioned syndicated loan and credit facility granted to Sogecable may not exceed €80 million, and the guarantee will be reduced in proportion to the voluntary or mandatory early repayments that take place during the term of the related agreement, which ends on December 31, 2010.

Telefónica, S.A. and Telefónica de Contenidos, S.A.U. have stated that they currently plan not to dispose of this holding for at least three years from the exchange date.

Other commitments in the form of performance bonds for concessions or licenses

- 1) Telefónica Móviles España, S.A.U., a subsidiary of Telefónica Móviles, S.A., which is in turn a subsidiary of Telefónica, S.A., provided certain financial guarantees to the Spanish State amounting to €1,100 million, in relation to the grant to Telefónica Móviles España, S.A.U. of a UMTS license in Spain. These guarantees ensure fulfillment of the commitments assumed by the company awarded the license in relation to network deployment, job creation, investments, etc.

Telefónica Móviles España, S.A.U. initiated negotiations with the Ministry of Science and Technology with a view to changing the existing system of guarantees. This process was completed through an Official Notice issued by the Secretary of State for Telecommunications and for the Information Society on July 28, 2003, as a result of which the 71 guarantees in force at that date amounting to €630.9 million that were securing the commitments assumed under the UMTS license were returned to Telefónica Móviles España, S.A.U., after the latter had arranged, in the same month, a guarantee of €167.5 million with the Government Depository, to secure compliance with the UMTS service commitments prior to launch of the UMTS and the commitments of the first year from the date of commercial launch, in accordance with the new system of guarantees. In September 2003, Telefónica Móviles España, S.A.U. cancelled the returned guarantees at the respective banks.

On June 23, 2004, the Ministry of Industry, Tourism and Commerce issued an order authorizing the change in the commitments assumed by Telefónica Móviles España, S.A.U. in connection with the operation of the third-generation wireless telecommunications (UMTS) service. Under this Order the requests filed by Telefónica Móviles España, S.A.U. in this respect were upheld, compliance with certain commitments was reinterpreted and other commitments were eliminated for the benefit of public interest.

As a result of this change, the amount to be guaranteed by Telefónica Móviles España, S.A.U. as a performance bond for the commitments assumed prior to the launch of the UMTS service and in the first year of service was

reduced to €157.5 million. The guarantee therefore amounted to €157.5 million as of December 31, 2004.

- 2) Telefónica Móviles, S.A. is backing the commitments assumed by Grupo de Telecomunicaciones Mexicanos, S.A. de C.V. (GTM) to the regulator, COFETEL for the long-distance national license it has obtained. The maximum amount of this support is MXP 124.15 million. As of the date of preparation of these financial statements no disbursements had been made in this connection.
- 3) In 1999 Telefónica de Argentina, S.A. provided guarantees for the promissory notes amounting to US\$ 22.5 million provided by Telefónica Comunicaciones Personales, S.A. to the Argentine Government to guarantee the fulfillment of the obligations assumed in the obtainment of the PCS licenses for areas I and III. Also, Telefónica de Argentina, S.A. jointly and severally guaranteed, with Telecom Argentina Stet-France Telecom, S.A., the promissory notes amounting to ARP 45 million provided jointly by Telefónica Comunicaciones Personales, S.A. and Telecom Personal, S.A. to the Argentine Government to guarantee the fulfillment of the obligations assumed in the obtainment of the PCS licenses for area II. These guarantees are still in force, pending verification by the Regulatory Authority of the fulfillment of the PCS network coverage obligations secured by these guarantees. In 2003 the Regulatory Authority verified substantially all the coverage obligations in areas I and III, leaving only the cities of La Rioja, Córdoba and Catamarca. The Regulatory Authority completed the verification of the PCS network coverage obligations in the aforementioned cities and in area II in 2004. The Regulatory Authority must now decide the return of the guarantees.

Telefónica, S.A. and those of its subsidiaries which head subgroups perform, as holding companies, various equity investment purchase and sale transactions in the course of their business activities, in which it is standard practice to receive or provide guarantees regarding the nonexistence of liabilities, contingencies, etc. in the investments forming the subject matter of the related transactions.

The contingencies arising from the commitments described above were evaluated when the financial statements as of December 31, 2004, were prepared, and the provisions recorded with respect to the commitments taken as a whole are not representative.

d) Fees paid to auditors

The fees paid to the various member firms of the Deloitte Touche Tohmatsu international organization, to which Deloitte, S.L. (the auditors of Telefónica, S.A.) belongs, amounted to €1.84 million in 2004 and €2.07 million in 2003.

The detail of the foregoing amounts is as follows:

<i>Millions of euros</i>	2004	2003
Audit of financial statements	0.57	0.67
Other audit services	0.71	0.66
Non-attest work	0.56	0.74
TOTAL	1.84	2.07

e) Environmental matters

Telefónica, S.A., as head of the Telefónica Group, engages in activities relating to the ownership of shares and the provision of financing and corporate counseling to various Group companies. In view of the business activities in which the Company engages, it does not have any liability, expenses, assets, provisions or contingencies of an environmental nature that might be material with respect to its net worth, financial position and results of operations. Accordingly, no specific disclosures relating to environmental issues are included in these notes to 2004 financial statements.

f) Adoption of International Financial Reporting Standards - IFRS

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002, all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after January 1, 2005, in conformity with the International Financial Reporting Standards (IFRS) previously adopted by the European Union. In conformity with this Regulation, the Group will have to present its consolidated financial statements for 2005 in accordance with the IFRS adopted by the European Union.

Under IFRS 1, First-Time Adoption of International Financial Reporting Standards, although the first consolidated financial statements prepared in accordance with IFRS will, in the case of the Group, be those for the year ending December 31, 2005, it will be necessary to include, for comparison purposes, the figures for the preceding year (2004) prepared on a basis consistent with that used to calculate the figures for 2005. Accordingly, an opening balance sheet will have to be prepared as of the date of transition to IFRS accounting methods (January 1, 2004, in the case of the Group), also in accordance with the IFRS in force as of December 31, 2005.

In order to meet the obligation imposed by Regulation (EC) no. 1606/2002, the Group has established a plan for the transition to IFRS that includes, inter alia, the following steps:

- Analysis of the differences between the methods provided for in the National Chart of Accounts in force in Spain and related implementing rules, and in IFRS.
- Selection of the methods to be used in cases or areas in which IFRS permit alternative accounting treatments to be applied.
- Assessment and determination of the appropriate changes to or adaptations of the operating procedures and systems used for compiling and providing the information required in order to prepare the consolidated financial statements.
- Preparation of the opening consolidated financial statements, as of the transition date, in accordance with IFRS.

The Group commenced to implement the plan for the transition to IFRS in 2003 and the stage of completion is currently as planned for the adaptation to be completed in 2005.

(19) SUBSEQUENT EVENTS

In the period from December 31, 2004, through the date of preparation of these financial statements the following events worthy of mention took place at Telefónica, S.A.:

Interim dividend out of 2004 income

In accordance with the stockholder return policy approved by the Company's Board of Directors, and in conformity with the resolution adopted by the Board on January 26, 2005, on February 23, 2005, the Board of Directors of Telefónica, S.A., on the basis of the financial information furnished to it, resolved, pursuant to Article 216 of the Spanish Corporations Law currently in force, to distribute a fixed interim dividend out of 2004 income of €0.23 gross per share for the Company's outstanding shares carrying dividend rights, up to a maximum total amount of €1,139.86 million. This interim dividend will be paid on May 13, 2005.

ACCOUNTING STATEMENT SUPPORTING THE DISTRIBUTION OF THE INTERIM DIVIDEND

Millions of euros

Income from January 1, 2004, through December 31, 2004	1,301.40
Mandatory appropriations to reserves	130.14
Distributable income	1,171.26
Proposed interim dividend (maximum amount)	1,139.86

CASH POSITION

As shown in the financial statements for 2004, prepared by the Board of Directors on February 23, 2005, on December 31, 2004, there was sufficient liquidity for the distribution of dividends. This liquidity also existed as of January 31, 2005, as evidenced by the following statement of liquidity:

Cash available for distribution	<i>Millions of euros</i>
Cash	31.04
Unused credit facilities	6,836.06
Proposed interim dividend (maximum amount)	(1,139.86)
Difference	5,727.26

Dividend with a charge to additional paid-in capital

Also, in conformity with the resolution adopted by the Board of Directors on January 26, 2005, the Company's Board resolved to propose to the next Stockholders' Meeting that a fixed cash dividend of €0.27 per share be distributed with a charge to additional paid-in capital. This dividend will be paid, subject to approval by the aforementioned Stockholders' Meeting and as announced by the Company, on November 11, 2005.

Merger by absorption of Terra Networks, S.A. into Telefónica, S.A

On February 9, 2005, Telefónica, S.A.'s Standing Committee resolved to propose to Terra Networks, S.A. the commencement of negotiations for the eventual merger of the two companies. The basis for the negotiations included the proposal of a certain share exchange ratio.

The Boards of Directors of Telefónica, S.A. and Terra Networks, S.A. resolved at their respective meetings held on February 23, 2005, to approve a plan for the merger by absorption of Terra Networks, S.A. into Telefónica, S.A. through the dissolution of the former and the transfer en bloc of all its assets and liabilities to the latter, which will acquire, by way of universal succession, all the rights and obligations of Terra Networks, S.A. The exchange ratio for the shares of the companies to be merged was determined on the basis of the actual net asset value of Telefónica, S.A. and Terra Networks, S.A. and will be as follows: 2 shares of Telefónica, S.A. of €1 par value each, for 9 shares of Terra Networks, S.A. of €2 par value each. The merger plan will be submitted for approval by the respective Stockholders' Meetings.

MTN Program for the issuance of debt instruments (Telefónica Emisiones, S.A.U.)

Telefónica Emisiones, S.A.U., a subsidiary of Telefónica, S.A., has launched a program for the issuance of debt instruments ("the Program") for up to a total of €15,000 million. The related Prospectus was filed with the UK Listing Authority for which purpose the Dealership Agreement, the Issue and Paying Agency Agreement, the Deed of Covenant, the Deed of Guarantee and the Master Global Notes were formalized on February 4, 2005.

Under the Deed of Guarantee, the issues of debt instruments to be made by Telefónica Emisiones, S.A.U. under the aforementioned Program shall be irrevocably and unconditionally guaranteed by Telefónica, S.A.; all in conformity with the resolutions adopted by Telefónica, S.A.'s Standing Committee at its meeting on December 22, 2004.

(20) STATEMENTS OF CHANGES IN FINANCIAL POSITION

Aplications of funds	2004	2003	Source of founds	2004	2003
- Funds applied in operations	-	-	- Funds obtained from operations	496.42	187.82
- Start-up and debt arrangement expenses	11.62	21.30			
- Fixed asset additions:			- Long-term deferred tax assets	7.58	4.63
a) Intangible assets	16.01	20.05	- Long-term debt	-	-
b) Tangible fixed assets	72.77	7.35	- Fixed asset disposals:		
c) Long-term investments	3,918.76	7,199.91	a) Intangible assets	2.13	-
- Dividends	1,924.16	1,653.15	b) Tangible fixed assets	7.01	-
- Long-term debt	2,223.88	951.48	c) Long-term investments	2,561.94	5,048.72
			- Transfer to short term of loans to Group companies	1,703.82	3,981.83
- Variation in working capital due to inclusion of Inmobiliaria Telefónica S.A.U. (Note 2)	30.88				
Total funds applied	8,198.08	9,853.24	Total funds obtained	4,778.90	9,223.00
Funds obtained in excess of funds applied	-	-	Funds applied in excess of funds obtained	3,419.18	630.24
(Increase in working capital)	8,198.08	9,853.24	(Decrease in working capital)	8,198.08	9,853.24

Variations in working capital

Increase in working capital	2004	2003
Short-term investments	883.42	60.92
Treasury stock	2,031.05	454.70
Cash	221.99	9.36
Accrual accounts	6.90	-
Accounts payable	-	-
Total	3,143.36	524.98
Variation in working capital	3,419.18	630.24
	6,562.54	1,155.22

Decrease in working capital

2004	2003
Accounts receivable	2.10
Short-term investments	-
Cash	-
Accounts payable	6,560.44
Accrual accounts	-
Total	6,562.54
Variation in working capital	6,562.54
	1,155.22

The reconciliation of the balances in the statements of income to the funds obtained from operations is as follows:

<i>Millions of euros</i>	2004	2003
Income for the year	1,328.56	1,373.71
Add		
Depreciation and amortization expense	49.89	47.91
Amortization of debt		
arrangement expenses	34.31	38.23
Short-term investment		
valuation provisions	0.26	-
Period provisions	-	42.70
Amortization of executive		
loyalty-building	-	8.69
Less		
Gain on disposal of long-term investments	16.26	29.44
Short-term investment valuation provisions	-	30.80
Investment valuation provisions	761.77	755.27
Reversal of provisions	0.77	170.70
Capitalized interest	1.72	-
Corporate income tax	136.08	337.21
Funds obtained from operations	496.42	187.82

(21) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

ANEXO I**DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2004***Amounts in millions of euros*

Subsidiaries	% of Ownership	Capital	Reserves	Interim Dividend	Income (loss)	Gross book value
Telefónica de Contenidos, S.A. (ESPAÑA) (1) (6) <i>Organization and operation of activities and businesses relating to Multimedia Services Paseo de la Castellana, 141 - 28046 Madrid</i>	100.00%	2,163.60	(1,865.97)	-	(82.84)	2,241.88
Telefónica Datacorp, S.A.U. (ESPAÑA) (1) <i>Provision and operation of telecommunications services Gran Vía, 28 - 28013 Madrid</i>	100.00%	1,226.76	(413.41)	-	(115.15)	1,335.81
Telefónica de España, S.A.U. (ESPAÑA) (1) (6) <i>Provision of telecommunications services in Spain Gran Vía, 28 - 28013 Madrid</i>	100.00%	1,023.68	2,241.85	-	1,112.07	3,033.86
Telefónica International Wholesale Services America, S.A. (URUGUAY) (1) (6) <i>Provision of high bandwidth communications services Luis A. de Herrera, 1248 Piso 4 - Montevideo</i>	100.00%	370.41	(109.88)	-	(45.68)	499.04
Communicapital Gestión, S.A.U. (ESPAÑA) (1) <i>Global telecommunications fund Gran Vía, 28 - 28013 Madrid</i>	100.00%	0.06	(0.02)	-	(0.00)	0.06
Lotca Servicios Integrales, S.L. (ESPAÑA) (4) <i>Owership and operation of aircraft and the lease thereof Gran Vía, 28 - 28013 Madrid</i>	100.00%	16.93	-	-	-	16.93
Telefónica Gestión de Servicios Compartidos, S.A. (ESPAÑA) (1) (6) <i>Provision of management and administration services Gran Vía, 28 - 28013 Madrid</i>	100.00%	7.57	11.82	-	(1.10)	20.08
Telefónica Capital, S.A. (ESPAÑA) (3) <i>Financial company Gran Vía, 28 - 28013 Madrid</i>	100.00%	7.00	39.88	-	1.72	18.12
Telefónica Investigación y Desarrollo, S.A. (TIDSA) (ESPAÑA) (3) <i>Telecommunications research activities and projects Emilio Vargas, 6 - 28043 Madrid</i>	100.00%	6.01	55.16	-	4.43	6.01
Communicapital Inversiones, S.A.U. (ESPAÑA) (1) <i>Global telecommunications fund Gran Vía, 28 - 28013 Madrid</i>	100.00%	6.00	(73.72)	-	2.40	6.00
Compañía Española de Tecnología, S.A. (ESPAÑA) (3) <i>Promotion of business initiatives and disposition of marketable securities Villanueva, 2 duplicado planta 1º Oficina 23 - 28001 Madrid</i>	100.00%	3.99	(0.35)	-	(0.04)	10.11
Casiopea Reaseguradora, S.A. (LUXEMBURGO) (3) <i>Reinsurance activities 6D, route de Trèves, L-2633 Senningerberg, Luxembourg</i>	100.00%	3.60	64.74	-	1.46	2.99
Telefónica Finanzas, S.A. (TELFISA) (ESPAÑA) (3) <i>Integrated cash management, counseling and financial support for Group companies Gran Vía, 30 - 4º Plta. - 28013 Madrid</i>	100.00%	3.01	9.93	-	0.96	12.61
Venturini España, S.A. (ESPAÑA) (2) <i>Printing, graphic arts and direct marketing Avda. de la Industria, 17 Tres Cantos - 28760 Madrid</i>	100.00%	3.01	(0.13)	-	0.36	3.60
Telefónica Finanzas Perú, S.A.C. (PERÚ) <i>Integrated cash management, counseling and financial support for Group companies Ciudad de Lima</i>	100.00%	2.75	-	-	-	2.75
Telefónica Ingeniería de Seguridad, S.A. (ESPAÑA) (2) <i>Security services and systems Condesa de Venadito, 1 - 28027 Madrid</i>	100.00%	0.90	(2.63)	-	(0.76)	3.58

Subsidiaries	% de Participación	Capital	Reservas	Dividendo a cuenta	Resultados	Valor bruto en libros
Telefónica Media Internacional y de Contenidos USA, Inc. (USA) (5) <i>Operation of media services in the U.S.</i> 1221 Brickell Av. - Miami	100.00%	-	(3.56)	-	(0.10)	0.33
Fisatel Mexico, S.A. de C.V. (MEXICO) (1) <i>Integrated cash management, counseling and financial support for Group companies</i> Boulevard Manuel Avila Camacho, 24 - 16º Pta. - Lomas de Chapultepec - 11000 Mexico D.F.	100.00%	0.42	(0.29)	-	0.15	0.42
Telefónica Participaciones, S.A. (ESPAÑA) <i>Issuance of preferred securities and/or other debt financial instruments</i> Gran Vía, 28 - 28013 Madrid	100.00%	0.06	-	-	-	0.06
Telefónica Emisiones, S.A. (ESPAÑA) <i>Issuance of preferred securities and/or other debt financial instruments</i> Gran Vía, 28 - 28013 Madrid	100.00%	0.06	-	-	-	0.06
Taetel, S.L. (ESPAÑA) (1) <i>Acquisition, holding and disposal of shares and ownership interest in other companies</i> Beatriz de Bobadilla, 3 - 28040 Madrid	100.00%	28.25	5.65	-	0.53	28.25
Telefónica Europe, B.V. (NETHERLANDS) (1) <i>Fund raising in capital markets</i> "Strawinskyalaan 1259; tower D; 12th floor 1077 XX - Amsterdam"	100.00%	0.05	6.08	(1.35)	1.92	0.05
Ateseco Comunicación, S.A. (ESPAÑA) (1) <i>Holding company</i> C/ Gran Vía, 28 - 28.013 Madrid	100.00%	6.12	39.47	-	2.23	107.57
Telefónica Internacional USA Inc. (U.S.A.) (1) 1221 Brickell Avenue suite 600 - 33131 Miami - Florida	100.00%	-	0.37	-	0.04	-
Telefónica B2B Licensing, Inc. (U.S.A.) (1)	100.00%	0.01	(8.06)	-	(1.80)	0.01
Telefónica Gestao de Serviços						
Compartilhados do Brasil, Ltda. (BRASIL) (1) <i>Provision of management and administration services</i> Rua Do Livramento, 66 Bolco Ibirapuera - Sao Paulo	99.99%	8.45	(5.00)	-	(0.56)	5.00
Telefónica Gestión de Servicios Compartidos						
Mexico, S.A. de C.V. (MEXICO) (1) (6) <i>Provision of management and administration services</i> Blvd. Díaz Ordaz Pte N 123 2º, Col. Santamaría - 6465 Monterrey	99.99%	6.75	(3.73)	-	(0.21)	6.76
Telefónica Gestión de Servicios Compartidos, S.A.C. (PERÚ) (1) (6) <i>Provision of management and administration services</i> Shell, 310 - Miraflores - Lima	99.99%	3.91	1.48	-	0.23	3.91
Telefónica Gestión de Servicios Compartidos, S.A. (ARGENTINA) (1) <i>Provision of management and administration services</i> Tucuman 1, Piso 18 Ciudad de Buenos Aires	99.99%	0.01	(0.53)	-	0.45	0.01
Telefónica Internacional, S.A. (ESPAÑA) (1) (6) <i>Investment in the Telecommunications industry abroad</i> C/ Gran Vía, 28 - 28013 Madrid	99.88%	2,842.12	3,627.02	-	1,216.79	8,131.75
Endemol Entertainment Holding, N.V. (HOLANDA) (3) (6) <i>Production of audiovisual content</i> Bonairelaan, 4 - 1213 Vh Hilversum - Netherlands	99.70%	0.69	152.44	-	64.59	842.13
Seguros de Vida y Pensiones Antares, S.A. (ESPAÑA) (3) <i>Life insurance, pensions and health insurance</i> Avda. General Perón, 38 Master II - 17º P. - 28020 Madrid	94.67%	204.33	4.95	-	8.39	206.62
Atento N.V. (NETHERLANDS) (1) (6) <i>Provision of telecommunications services</i> Locatellikade, 1 - 1076 AZ Amsterdam	91.35%	0.12	(10.98)	-	18.21	302.71
Terra Networks, S.A. (ESPAÑA) (1) (6) <i>Provision and operation of telecommunications services</i> Nicaragua, 54 - 08029 Barcelona	75.87%	1,149.88	320.88	-	163.97	2,897.99
Telefónica Móviles, S.A. (ESPAÑA) (1) (6) <i>Holding company</i> Goya, 24 - 28001 Madrid	71.03%	2,165.28	920.71	-	1,674.09	2,661.41

Empresas dependientes	% de Participación	Capital	Reservas	Dividendo a cuenta	Resultados	Valor bruto en libros
Telefónica Publicidad e Información, S.A. (ESPAÑA) (2) (6) <i>Publishing of directories and advertising in media of all types</i> Avda. de Manoteras, 12 - 28050 MADRID	59.90%	18.41	100.84	-	111.86	4.06
Pléyade Peninsular, Correduría de Seguros y Reaseguros del Grupo Telefónica, S.A. (ESPAÑA) (3) <i>Distribution, promotion or preparation of insurance contracts, operating as a broker</i> Avda. General Perón, 38 Master II - 17º P.- 28020 Madrid	16.67%	0.36	1.28	-	1.51	0.06
Telefónica del Perú, S.A.A. (PERÚ) (1) <i>Operator of local long-distance and international telephony services in Peru</i> Avda. Arequipa, 1155 Santa Beatriz - Lima	0.14%	473.02	149.30	-	12.26	2.89
Telefónica Factoring Establecimiento Financiero de Crédito, S.A. (ESPAÑA) (1) <i>Loans and credits (consumer and mortgage loans and commercial transactions</i> Pedro Teixeira, 8 - 28020 Madrid	50.00%	5.11	1.74	-	2.44	2.64
Aliança Atlântica Holding B.V. (NETHERLANDS) <i>Holder of 5,225,000 Portugal Telecom, S.A. shares</i> Strawinskyalaan 1725, 1077 XX Amsterdam	50.00%	40.00	0.80	-	1.03	21.97
Torre de Collcerola, S.A. (ESPAÑA) (2) (7) <i>Operation of telecommunications most and provision of technical assistance and consulting services</i> Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona	30.40%	12.02	0.56	-	-	3.67
Telefónica Factoring Do Brasil, Ltd. (BRASIL) (1) <i>Factoring</i> Avda. Paulista, 1106	40.00%	2.41	(0.96)	(0.14)	0.72	0.97
Sistemas Técnicos de Loterías del Estado, S.A. (ESPAÑA) (2) <i>Operation of a gaming terminal system for the Spanish Estate Gaming Organization</i> Manuel Tovar, 9 - 28034 Madrid	31.75%	12.02	54.32	-	4.74	3.82
Amper, S.A. (ESPAÑA) (1) (6) <i>Development, manufacture and repair of telecommunications systems and equipment and related components</i> Torrelaguna, 75 - 28027 Madrid	6.10%	27.91	20.18	-	2.51	11.83
Portugal Telecom, S.G.P.S., S.A. (PORTUGAL) (1) <i>Holding company</i> Avda. Fontes Pereira de Melo, 40 - 1089 Lisboa	8.55%	1,166.49	1,349.22	-	456.40	836.72
Sogecable, S.A. (ESPAÑA) (1) (6) <i>Indirect management of public T.V. Service</i> Gran via, 32 - 3º Pta. - 28013 Madrid	1.60%	252.01	167.32	-	(156.23)	41.91
Banco Bilbao Vizcaya Argentaria, S.A. (ESPAÑA) (1) (6) <i>Banking</i> Plaza de San Nicolás, 4 - 48013 Bilbao (Vizcaya)	1.13%	1,662.00	11,090.00	(1,017)	2,802.00	555.63
I-CO Global Communications (HOLDINGS) Limited (REINO UNIDO)	N/D	N/D	N/D	-	N/D	6.03
Otras participaciones	N/A	N/A	N/A	-	N/A	8.39
Total subsidiaries (Note 7)						22,415.48
Total associated companies (Note 7)						1,479.16
Total investees (Note 7)						14.42

(1) Company audited by Deloitte & Touche. In Spain Deloitte & Touche España, S.L.

(2) Company audited by PriceWaterhouseCoopers.

(3) Company audited by K.P.M.G. Peat Marwick.

(4) Company audited by B.D.O. Audiberia.

(5) Company in liquidation.

(6) Consolidated figures.

(7) Data as of December 31, 2003.

Provisional figures for associated companies and investees.

N/D No data.

N/A Not applicable.

MANAGEMENT REPORT TELEFÓNICA, S.A. 2004

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

INITIAL SUMMARY

The Telefónica Group's earnings increased in 2004 as a result of the significant commercial drive in all lines of business, making it possible to successfully face up to the stiffer competition and to strengthen its position in the strategic markets in which it has a presence.

The Telefónica Group had to manage its businesses against a difficult backdrop characterized by the slowdown in the growth of the traditional services, the poor economic situation in certain of the countries in which it operates, the stiffer competition and certain unfavorable decisions taken by the regulator. In order to address this situation, Telefónica focused its management priorities on its customers, making them the central linchpin of the Company's strategy. The implementation of a more commercial, customer-oriented corporate model entailed a process of transformation at the Telefónica Group towards a more flexible means of managing the businesses, which enabled the Group to increase its operating efficiency and to make more efficient use of the resources used.

This strategy enabled Telefónica to maintain a prominent position in the industry, where it leads the Spanish- and Portuguese-speaking wireline and wireless telephony markets, with more than 118 million customers, to enjoy a solid financial position with a significant level of cash flow generation and to become one of the leading European operators in terms of stock market capitalization.

Also, the success of this strategy made it possible for Telefónica to strengthen its commitment to its stockholder remuneration policy, improving the returns received by them. In this regard, the dividend approved by the Stockholders' Meeting for 2003 was €0.40 per share (as compared with the €0.25 paid the previous year), and for this year, the Board of Directors, at its meeting on January 26, 2005, resolved to propose to the Stockholders' Meeting that a dividend of €0.50 per share be paid, which represents a 25% with respect to the 2003 dividend. As part of this strategy, on November 24, 2004, the Board of Directors resolved to propose to the Stockholders' Meeting that shares of treasury stock of Telefónica S.A. be distributed among the stockholders, in the proportion of one share for every 25 shares held by them, with a charge to additional paid-in capital.

The Telefónica Group's objective for the future is to become the best and biggest integrated telecommunications group in the world, for which purpose it will embark on a transformation process based on three main pillars: customers, innovation and operating excellence. As regards the first of these three pillars, Telefónica will attempt to amplify its customer base by building up customer loyalty and increasing the share of the disposable income of its customers received by it. Also, Telefónica aims to extend innovation to the various processes in the value chain, including the commercial area. Lastly, the Group's efforts in relation to operating excellence will focus on maintaining its

position of leadership by implementing a policy targeted at maximizing efficiency and quality. The Group's objective is to become the company with the best customer satisfaction levels in the industry, which it will achieve through an ongoing increase in productivity and investments in renewal.

ORGANIZATION BY LINE OF BUSINESS

The new organizational model, the implementation of which commenced in 2003, was fully in place in 2004. The new model has simplified the lines of business in order to achieve an organization that places greater emphasis on the key businesses and has a more flexible asset and cost structure.

In this regard, in 2004 the integration of the Telefónica Empresas business (Data, TIWS and Soluciones) into the wireline telephony businesses in both Spain and Latin America was fully operational. Telefónica de España assumed the business of Telefónica Empresas España and Telefónica Soluciones, and Telefónica Latinoamérica included under its management the Telefónica Empresas business in Latin America and the TIWS business.

EARNINGS

In 2004 the Company's income amounted to €1,301.40 million, as compared with the €1,373.71 million obtained in 2003.

The most salient events reflected in the 2004 statement of income are as follows:

- An operating loss of €269.97 million, up 2% on 2003, due once again to the effect of Telefónica's cost containment drive in 2003 and 2004.
- Financial income of €726.45 million, an increase of 81.30% with respect to the preceding year, which was due mainly to the effect of the evolution of the exchange differences recorded in the statement of income and to the increase in dividends received from Group companies.
- The combination of the two aforementioned effects gave rise to income from ordinary activities of €456.48 million in 2004, a figure which was higher than the €136.44 million reported in 2003.
- The Company obtained extraordinary income of €708.84 million in 2004, as compared with the €900.06 million reported in 2003. These results relate mainly to the investment valuation provisions recorded for subsidiaries.

INVESTMENT ACTIVITY

The most significant investments made by Telefónica, S.A. in 2004 were as follows:

Telefónica, S.A. acquired 52,820,862 shares of Portugal Telecom, S.G.P.S., S.A. for €475.14 million. Also, on December 29, 2004, Portugal Telecom announced a capital reduction and retired 87,799,950 shares of treasury stock, equal to 7%

of its capital stock. Following these transactions, Telefónica's direct percentage of ownership increased to 8.55%.

In 2004 Telefónica, S.A. acquired 3,753,140 shares of Terra Networks, S.A. on the stock market for €10.69 million. As of December 31, 2004, Telefónica, S.A. had a direct ownership interest of 76.80% in this company, after taking into account the treasury stock of Terra Networks, S.A.

Also, it acquired 804,689 shares of Telefónica Móviles, S.A. for €6.92 million, giving it a direct holding of 71.03% in this company as of December 31, 2004.

In December 2004 Telfisa Perú SAC was incorporated with an initial capital stock of 12 million new soles through the issuance of 120,000 shares, 119,999 of which were disbursed by the Company for €2.75 million.

In addition, within the framework of the business activities carried on in the real estate area, which were taken over by Telefónica following the dissolution without liquidation of Inmobiliaria Telefónica, S.L.U. with the transfer en bloc of its assets and liabilities and the extinguishment of the latter, the Company is currently carrying out the construction work required to build the Telefónica Group's new Head Offices. In this regard, the tangible fixed asset additions of Telefónica, S.A. in 2004 amounted to €74.49 million, as compared with the tangible fixed asset additions of €735 million in 2003.

FINANCING

The principal financing transactions in 2004 were as follows:

On July 6, 2004, Telefónica arranged a syndicated credit facility of €3,000 million with certain Spanish and international credit institutions. This credit facility matures at five years (on July 6, 2009) and bears interest of EURIBOR/LIBOR plus a spread that will depend on the Company's credit rating. The parties are subject to the habitual commitments and obligations in syndicated financing transactions. Banco Bilbao Vizcaya Argentaria, S.A. and Caja de Ahorros y Pensiones de Barcelona ("La Caixa") acted, together with other entities, as the Underwriters and Managers of the transaction.

On November 26, 2004, Telefónica, S.A. and various branches of ABN Amro Bank N.V. entered into a credit line agreement for a total amount of US\$ 377,083,385.71, guaranteed by the export credit agencies in Finland ("Finnvera") and Sweden ("EKN"), bearing fixed interest of 3.26% and with final maturity on November 15, 2010. This financing will be used to repay a maximum of 85% of the network equipment purchases made by the Telefónica Móviles Group companies from Ericsson and Nokia.

TREASURY STOCK

At the beginning of 2004 Telefónica held treasury stock representing 0.81787% of capital stock, i.e. 40,532,869 shares with a book value of €10.39 each, giving a total of €421.26 million and a par value of €40.53 million.

In 2004 the Company acquired for consideration 166,712,310 shares of treasury stock (representing 3.36392% of capital stock and with a par value of €166.71 million) at an average price of €12.18 per share.

As a result, 207,245,179 shares (representing 4.18179% of capital stock) of treasury stock were held at 2004 year-end, acquired at an average price of €11.83 per share, giving a total of €2,542.31 million and a par value of €207.24 million. As indicated in Note 4-f, pursuant to current accounting legislation, these shares of treasury stock were valued at their underlying book value and, consequently, a provision of €1,762.13 million was recorded.

EVENTS SUBSEQUENT TO YEAR-END

Interim dividend out of 2004 income.

Pursuant to the stockholder remuneration policy approved by the Company's Board of Directors, and in conformity with the resolution adopted at the Board meeting held on January 26, 2005, on February 23, 1995, the Board of Directors of Telefónica, S.A., based on the economic and financial information furnished to it, resolved, in accordance with Article 216 of the current Corporations Law, to distribute an interim dividend out of 2004 income, consisting of a fixed amount of €0.23 gross payable on all the Company's shares currently outstanding carrying the right to receive such dividend, for a total maximum amount of €1,139.86 million, and to pay this dividend on May 13, 2005.

ACCOUNTING STATEMENT REQUIRED FOR THE DISTRIBUTION OF THE INTERIM DIVIDEND

Millions of euros

Income obtained in the period from January 1, 2004 to December 31, 2004	1,301.40
Mandatory appropriations to reserves	130.14
Distributable income	1,171.26
Proposed interim dividend (maximum amount)	1,139.86

CASH POSITION

As disclosed in the 2004 financial statements, which were prepared by the Board of Directors at their meeting on February 23, 2005, as of December 31, 2004, there was sufficient liquidity to be able to distribute the dividend. This liquidity also existed as of January 31, 2005, as evidenced by the following liquidity statement:

Funds available for distribution	<i>Millions of euros</i>
Cash	31.04
Available credit facilities	6,836.06
Proposed interim dividend (maximum amount)	(1,139.86)
Difference	5,727.24

DIVIDEND WITH A CHARGE TO ADDITIONAL PAID-IN CAPITAL

Also, in conformity with the resolution adopted by the Board of Directors on January 26, 2005, the Company's Board resolved to propose to the next Stockholders' Meeting that a fixed cash dividend of €0.27 per share be distributed with a charge to additional paid-in capital. This dividend will be paid, subject to approval by the aforementioned Stockholders' Meeting and as announced by the Company, on November 11, 2005.

COMPLETION OF THE TIES PROGRAM

In February 2005, as scheduled in the Report issued by the Board of Directors in relation to the resolutions adopted in point IX of the Agenda by the Stockholders' Meeting on April 7, 2000 (in connection with the establishment of the TIES Program), Telefónica, S.A. acquired 34,760,964 shares, which it currently holds as treasury stock. It is planned to propose to the Company's next Ordinary Stockholders' Meeting that capital be reduced with the concomitant retirement of the aforementioned shares.

MTN PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS (TELEFÓNICA EMISIONES, S.A.U.)

Telefónica Emisiones, S.A.U., a subsidiary of Telefónica, S.A., has established a programme for the issuance of debt instruments (Programme for the Issuance of Debt Instruments, the "Programme") for a maximum total amount of €15,000,000,000, the prospectus for which has been filed

with the UK Listing Authority and for which purpose the documents entitled Dealership Agreement, Issue and Paying Agency Agreement, Deed of Covenant, Deed of Guarante and Master Global Notes were formalized on February 4, 2005.

In accordance with the Deed of Guarante, the debt instrument issues made under the aforementioned Programme by Telefónica Emisiones, S.A.U. will be guaranteed, irrevocably and unconditionally, by Telefónica, S.A., all pursuant to the resolutions adopted by the Standing Committee of Telefónica, S.A. at a meeting held on December 22, 2004.

MERGER BY ABSORPTION OF TERRA NETWORKS, S.A. BY TELEFÓNICA, S.A.

On February 9, 2005, the Standing Committee of Telefónica, S.A. resolved to propose to Terra Networks, S.A. that negotiations be initiated with a view to the possible merger of the two companies. Under the bases for the negotiations, a given exchange ratio was proposed.

On February 23, 2005, the Boards of Directors of Telefónica, S.A. and Terra Networks, S.A. resolved to approve a Plan for the merger by absorption of Terra Networks, S.A. into Telefónica, S.A., through the dissolution of the former and the transfer en bloc of all its assets and liabilities to the latter, which will acquire, by universal succession, the rights and obligations of Terra Networks, S.A. The share exchange ratio for the shares of the entities participating in the merger, which was determined on the basis of the actual value of the net worth of Telefónica, S.A. and Terra Networks, S.A., will be as follows: 2 shares of Telefónica, S.A. of €1 par value each, for 9 shares of Terra Networks, S.A. of €2 par value each. This merger Plan will be submitted for approval by the respective Stockholders' Meetings.

Telefónica S.A.

Annual Report 2004

This Report is also available at Telefónica's
Internet website:www.telefonica.com/eng

Shareholders may request copies of this Report from
Telefónica's Shareholders Services Office by calling
freephone 900 111 004 (in Spain) or by electronic mail to:
accion.telefonica@telefonica.es

The information required by law is also available
to shareholders and to general public.

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