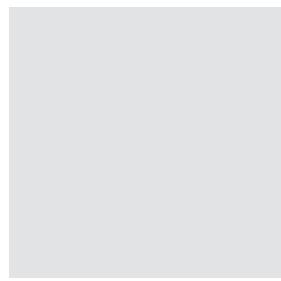
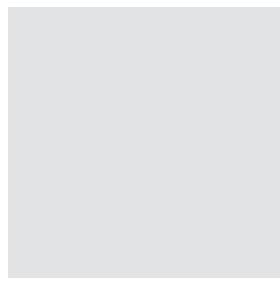
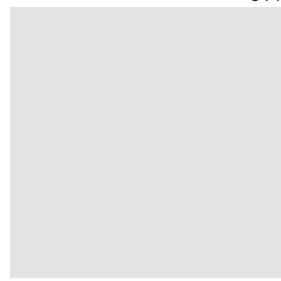
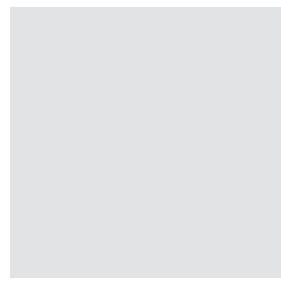
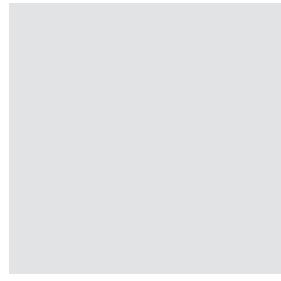
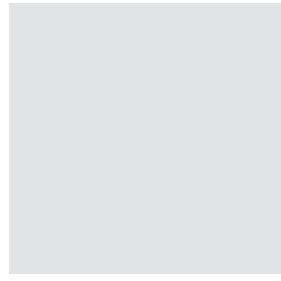
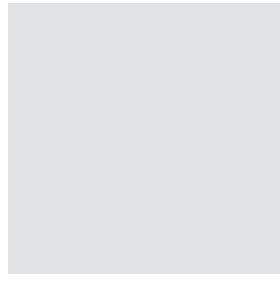
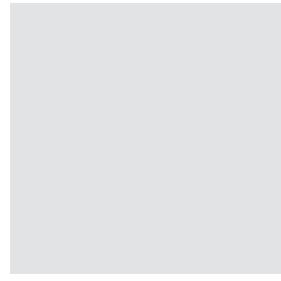
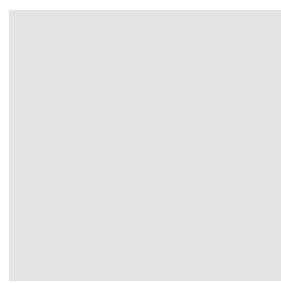
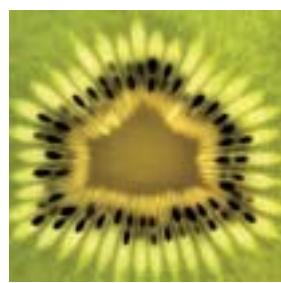
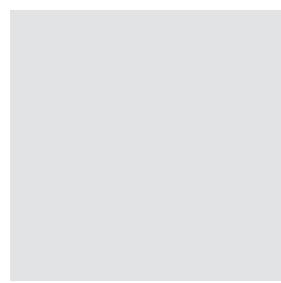
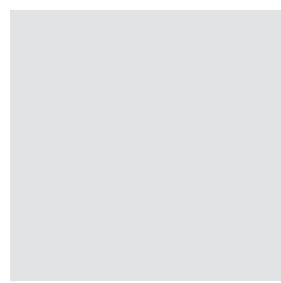
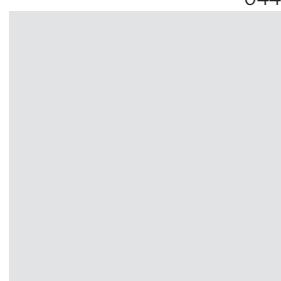
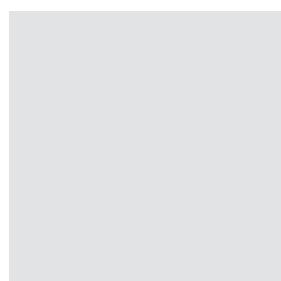
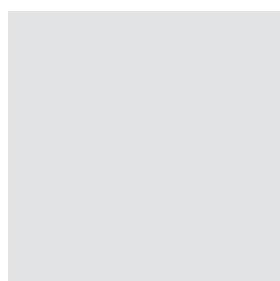
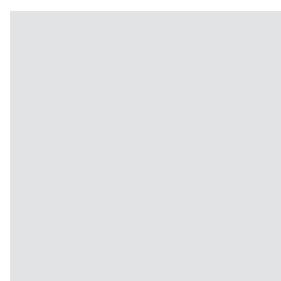


Annual Report 2003
Telefónica, S.A.

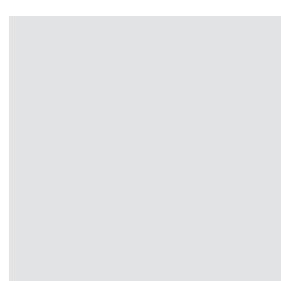
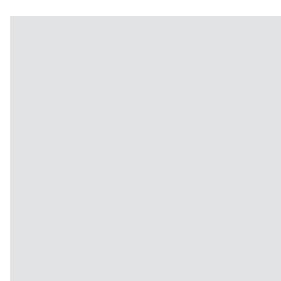
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Growth

Telefónica is committed to distributing an annual minimum dividend of 0.4 euros per share over the period 2004-2006

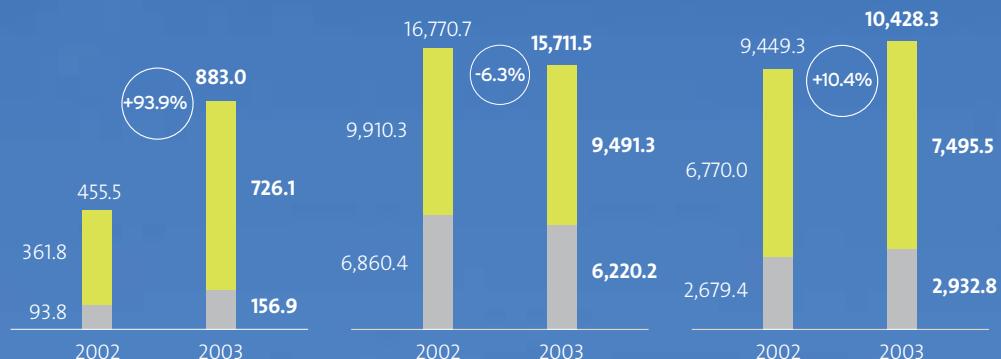
Profitability for shareholders of Telefónica in 2003 for all items is 46% (dividend, bonus share issues, extraordinary distributions and share price increase)

Telefónica is the 5th telecommunications company in the world in terms of stock market capitalisation (10th March, 2004)

Telefónica generated cash flow (EBITDA-CAPEX) of 8,875 million euros in 2003.

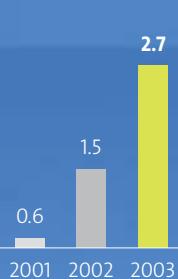
Business Growth (revenue in current euros)

Spain Latin America and others



Commercial transformation (in millions of customer totals)

BROADBAND



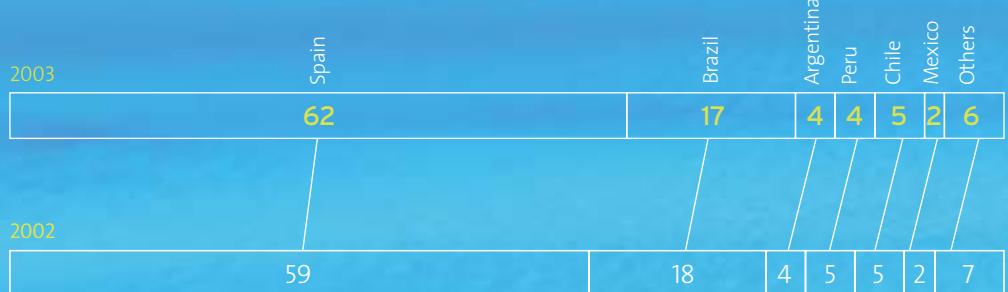
FIXED LINES



MÓVILES



Revenues by countries (in percentages)



Profitability

Highlights 2003

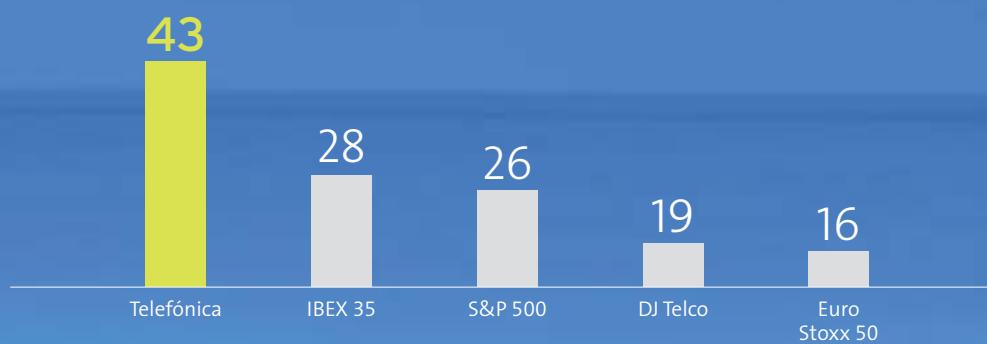
Shareholder Remuneration



Telefónica hit the 100 millionth customer mark in 2003

In 2003, more than 11 million new customers signed up with the company.

Stock market performance (revaluation in percentage in 2003)



ADSL connections grew to 2.7 million in 2003, 82% more than in 2002.

Brazil is the second country in terms of revenue for Telefónica.

Financial data

Income by operations
EBITDA
Operating result
Result before taxes
Net income
Net income per share
Average nº of shares, millions (1)

JANUARY – DECEMBER		
2003	2002	Var. %
28,399.8	28,411.3	(0.0)
12,602.1	11,724.2	7.5
6,327.9	5,031.8	25.8
3,362.5	(14,601.1)	—
2,203.6	(5,576.8)	—
0.44	(1.10)	—
4,984.6	5,057.0	(1.4)

(1) Número Weighted average of number of shares for the period adjusted for free capital increases drawn on reserves during the period that imply a change in the number of shares without a correlative change in Assets, as if they had taken place at the beginning of the first declared period. There were two free rights issues drawn on reserves involved, which were registered at the Business Register on the 18th February 2003 and 24th April 2003, respectively. Likewise, the figure for 2003 is affected by the reduction of capital through cancellation of its own shares as from 11th April 2003, the date of its approval by the AGM, which was registered at the Business Register on 10th June 2003. Thus, the average number of shares at the end of the period is 4,984,615,303 shares.

01

Letter from the Chairman

Dear Shareholders,

I am very pleased to be writing to you again in Telefónica's Annual Report for 2003. I would like to start by saying that I am very optimistic about the outlook for Telefónica in the telecommunications industry. The sector is beginning to show unmistakable signs of recovery, thanks to the careful management that companies like Telefónica have displayed in recent years.

This turn-around is the result not only of the significant improvement in the debt levels and quality of assets in the industry, but also the renewed growth prospects for the businesses based on fixed and mobile broadband infrastructures, where management is focusing once again on the core telecommunications businesses.

In this context, the capital markets have begun to recognize the work that has been done in our industry, as reflected by the sector indices such as the DJ Stoxx 600, which gained 42.6% in 2003, well above the rise experienced by such general indices as the S&P 500, DJ Euro Stoxx 50 and Ibex 35, which rose during the same period by 26.4%, 15.7% and 28.2% respectively. In 2003 our share price rose more than the main indices, achieving a price increase of 43.2%, in line with the trend followed by telecommunications industry indexes.

The past fiscal year saw the anxiously awaited change in world economic growth. The preliminary figures seem to indicate a global pace of growth near 3% in 2003 that could pick up speed to reach a rate close to 4% in 2004, a growth level that has not been seen for the past four years. In Latin America, the faultless management exercised by Brazil's new government and the beginnings of economic recovery in Argentina have been the catalysts for the notable improvement in expectations for this fiscal year in the region, where we project a growth of 3.5% in 2004.

Spain has continued to show a stable growth rate close to 2.5%, and was not adversely affected by the overall slow growth in Europe over the past year of 0.4%. The projections for this year are optimistic with an expected growth of around 2%.

In this macroeconomic context, Telefónica achieved good operating results for the year 2003. Our operating revenues amounted to 28,399.8 million euros, a similar level to that recorded in 2002. If you take out effects of exchange rates and changes of consolidation for accounting and consolidation, revenues would have grown by 6.0%. Our operating expenses reached 16,617.8 million euros, which was 5.1% less than in the previous year in current euros.

The achievements mentioned, both in organic growth and in operating efficiencies, enabled us to attain a gross operating profit before interest, tax, depreciation and amortization (EBITDA) for the Telefónica Group in 2003 of 12,602.1 million euros, which is 7.5% higher than the figure obtained in 2002. After discounting the effects of exchange rates and the changes of consolidation, the Group's EBITDA would have grown by 12.5% over the fiscal year 2002.

Especially significant has been the strong net income growth we enjoyed in fiscal 2003: 2,203.6 million euros. This result benefited from the strong growth of all the non-operating items in the profit and loss account after the write-offs carried out in 2002. But perhaps the most outstanding financial achievement is Telefónica's cash flow generation in 2003, amounting to 8,875.0 million euros, an increase of 11.8% on 2002.

Our extraordinary free cash flow allowed us to establish the most clearly articulated dividend policy, and the only one in the medium term among the integrated operating companies in Europe, with a minimum annual dividend of 0.4 euros per share for the 2004-2006 period. This policy was reinforced by the commitment we made in October 2003 to repurchase and redeem the company's own shares for a minimum value of 4,000 million euros over the three-year period from 2003 to 2006.

In addition, I would like to emphasize that the process we put in place for the mandatory divestment in Antena 3 was also undertaken with Telefónica shareholders in mind. Our shareholders were rewarded with a paid-in-kind dividend consisting of one Antena 3 share for every 295.6 shares of



Telefónica. I am pleased to say that the initial theoretical value has improved thanks to the successful public offering of Antena 3.

In 2003, our management inevitably focused on our customers, as it will continue to do in the years ahead. During the past fiscal year we reached a milestone well ahead of our most conservative forecast: our total client base grew to some 100 million customers who honour us with their trust by using our services and products. Of these clients, more than half are users of our mobile telecommunications services. I would also like to say how proud I am to manage a multinational company that has a truly local focus. Nearly 60 million of our customers, out of the total of around 100 million, live outside Spain.

Furthermore, we achieved this organic growth in our client base during a period in which we made a number of crucial decisions, such as setting up a new strategic agreement between Terra and Telefónica, and the subsequent public bid for 100% of the share capital of Terra-Lycos. During the past year, we also completed the integration, at an operating level, of the companies of the Telefónica Data Group into our fixed telecommunications operating companies. This allowed us to refocus the role and name of Telefónica Data from a formerly product-oriented company to Telefónica Empresas, which is a customer-focused company.

Also in line with our goal of strengthening our position and focusing on our key businesses, we decided to sell our communications media assets. Therefore, to comply with legal requirements, we decided to divest ourselves of Antena 3 TV and centre our efforts on the agreement to merge Via Digital with Sogecable. This put us in a privileged position in Spain's strongest, market leading pay TV platform, Digital +, which had 1.8 million customers as of the close of the 2003 fiscal year.

During the fiscal year 2003 our operations in Latin America were successful. In fact, our four fixed operating companies in Brazil, Argentina, Chile and Peru have, as a group, increased their operating revenues by 8.4% over 2002, and Telefónica Latin America's cash flow generation (2,474.5 million euros) grew 13.9% in constant currency terms over the previous fiscal year.

Clear proof of Telefónica's potential in Latin America is the success and credibility achieved by Telefónica Móviles in Mexico. As a newcomer to the market, Telefonica Moviles has attracted a sufficiently large number of clients to enable us to finish the 2003 fiscal year with more than three million customers. I should further point out, also in the mobile telephony area, the first important outcome of our joint venture with Portugal Telecom in Brazil. Our joint brand, Vivo, finished the year, thanks to the integration of TCO into Brasilcel, as Brazil's leading mobile operator, with over 20 million customers and a market share approaching 60% in the areas in which it operates. Vivo has more mobile telecommunications customers and a larger market share than we had in Spain as at December 31, 2003.

Our focus on Telefónica's key businesses during 2003 also enabled us to consolidate our leadership in the broadband access area, which, without question, will be one of our company's growth drivers in the medium term. We finished the year with 2,656,656 ADSL connections worldwide. The effects of our efforts in this area have been especially outstanding in Spain, where we achieved a 73.5% increase in the number of ADSL connections in 2002, closing the 2003 fiscal year with 1,660,450 broadband lines. It's also worth highlighting the growth in our ADSL lines in Latin America. At the close of fiscal 2003 these access points totalled 769,680, 69% more than at the end of 2002. Sixty-three per cent of Telefónica Latin America's ADSL customers belong to Telesp, our Brazilian operator in the State of São Paulo.

In mobile telecommunications in Spain, Telefónica Móviles' sales efforts and increase in market share are outstanding achievements. In point of fact, our operator finished fiscal 2003 with nearly 20 million customers, close to 7% more than at the end of 2002. That's a very good result in a country like Spain where the penetration of mobile telephony is above the European Union average (88% compared with 83% in Europe).

All in all, the fiscal year 2003 was a crucial period for Telefónica with the culmination of the restructuring of both our balance sheet and our business model, and also in terms of significant business growth during the expansion phase, such as

broadband ADSL and mobile telephony. Both aspects are complementary and are necessary to fulfil our shareholders' short-term expectations, which are focused on receiving a suitable reward for their investment. At the same time they will help prepare Telefónica to face the start of worldwide expansion that is predicted for the telecommunications industry with some guarantee of success.

Looking now towards the future, we must be aware that a structural change is taking place in the telecommunications sector, a change that will no doubt have a strong impact on the business. This change is evident in new customers' needs, in the evolution of the competitive and technological framework, as well as in the key economic parameters for managing the business.

First, clients have new and more sophisticated needs linked to the digital world, a situation that opens up new business opportunities for us and, therefore, opportunities for growth in all client segments: households, individuals, SMEs, professionals and large corporations.

Secondly, the competitive framework is also changing in significant ways. We are witnessing increasing market maturity, rising competitive intensity and the extension of the industry value chain, all of which forces us to transform and strengthen Telefónica's sales activity so that we can continue to grow.

Thirdly, innovation and the spread of the new technologies allow us to put a more flexible, efficient business model into practice, with less need for investment and resources.

Finally, this dynamic environment is affecting the basic economic parameters of our business, including the demand by the securities markets that we give greater visibility in the short term to our profits and cash generation.

In summary, the change that is under way in our industry is structural and demands a transformation of our business model. The only way to adapt ourselves successfully to this change is to make the customer the centre of our strategy and

our management. We must offer our clients innovative, differentiated solutions that respond to their needs:

For households: in addition to voice communications, digital services, multimedia entertainment and domotic applications.

For individuals: broadband services with mobility, and new premium services.

For SMEs: multimedia services and packages of solutions adapted to their businesses.

For large corporations and government bodies: advanced solutions based on new technologies and outsourcing schemes for their ICT activities.

Therefore, Telefónica's transformation is inevitable if we want to achieve our two major strategic objectives: to maintain sustained free cash flow growth and to improve the return on invested capital.

To this end, we have defined two main lines of action that are closely interrelated: the first is aimed at increasing our sales, and the second is intended to transform Telefónica into a more commercial organization, a more flexible and lean company, that will be able to attain the desired growth and obtain the maximum return on that growth.

Telefónica has an extraordinary opportunity to capture the growth that will occur in the coming years in the natural businesses of fixed broadband, mobile telecommunications and fixed telecommunications in Latin America.

In fixed broadband, Telefónica has been one of the pioneering operators in the massive deployment of ADSL, and we will continue developing this market until we make it a mass consumer market.

We are also pursuing the maximization of the future growth of mobile telephony by unlocking all the remaining potential in the mobile voice business in the short-term, and, by increasing

growth in the new data services in the medium term, which in Spain will be driven by the commercial launching throughout 2004 of services based on UMTS technology.

This growth will not come only from Spain, but also from Latin America, a region to which we are transferring the best practices of Telefónica Móviles España. Brazil and Mexico are two key markets in Telefónica Móviles' growth strategy. The combination of still low penetration levels with the latent growth potential in these countries' economies will enable us to grow at rates that are no longer seen in mature markets such as Europe.

In Latin America we also expect the fixed telecommunications business to grow. We intend to ensure this growth, retaining and expanding our client base by increasing market penetration at all levels with innovative, customized offerings for all types of clients (traffic packages, flat rates, added-value services, etc.).

To capture all this growth, we must continue, with even greater determination, with the transformation of Telefónica into a more sales-oriented company by developing our marketing and sales excellence to ensure growth and by radically refocusing the Group's operations towards commercial activities. This transformation will have to be compatible with our attainment of new goals in our evolution towards a leaner, more dynamic business model, based not only on more efficient operations, but also on less capital intensity supported by investment optimisation and greater asset turnover.

All these efforts should enable us to achieve our targets of generating more than 27,000 million euros in free cash flow over the four-year period from 2003 to 2006, and to raise the return on invested capital to double-digit figures from 2005 onward.

All in all, I think that Telefónica is in a perfect situation to take the greatest advantage of future developments while meeting its shareholders' short-term expectations. We have the financial resources needed to accomplish these goals, as reflected in the

strength and health of our balance sheet and in our high capacity for generating cash flow. We also have the best human capital in our industry, both in our home market, Spain, whose economic growth potential continues to outstrip the European Union average, and in our natural markets in Latin America, which are showing signs of recovery.

This is our commitment to our customers, to our employees, to the societies in which we are present and where we are a key part in their corporate world, and, of course, to you, the shareholders who honour us with your trust: the return on investment in Telefónica, both in the short and long term.

But immediate return, even if indispensable, is not enough for Telefónica. To us, the ability to generate sustainable confidence and trust over the long term is extremely important. And that is precisely the Telefónica Group's vision of the future: to become the trusted telecommunications company in all the Spanish and Portuguese-speaking markets. This is our goal and the long road that we have been working on for some time now. It has become our *raison d'être*, and demands ever-greater levels of rigour and fulfilment of our commitments.

On behalf of the Board of Directors of Telefónica, I thank you for the trust you have placed in the company, and I encourage you to continue to maintain that trust in this future that opens new and promising opportunities for growth and profits.



César Alierta
Chairman of the Board
and Chief Executive Officer of Telefónica S.A.

02

Management bodies

BOARD OF DIRECTORS	Delegate commission	Control Audit	Appointments	H.R. Corporate reputation	Regulation	Quality	International Affairs	Executive	Director and significant shareholder	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 Commission	■ Member of Commission	■ Director								

Audit and Control Commission

Supporting the Board in its monitoring, and in particular supervising the drawing up of financial information, relations, the work of the external auditor and the internal control systems of the Company.

Appointments, Remuneration and Good Governance Commission

Ensuring the integrity of the selection processes of Directors and high-ranking officers, advising the Board to determine and supervise of remuneration of directors and high-ranking officers. Likewise it performs duties in the sphere of corporate governance.

Human Resources and Corporate Reputation Commission

Analysing, informing and proposing the adoption of appropriate resolutions and encouraging development of the Corporate Reputation Project, and implementation of the central values pertinent to this sphere.

Regulatory Commission

Analysing the main regulatory issues order that affect the Group from time to time and acting as a channel of communication and information between the management team and the Board of Directors in matters of regulation.

Quality of Service and Customer Service Commission

The study and follow-up of standards in the quality of the main services rendered by the Companies of the Group, as well as standards in commercial attention given to their customers.

International Affairs Commission

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

CORPORATE MANAGEMENT TEAM

Mr. César Alierta Izuel	<i>Executive Chairman</i>
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>General Director, Deputy to the Chairman</i>
Mr. Santiago Fernández Valbuena	<i>General Director of Finance and Shared Resources</i>
Mr. Guillermo Fernández Vidal	<i>General Director of 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. 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)

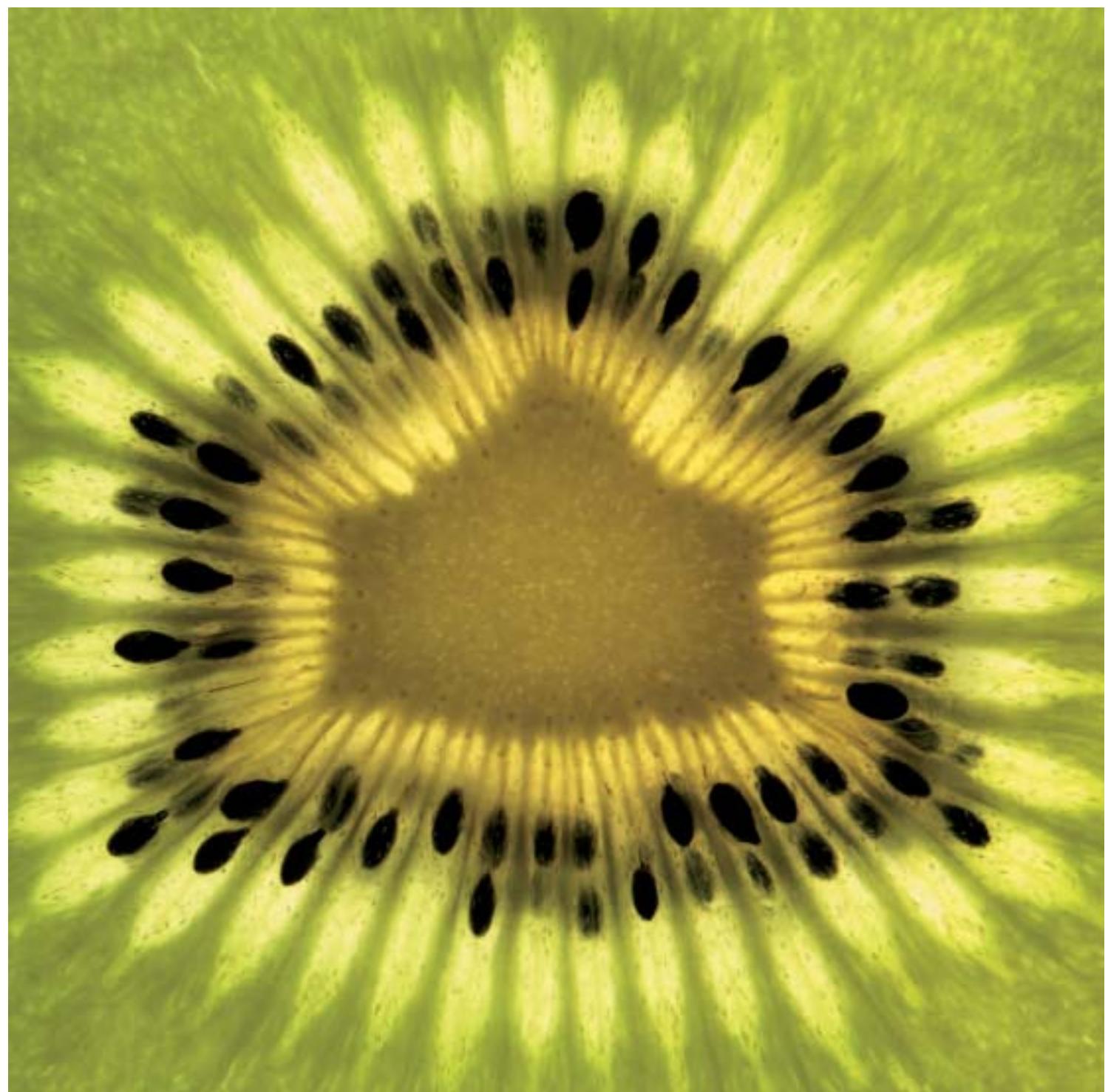
Mr. Joaquín Agut Bonsfills	<i>Executive Chairman, Endemol</i>
Mr. José María Álvarez-Pallete López	<i>Executive Chairman, Telefónica Latinoamérica</i>
Ms. María Belén Amatriaín Corbi	<i>Executive Chairman TPI</i>
Mr. Luis Blasco Bosqued	<i>Executive Chairman, Telefónica de Contenidos, S.A.</i>
Mr. Eduardo Caride	<i>Executive Chairman, Telefónica Data</i>
Mr. Kim Faura Batlle	<i>Executive Chairman, Terra Networks, S.A.</i>
Mr. Alberto Horcajo Aguirre	<i>Executive Chairman, ATENTO</i>
Mr. Julio Linares López	<i>Executive Chairman, Telefónica de España, S.A.</i>
Mr. Antonio Viana-Baptista	<i>Executive Chairman, Telefónica Móviles, S.A.</i>

03

Corporate Information

BUILDING ON THE TRUST OF ITS 100 MILLION CUSTOMERS, TELEFÓNICA OFFERS PERSONALIZED SOLUTIONS. IT IS A GROUP WITH A VISION THAT IS DEFINED AND COMMITTED TO RESPONSIBLE, RESPONSIVE AND INNOVATIVE CORPORATE GOVERNANCE





03_01

We already number 100 million

THE TRUST OF 100 MILLION CUSTOMERS AND CLOSE TO 1.7 MILLION SHAREHOLDERS HAVE CONTRIBUTED TO TELEFÓNICA BEING THE FIRST GLOBAL EUROPEAN OPERATOR IN TERMS OF STOCK MARKET CAPITALISATION AND RANKING FIFTH IN THE WORLD



Telefónica has the trust of one hundred million customers, which consolidates it as one of the major telecommunications operators in the world. It is already the first global European operator in stock market capitalisation and holds fifth place worldwide. It is also the fifth company on the index Euro StoXX50 and the fourth worldwide operator in the mobile business.

Telefónica now has 148,288 employees as a consolidated Group, 41% of whom are in Europe and 57% in Latin America, the countries with the largest number of employees being Spain (58,189) and Brazil (42,496).

The Company performs its activity on the Spanish and Portuguese speaking markets, where it has become a market leader and the reference operator. It is a natural market of 500 million people, with a solid growth of the population and wealth, with important opportunities for development. It operates in 15 countries, and is present in over 40.

Telefónica is an operator that provides integrated solutions that cover all the customers' communications expectations and

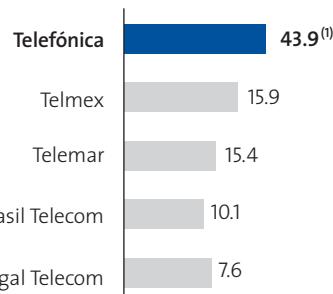
needs. Its offer is based on its two core businesses: fixed communications and mobile communications, around which it develops all kinds of telecommunications services. For its core strategy for the future, it is betting on broadband services, in fixed as well as mobile telephony, and on development of integrated communication solutions as means of market growth.

As to the countries, its main market continues to be Spain where, at the end of 2003 it had 41 million customers, although 33.3 % of the revenue of the Group is generated in Latin America where, also in December 2003, it had 57.8 million customers. About 62% of its customers are from the Spanish speaking market and 36% from the Portuguese speaking market.

In this context, Latin America forms a strategic growth objective in the coming years, especially Mexico and Brazil. Thus, the forecasts for 2003-2006 are that our customer base in Latam will grow between 80 and 83%. On the subcontinent, its main markets are in Argentina, Brazil, Chile, Peru (countries where it is the reference operator) and Mexico (where it is the second mobile operator).

FIXED LINES IN SERVICE

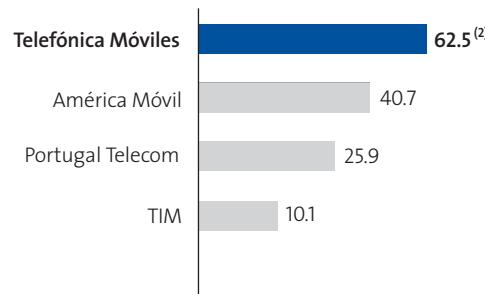
(In millions – Dec. 2003)



(1) 21.6 million lines in Latin America

CELLULAR CUSTOMERS

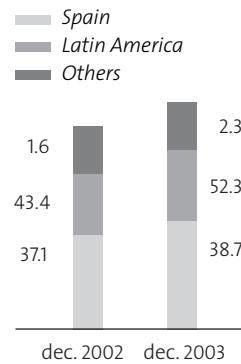
(In millions – Dec. 2003)



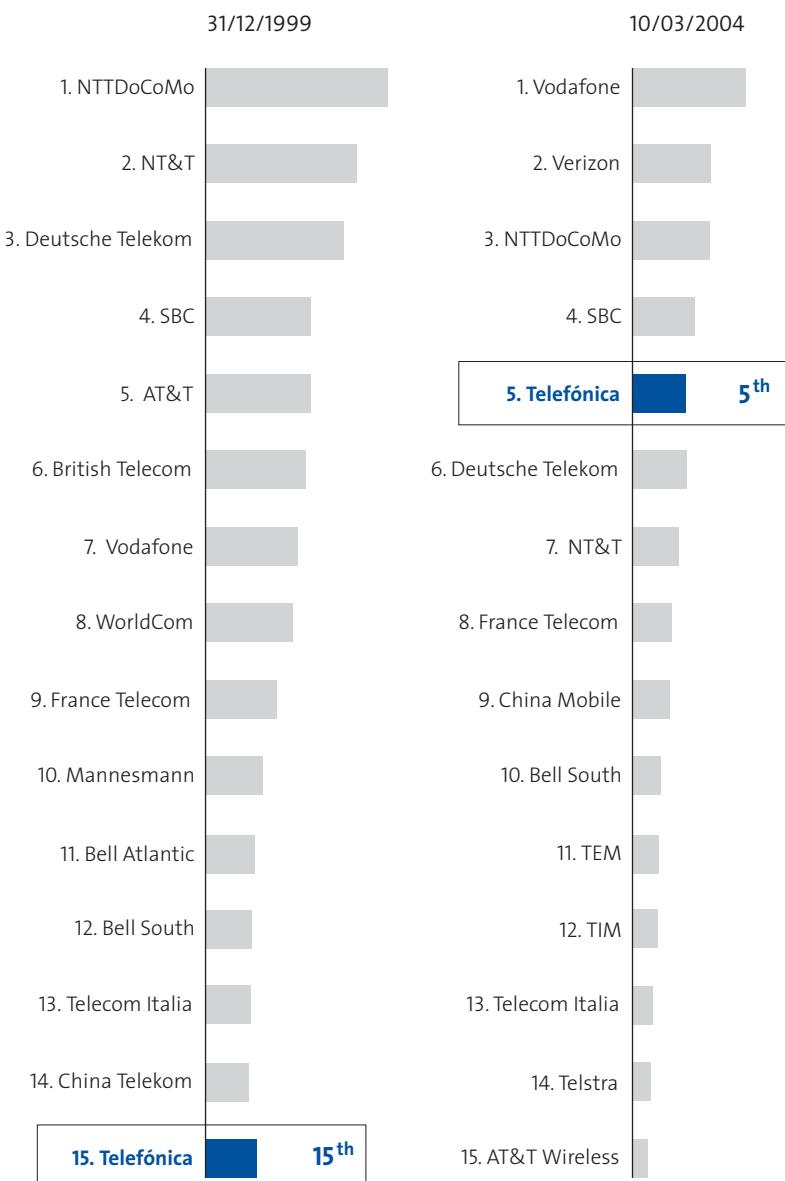
(2) including those from Bell South following the purchase announced in March 2004

MANAGED CUSTOMERS

(In millions)



WORLD RANKING IN TERMS OF STOCK MARKET CAPITALISATION



Source: Bloomberg

Within that same geographic setting, as a relevant milestone, in March 2004 Telefónica announced the acquisition of the mobile operations of BellSouth in Latin America (when this document went to press, it was still subject to approval by the relevant regulatory bodies), which should provide eight million additional customers, consolidating its position as a leader in the region.

Telefónica defines itself as a multi-domestic operator. This means that, while it takes advantage of all the synergies of a group with a multinational presence, at the same time it adapts its management in each country, considering the peculiarities of their markets and societies. In that context, Telefónica is now the incumbent operator that has the largest percentage of its business outside its market of origin, also being the only operator that is incumbent in the main markets where it operates.

Telefónica has an efficient, agile organisational structure, with businesses that have a great autonomy in the management of their operations, and corporate divisions that define the global strategy, articulate the business, manage the common activities, and allow Telefónica to act on the market as an integrated operator.

The fixed telephony business is managed in Spain by Telefónica de España and in Latin America by Telefónica Latinoamérica. Linked to both businesses, there are corporate communications (Telefónica Empresas) and Internet (Terra). The mobile telephony business is managed by Telefónica Móviles. Moreover, Telefónica has other business, such as the guides and directories (Telefónica Publicidad e Información), production and diffusion of content (Telefónica de Contenidos) and the contact centers (Atento).

It also has a series of subsidiaries and business support institutions such as Telefónica I+D (that



promotes technological innovation aimed at guaranteeing competitiveness through keeping ahead of the markets through new products, services and applications) and Fundación Telefónica (that encourages the social and cultural action of the Group to benefit the more disadvantaged sectors). It also has other subsidiaries such as Fonditel or Antares, financial companies, insurance, investment and pension funds.

Telefónica is a private company that has almost 1.7 million direct shareholders. Its present stock capital is divided into 4,955,891,361 ordinary shares that are traded on the continuous market of the Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia) and on the stock exchanges of London, Paris, Frankfurt, Tokyo, New York, Lima, Buenos Aires, São Paulo and SEAO International of the London Stock Exchange. Its subsidiaries Telefónica Móviles, TPI (Telefónica Publicidad e Información) and Terra Lycos are also stock market listed.

FIXED TELEPHONY AND MOBILE TELEPHONY

At the year end, Telefónica had 43.9 million fixed telephone lines in service (including the customers of TV Pago de Cablemágico in Peru) and 54.7 million customers with mobile telephones. Following the purchase of Bell South, Telefónica Móviles customers shall total 62.5 million. In both businesses it is the reference operator, in Spain as well as in Latin America.

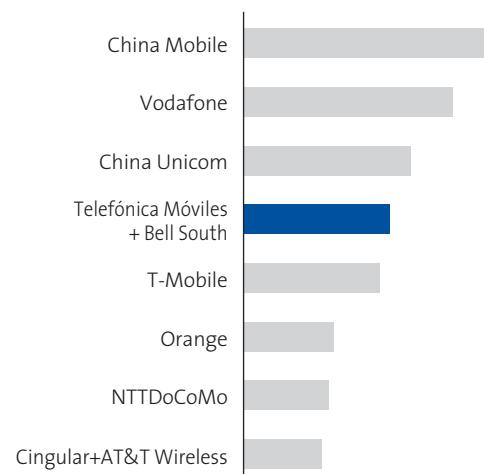
The fixed telephone market is the most mature, on which in its traditional activities, it is subject to a greater regulatory pressure. The strategy of Telefónica is based on achieving the maximum efficiency in the traditional segments, with a decisive commercial action and development of new services, most especially, in development of broadband, growth of business, and to develop the Information Society.

As far as Latin America is concerned, 21,223 million euros from the total investment in acquisitions were in Telefónica Latinoamérica, which has allowed elimination of the deficit in infrastructures, extending the service especially among the lower income groups; practically 100% of the plants have been digitalised, and the time to install a line, which initially involved a two year wait, has fallen to only a few days.

At the end of 2003 Telefónica had 21 million basic telephone lines in service in Latin America, and 769,000 ADSL lines, figures that make it the leading operator in the region.

The expansion of broadband by Telefónica is performed through ADSL technology. In Spain, there are 1.7 million ADSL customers, now representing 59% of the total broadband accesses operating in the country. In Latin America, at the end of December 2003, there were 769,680 ADSL connections, with an inter-annual growth of 68.7%. In Spain alone, it is estimated that the set of broadband access points will reach the figure of seven million in 2007. In Latin America, the forecast for 2006 is 2.4 million ADSL lines.

MOBILE MARKET WORLD RANKING





ADSL has also brought a factor of dynamism to the commercial offer of fixed telephony, through marketing of its wireless version (Wi-Fi), that is beginning to bring about communications solutions integration based on broadband and mobility, a key to services in a not too distant future. It is now a commercial reality in Spain and there are already 120 hot spots in operation and agreements have been signed with 259 points pending installation.

The mobile telephony market, on the other hand, is characterised by a highly dynamic basic service and, simultaneously, a notable growth in new data services. Spain is also the most mature market. Telefónica Movistar has 19.6 million customers in the country and it is the driving force for the mobile business worldwide. It has an intense, innovative commercial activity, that allows it to continue to increase the number of customers in spite of working in a very mature market.

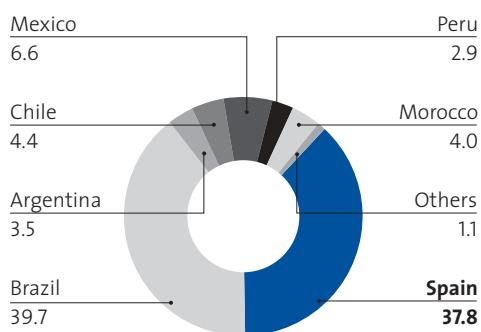
In Latin America, after acquiring the assets of BellSouth in the region, Telefónica Móviles will become the manager of 41 million cellular

customers in 14 countries on that continent, giving it a leading position. The company has thus reached 40% of the mobile telephony customers on the Spanish and Portuguese speaking market and 35% of the customers in Latin America, one of the strategic geographic areas for Telefónica with the least cellular penetration.

Telefónica has also decided to take advantage of the possibilities of that long period of growth on the mobile telephony market, joining its activities in Brazil to those of its Portuguese partner Portugal Telecom. To that end it has created a joint venture under the brand Vivo, that has become the leader on the Brazilian market, with 20.6 million customers.

In Mexico, the different mobile operators acquired have been gathered under the same brand (Telefónica Movistar) with an integrated management, and have already become the second mobile telephony operator in the country, with 3.5 million customers. The forecast for 2006 is that it will reach a 20% market share.

DISTRIBUTION OF MANAGED CUSTOMERS OF TELEFÓNICA MÓVILES - 2003 (Data in percentages)



TELEFÓNICA MÓVILES IN LATIN AMERICA (Market Positions of the Company in the countries⁽¹⁾)

Argentina	1
Brazil	1
Chile	1
Colombia	2
Ecuador	2
El Salvador	2
Guatemala	3
Mexico	2
Nicaragua	1
Panama	1
Uruguay	2
Venezuela	1

(1) Following the purchase of Bell South assets

The acquisition of the BellSouth operations will provide an additional dimension to that strategy.

The total strategic forecast for 2006 is to achieve growth of its 55 million-strong mobile customer base, consolidating leadership in the mobile markets of Spain and Brazil and maintaining second place in Mexico. On other markets, (Argentina, Chile, El Salvador, Morocco, Peru and Puerto Rico), the aim is to obtain 14 million more customers.

PROFITABLE GROWTH

Telefónica has designed a profitable growth strategy that is based, on one hand, on organic growth of its core businesses, and on the other, to improve its return on investment.

Its strategy is twofold. On one hand, it has redefined and restructured the non profitable operations, to concentrate on strategic business, from the geographic point of view (Spanish and Portuguese speaking markets) as well as lines of activity (fixed telephony and mobile telephony). On the other hand, it has strengthened the commercial and operating profiles of its organisation and has maintained discipline in expenses and investment through a more efficient business model, that in turn is more flexible.

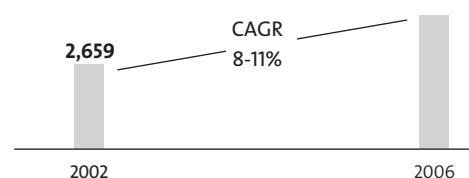
Among the initiatives aimed at improving efficiency, there are the activities by Telefónica Gestión de Servicios Compartidos (t-gestiona) that supplies the different businesses in the Group management of non strategic activities. These shared services centres (Centros de Servicios Compartidos (CSC)) were launched as an initiative by the Group in 2001 and serve six geographic areas: Argentina, Brazil, Chile, Spain, Mexico-Central America and Peru. Through management of non strategic and common support activities of the different

companies, they provide their customers a complete catalogue of services for integral support of the economic activities, Human Resources, logistics, real estate, security, etc., for extremely varied companies in those regions.

The value contributed to the Group by those activities up to 2003 exceeded 175 million euros, a figure that is generated by sharing resources, improving processes, as well as by achieving greater operating efficiency. That has all allowed us to reduce prices for our customers, while improving the quality perceived in customer surveys. Among the initiatives included this last financial year, for companies in the Group as well as external ones, there are mainly those of Telefónica de España, several companies belonging to Terra, and new services for Vivo in Brasil and Pegaso in Mexico. Commencement of new services for companies outside Telefónica

GROWTH OF THE FIXED BUSINESS IN LATIN AMERICA IN FREE CASH FLOW OPERATIVE

(Millions of euros in constant currency and excluding changes in perimeter)



STRATEGIC GROWTH FROM 2003 – 2006

Action plans

- Broadband Over 6 million ADSL connections in 2006
- Mobile Short and medium term growth according to strength of Voice and Data services respectively
- Fixed in Latam To retain and enlarge customer base, stimulate use and ARPU

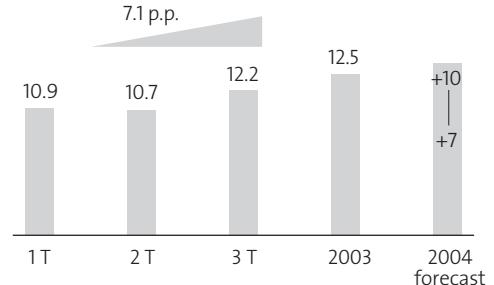
GROWTH IN REVENUE

(Data in percentages. In constant currency and excluding changes in perimeter)



GROWTH IN EBITDA

(Data in percentages. In constant currency and excluding changes in perimeter)



has extended the scale of these operations and their potential synergies.

The CSCs have also provided a reference point to define the corporate processes certified in the economic-financial areas, and collaborate most actively in implementation of the NICs within the Telefónica Group.

Another of the initiatives aimed at improving the efficiency of the Group is the Real Estate Efficiency Plan, that commenced in 2002 and which, managed by Inmobiliaria Telefónica, has continued to develop to contribute to improvement of the integral management of the real estate resources of the Group in the period 2002-2006.

As an outstanding part of the Plan, construction works began on the new corporate headquarters of the Group located at Las Tablas in Madrid. That 'Communications City' will house nearly 14,000 employees of the Group and will have an office area of 171,000 m² distributed in 13 buildings, as well as 20,000 m² of commercial areas. On the other hand, it will continue to develop preparation of office space at communication centres, grouping the employees in renewed office spaces equipped with the most efficient working and communication conditions.

Due to these actions, the Group is in the process of releasing space and cancelling third party lease contracts: between 2002 and 2006 it foresees the release of over 1.2 million square metres, of which more than 236,000 square metres have already been released. This process generates notable savings and significant cost reduction.

On the other hand, a plan is already under way to divest non strategic assets, that will last until the year 2006, that was at an advanced stage at the end of financial year 2003.

Within its strategy of profitable growth, Telefónica has declared its commitment to the free cash flow obtained from the results of the different businesses being assigned to specific acquisitions to support those businesses and to shareholder remuneration. In that sense, Telefónica is at the head of the European sector in cash flow generation capacity and its financial management is aimed at protecting this and defending a high credit rating.

Due to that high cash flow generation capacity and debt contention, Telefónica has perspectives of transforming the results into means to remunerate shareholders that will be clearly quantifiable in the coming years. In that sense, it has already published its strategy of paying



dividends in the coming years, to which 0.4 euros per share shall be assigned until 2006.

PUBLIC COMMITMENT

Telefónica has repeatedly publicised its will to remain on the markets in which it operates and its commitment to its respective companies. In all of its markets, Telefónica has committed itself to continue its investment, and it has proven itself to be a company involved in the development of society in the countries where it is present.

Telefónica is the leading private investor in Latin America and one of the main driving forces of economic development and employment in the region, contributing to the growth of its industry, generating wealth directly and indirectly.

After 14 years of sustained investment in the area, Telefónica has assigned 34,323 million euros (without including the purchase of the assets of Bell South in Latin America announced in March 2004) to direct investment and 29,606 million euros to development of infrastructures. That investment represents a significant commitment to sustainable development, extending the service for all – especially the lower income segments – and a commitment to digital inclusion to reduce the digital gap.

The Company has announced investments in Argentina amounting to 2 billion pesos (600 million euros) over the next four years. In Mexico it intends to invest 1.2 billion euros in mobile telephony over the period 2003-2006. Moreover, in Brazil, Telefónica São Paulo will invest 1.4 trillion reais (nearly 371 million euros) in 2004.

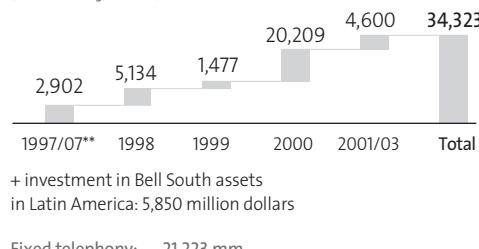
To date, since 2000, it has also invested about 2 billion euros in creation of infrastructures, services and broadband content, that have

contributed to the growth of the overall ADSL market, that has provided a benefit not only for Telefónica but for the whole sector.

Furthermore, 1 billion dollar were invested in broadband in Latin America.

14 YEARS OF SUSTAINED INVESTMENT IN LATIN AMERICA

*Direct investment in acquisitions
(Millions of euros)*



Fixed telephony: 21,223 mm.
24,463 mm. in infrastructure

INVESTMENT IN INFRASTRUCTURE IN LATIN AMERICA

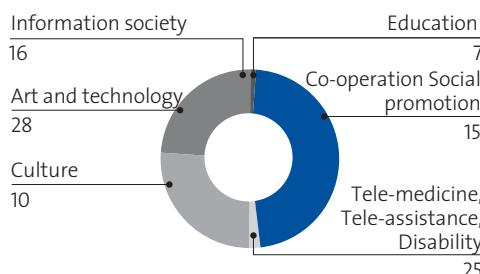
(Millions of euros)

1997/07**	1998	1999	2000	2001/03	Total
9,802	4,402	3,863	5,023	6,876	29,606

*(**) Not including investment in CRT*

DISTRIBUTION OF PROJECTS CARRIED OUT BY FUNDACIÓN TELEFÓNICA BY ACTIVITY AREA

(Data in percentages)





Telefónica also maintains a commitment to innovation, which it considers a fundamental instrument to obtain sustainable competitive advantages, to anticipate and distinguish it on the market.

The investment in technological innovation – more than 1.9 billion euros in 2003 – confirms that commitment, aimed at satisfying and achieving customer loyalty with the most suitable technological solution for their needs. Thus, Telefónica is the fifth operator in the world ranking in total investment in R&D and the fourth in investment in R&D against revenue. It is, among the major European operators, the one that has most increased its investment effort in recent years.

Most of the R&D activity is carried out through Telefónica Investigación y Desarrollo, S.A.U, 100% owned by Telefónica, now considered the most important private R&D centre in the country, around which the most advanced telecommunications entrepreneurial activity in Spain is developed.

Always in line with the strategy of the Telefónica Group of leading the digital revolution, its main areas of activity concentrate on encouraging development of broadband, providing new multimedia mobile services that enable anticipation and distinction from competitors, having new platforms to create services, creating new e-Business solutions, optimising business processes, and leading knowledge and profitable use of new technologies, as well as focused on the customer's vision. These activities have allowed the market to be offered a large number of new products and services, and have increased the industrial and intellectual property portfolio of the Group.

Within the strategy of the fixed telephony operators of promoting broadband as a means of quick access to Internet and a channel to obtain new multimedia services, Telefónica is driving the New Generation

Network architectures, above all those integrating voice, data and multimedia images. In that context, TI+D has developed environments to create compatible, evolutionable services, based on the present systems provided by the Group, so they are ready to offer services on the new generation networks. Thus, voice technologies, in which TI+D has been the world leader for years on the Portuguese market and in the spoken languages of Spain, have received a strong innovative drive to guarantee that place in the new RNG environments, where for the first time the services will have interfaces based on people's natural behaviour.

Security has also been consolidated as an added value line of work, leading activities in new generation Internet, IPv6, being responsible for management of the Euro6IX project, a European Union initiative.

Telefónica I+D has supported the Group in renewal of its commercial systems, improving the management systems of the operations to achieve the global objective of operating efficiency. At present, it collaborates with almost all the critical systems under development, and it is implementing numerous projects to reorient the commercial strategy of Telefónica from a corporate-oriented vision to a customer-oriented vision.

Another major public commitment by Telefónica is the social one. Its foundation called Fundación Telefónica is the main channel for social and cultural action by the Group in the countries where it has a presence: Spain, Argentina, Brazil, Morocco, Peru and, since 2003, Mexico. To that end, it develops different projects in collaboration with social organisations in which application of new information and communication technologies is a fundamental factor, through which improvement is achieved in educational processes, in access to culture and art, as well

as in development of society and improved living standards of its members, with special attention paid to the more disadvantaged groups.

All the actions by Fundación Telefónica in the countries in which it operates, based on transnational projects or specific national ones, feature its general interest, its voluntary commitment beyond what is established by law, being non-profit activities.

Education, co-operation and social promotion, tele-medicine, tele-assistance and aid for the handicapped, culture, art, technology and the Information Society are the main areas in which Fundación Telefónica carries out its activity.

WE ARE PREPARING AN OFFER FOR THE FUTURE THAT WILL COMBINE BROADBAND AND MOBILITY SOLUTIONS

In the coming years, the strategy of Telefónica will rest on two pillars: broadband and mobility. The combination of both (through such technologies as ADSL, Wi-Fi, 3G) will give rise to a new generation of services, some of which are already a commercial reality, that will lead to a very important evolution in traditional services.

Broadband will leave the domain of fixed communications (thanks to Internet on the mobile platform) and mobility will leave the domain of mobile communications (Wi-Fi will provide mobility to fixed communications). Integration, thus, the key to a future in which the solutions are aimed less at the technology or product, and more from the customer point of view.

Broadband is one of the main strategic driving forces of growth by the company. Spain is now a European leader in ADSL coverage, with a percentage of practically all lines – about 91% – and it is already accessible to 93% of the

population. While Spain has 1.6 million connections, there are 226,526 in Germany and 769,680 in Latin America.

The expansion of broadband in Spain and other countries has mainly been due to the firm bet by Telefónica on the ADSL technology. Since 2000 and to date, the company has invested nearly 2 billion euros in creation of broadband infrastructures, services and content that have contributed to the growth of the ADSL market overall, which has provided benefit not only for Telefónica but also for the whole sector.

The plans of Telefónica concentrate on encouraging broadband progress based on four essential elements: increased coverage; marketing new products and services; sustained growth of quality; and ongoing innovation.

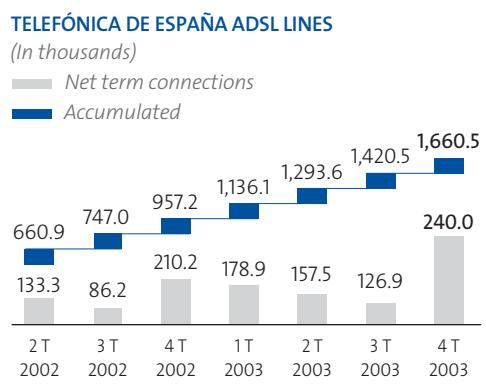
The increase in coverage requires an annual investment effort that has amounted to about 700 million euros (according to the demand on the market and profitability).

From the point of view of offerings, Telefónica aims to extend its broadband offer, creating alternatives for all and turning it into a consumer product, generating solutions arising from its own initiative, or through third party agreements.

In 2003, it launched Imagenio in Spain. This is a solution that allows added value content and services to be provided in homes, providing television using ADSL technology.

In the last year, ADSL has also introduced a dynamic factor in the commercial offer of fixed telephony through commercialisation of its wireless version (Wi-Fi), that offers mobility through fixed networks.

Telefónica has already begun to implement that technology in Argentina, Brazil, Chile,



Spain and Peru, through a series of services that allow any customer (individuals, homes, companies, etc.) to access and build up their local area networks on a wireless basis with maximum security levels.

It has also marketed Wi-Fi services aimed at private settings in public use (airports, hotels, business schools, trade fairs, etc.) where employees and customers may be provided broadband wireless Internet access and the proprietary applications of their own companies.

The bid by Telefónica for wireless Internet access using Wi-Fi technology has led to a 50% increase in the investments initially foreseen, going from 10 to 15 million euros. In Spain, for example, a large number of Wi-Fi public Internet access points are already operating.

In mobile telephony, after the growth of multimedia services, UMTS is profiled as the service that will provide new broadband services for cell phones. Telefónica Móviles España already offers its corporate customers 'Oficin@ MoviStar UMTS', the first Third Generation

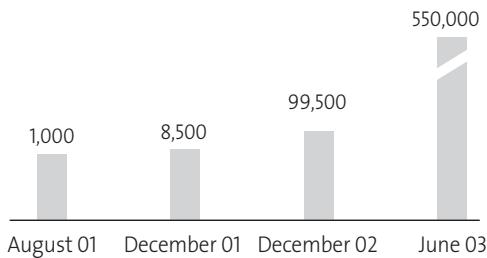


service marketed in Spain by a mobile telephony operator. The pack transmits data at high speed (up to 384 Kbit/s).

Telefónica Móviles España intends to invest 1 billion euros in Third Generation infrastructures over the coming three years. At the end of 2003, it had coverage in the 52 provincial capitals, and the forecasts are that it will have nearly 8,000 UMTS stations in 2005.

The growth of mobile telephony will be transferred from the voice business to the data business in the middle term. In that sense, a significant increase in the customer base is foreseen in Brazil and Mexico. The target in 2006 is to reach 65-70 million customers managed (a third of them in Spain). The penetration in Brazil would be 35-40 % (in areas where Vivo operates) and approximately 20% in Mexico.

ACCUMULATED GRPS CUSTOMERS OF TME



03_02

Our focus: the customer

EACH DAY WE STRIVE TO SATISFY THE COMMUNICATION NEEDS AND HABITS OF OUR CUSTOMERS, PROVIDING PERSONALISED SOLUTIONS FOR THEM ALL: INDIVIDUALS, HOMES, COMPANIES AND PUBLIC ADMINISTRATIONS



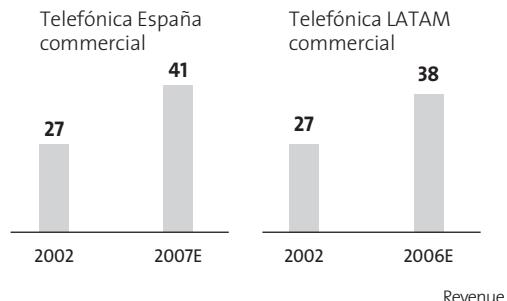
The telecommunications sector is immersed in a structural change with great implications for the business. Customers have new needs, the setting of the sector is increasingly more competitive and a new scenario is being consolidated, dominated by constant technological changes, that have more and more effect on the economic parameters of the business.

The solutions Telefónica provides to these new challenges must be considered within a context marked by great competitive intensity imposed by various factors: consolidation of competitors with their own infrastructures, slowing down of the traditional business due to the growing maturity of the market, and the increased pressure on margins caused by proliferation of aggressive commercial policies.

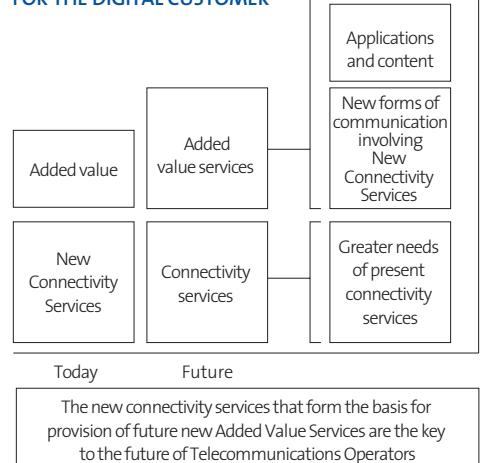
Telefónica has known how to deal with that change in scenario to take advantage of the new reality, to discover new opportunities of growth, that may be taken advantage of to increase the value chain of its business, as an organisation with a strong commercial orientation, a flexible business model and efficient approach to costs and use of assets. Thus, the strategy of the Group in the last year has undergone that transformation of the Company to a more commercial approach, with greater concentration on the customer and less on the product.

PROFOUND TRANSFORMATION OF THE STAFF IN OUR FIXED OPERATIONS

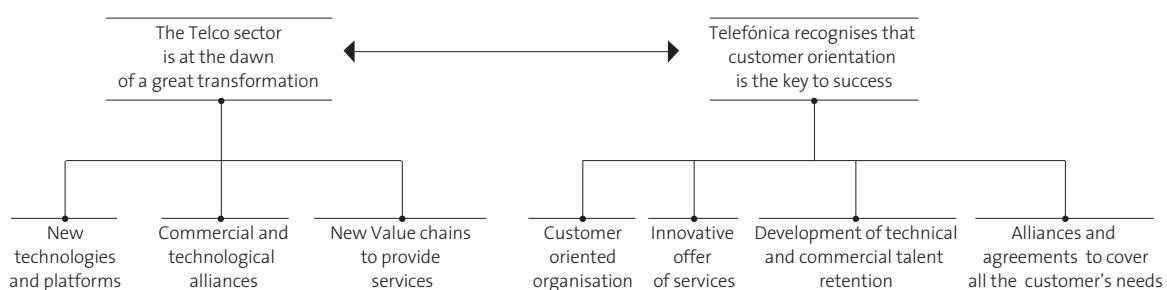
(Data in percentages)



NEW SERVICES FOR THE DIGITAL CUSTOMER



CUSTOMER ORIENTATION AS A KEY TO THE NEW TRANSFORMATION IN THE SECTOR



To orient its management model toward the new reality, Telefónica has used efficient management tools and has transformed its organisational structures.

Among the management tools, there is implementation of the Seis Sigma programme, that allows, in turn, management orientation from the point of view of the customer (keeping ahead of his needs) and simultaneously increasing revenue. Telefónica de España was the pioneer in implementing that methodology, which is already being introduced to the rest of the Group.

Moreover, Telefónica Móviles created the "Usability Group", a methodology that is integrated in the design process, development and launching of the services, improving the experience and usability of the services from the point of view of the customer. The results are an increase in fidelity, improved image of the company, a greater cost reduction and increase in the potential number of users.

In that same line, at the beginning of 2004, Telefónica de España presented the commercial transformation programme "Goal: customer" to continue its process of adaptation to the new market needs and greater customer orientation, to be a more commercial company, with more efficient growth, to generate more confidence and motivation. Structural arrangement of "Goal: customer" into four programmes was due

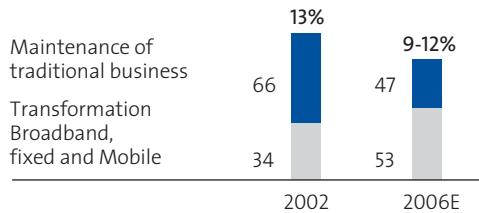
to a new reorientation toward the end user, to gain an in-depth knowledge of their perceptions and opinions, to take these into account and act according to their demands.

Telefónica Latinoamérica also presented its new customer orientation programme in 2004: "Customer Commitment", in order to transform the operators forming the company in that region into organisations that concentrate on the customer to continue to grow in a profitable, sustainable manner. The three pillars of the Project are: Satisfaction, Confidence and Nearness, and this will especially affect all the employees in Brazil, Argentina, Chile and Peru.

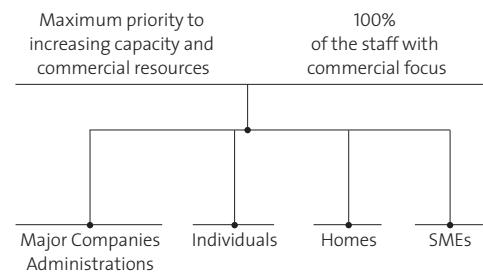
As to transformation of its organisational structures, the forecast is that 41% of the personnel at Telefónica de España and 38% of the employees in Latin America will perform commercial and marketing tasks in 2004, although the whole staff of the Telefónica Group must adopt a commercial attitude. In this sense, the increase in commercial personnel of Telefónica de España up to the year 2007 is forecast at 25%.

With its strategy focussed more on the customer, and less on the product, Telefónica takes a position as an integrated operator that provides communication solutions covering all the expectations and needs of its customers, combining the different technologies and services. In this sense, Telefónica leads the best

CapEx OF REVENUE. TELEFÓNICA GROUP (Data in percentages)



THE CUSTOMER: THE KEY TO OUR STRATEGY





strategy on the market, distinguished from partial or niche operators that only satisfy part of those needs.

Consolidation of this new, more flexible structural model, with the organisation more focussed on the core business, has allowed it to form a Group that is lighter in assets and costs. Moreover, the commercial emphasis and flexibility have facilitated an increase in free cash flow generation and reorientation of investments, driving not only the growth and increased profitability of Telefónica, but also the orientation of its objectives toward growth in the free cash flow and shareholder remuneration.

Telefónica has thus become a reference operator in the world, the keys to its strategic reorientation being clearly defined by more personalised attention to its customers, differentiation of solutions for each need and segmentation of the customers into four major groups: individual customers, homes, SMEs, and Major Companies and Public Administrations.

WE SOLVE THE DAILY COMMUNICATION NEEDS OF OUR CUSTOMERS

Permanent interest in hearing the customer's voice has made communication with the client a key factor at Telefónica. To ensure this, we have a large number of channels of communication that guarantee fluent communication with the customers and enable us to provide them products and services that satisfy all their communication needs. Among these channels, we may emphasise: personalised attention by telephone (712 million calls in 2003), online relation channels (more than 6 million registered users), loyalty schemes (approximately one out of every four customers participates in these), etc. Telefónica also performs surveys on satisfaction with the service in all its lines of business (for example, in fixed telephony, 78.5% of the customers state

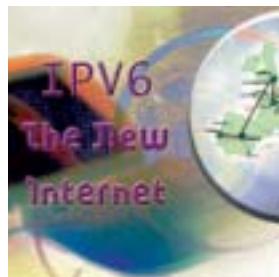
they are satisfied or very satisfied with the service provided by the company), market studies, launching test projects, "focus groups", etc. All of this is combined with a major institutional presence in forums, at fairs and conferences.

In this context, there is also customer billing performed not only in a more precise, clear format, but also the most suited to their needs. For example, they may choose to combine the charges for different services and lines in one single bill, or, if they prefer, to distribute them in several bills. They may also determine the language in which they wish to receive their bills and the billing frequency. Moreover, the "e-bill formula", the electronic billing service of Telefónica de España, has obtained full fiscal validity with recognition by the Tax Authorities.

These are examples of the progress, made to achieve personalised identification, that allows customers to be served according to their needs and habits. This way of working by the commercial teams has shown, from a strategic point of view, the three focuses for growth over the next years, that will be imposed by the customers' own voice: broadband, mobile services and fixed telephony in Latin America.

The new needs for communication by customers involve new connectivity services that are used as the basis to provide new Added Value Services. These new connectivity services are thus the key to the future of telecommunications operators, as they allow an increase in revenue.

Among these new communication needs of our customers, one may mention services and applications in the digital home, widespread solutions and services on broadband for companies, the increasing importance of TIC activity outsourcing and the new possibilities of mobile data services with the birth of the 3rd generation.



Telefónica has concentrated all its organisation on the different profiles and needs of its four major customer groups: Individuals, Homes, SMEs, Major Companies and Public Administrations.

Individuals

For individual customers, Telefónica has multiple services that allow total mobility: broadband services for mobility, "premium" services, etc. Thus, customers of Telefónica Móviles can exchange short text messages (SMS) among themselves and also with users of other operators worldwide (agreement with Inphomatch, Inc.). The company continues to work to make access to its services easier. It has launched the MoviStar Service Menu, a graphic interface to provide users easy access to the diary, MoviStar smilies, videogames, multimedia services or tone downloading.

Mobile Recharge is another service that shows the complementary nature of the offer by companies in the Group, in this case, Telefónica de España provides a facility to recharge the balance of up to four Movistar Activa prepaid cards instantly. The service is billed in the usual manner, on the customer's fixed telephone.

On the other hand, Terra España has included a payment mechanism on its platform using the secure commerce protocol "Verified by Visa", guaranteeing maximum security in its electronic transactions (with the BBVA group).

TPI-Páginas Amarillas has its new Shopping Channel, with myriad products of all kinds, offered by the 60 most important shops in the country. Moreover, during the year, it launched the new telephone information service 11888, which provides information on individual and company telephone numbers and is accessible to all subscribers of the major fixed and mobile telephone operators. TPI has also included added value services such as call progression, the possibility of making reservations at hotels

and restaurants, or searches by proximity to the services requested, among others.

Terra provides the most simple, amusing way to keep in contact with friends, relatives or colleagues at work by transmission of data, voice and video in real time through Terra Messenger.

Telefónica provides a channel (through SMS messages) that allows users travelling on Iberia, as well as their friends and relatives, to obtain real time information on flight status. The company also participates in Simpay, a new brand of the Payment by Mobile Payment Services Association, that allows customers to pay for low priced purchases, such as mp3 file downloads, or to pay for parking by charging it to an account managed by the mobile telephony operator. On the other hand, Telefónica public phones may already be used for sending text messages to fixed and mobile telephones, faxes and electronic mail addresses.

To this one must add the launch, in 2003, of Telefónica Combined, a modular system that allows each customers to hire the products and consumer services that best suit his fixed telephone use habits, which has been a further step forward by Telefónica in its customer oriented strategy.

Homes

For this segment, Telefónica now provides all kinds of basic communications, as well as digital services for the home: broadband access, entertainment, multimedia, domotics, etc.

Telefónica Services based on ADSL technology are reaching increasingly more residential users. The World ADSL offer solves the entertainment, education and social relations needs of all the members of the home, transcending mere data transport to facilitate own information: multi-conferencing, unified messaging, games, video clips, concerts, training courses, etc., in an



environment that is immediately user friendly and safe for children to use.

Telefónica markets options for the ADSL service to suit each user, with a choice of speed, connection timetable, assignment of dynamic or static IP address, self-installable individual configuration by the user, or on a network of several computers in the same home, the mobility provided by wireless system, and the security conditions required for each type of home. In this sense, Telefónica has designed Canguronet, a net-based application specifically aimed at covering the need of paternal control in the home, although it is also fit for corporate use, which allows access to certain Internet sites and content to be filtered when these are considered inappropriate for the profile of the ADSL line user who is logged on.

The ADSL Line will play a fundamental role in the 21st Century home. The online home is an intelligent home that Telefónica has promoted with the ADSL deployment in recent years. More than 8% of Spanish homes now trust Telefónica to obtain the key that allows them to access a world of entertainment services and multimedia, security, heating, alarm control and community services, and Internet access.

At the beginning of 2004, Imagenio went on sale in Madrid and Barcelona. This is an integrated service with video and audio on demand, interactive digital TV and Internet access on broadband. This new concept of television, in which the customer designs his own programming, has been considered the most innovative in the Tecnet Prizes 2003.

SMEs

Telefónica provides efficient, robust communication solutions for the Small and Medium Enterprise, multimedia services and suites of business solutions and applications. Among these, there is the ADSL Solutions family, with widespread acceptance of ADSL Intranet

Solutions at more than 50,000 SMEs, ADSL Net-LAN Solutions as the complete solution and de facto standard of "VPNs", corporate or security information services, integration of voice-data-broadband-associated services at fixed monthly rates, etc. This is definitively a large range of services that, until recently, were reserved for Major Companies, now available to the Small and Medium Enterprise, that grow daily in features, applications and maintenance and support services.

The determined bid by Telefónica to create and immediately operate the Support Office for the Information Society, OASI, also shows our interest in helping to take maximum advantage of new technologies as productivity tools, customer service and to improve management.

On the other hand, Telefónica de España has been a pioneer in marketing a new ADSL router modem that converts to wireless, which allows the creation of a local Wi-Fi wireless network with Internet access through ADSL. It has also increased the offer of wireless equipment and positively encouraged extension of broadband mobility and its ubiquity by putting more than 100 Hot Spots into service, known as ADSL Wi-Fi Zones, in public areas, for broadband access through Wi-Fi technology or ADSL LAN Wi-Fi solutions within private corporate environment.

Telefónica also participates in the SME Modernisation Programme (PMP) aimed at facilitating convergence of small and medium Spanish enterprises with European ones, helping them to improve competitiveness and adapt to the Information Society. As an example, one would have to emphasise the geo-location services that allow companies to know the physical location of their vehicles and personnel at all times, with the only requirement being for them to have a mobile telephone with coverage within the country. Telefónica de España also offers, as of this year, these services from a PC connected to Internet.



Major Companies and Public Administrations

Within the scope of Major Companies and Public Administrations, Telefónica proposes advanced solutions, developed using new technologies, as well as forming an outsourcing process of the telecommunications infrastructures.

Specifically, Telefónica provides Major Companies with comprehensive communications solutions, advancing on the route to total integration of Voice, Data and Content Services, from carrier infrastructures on broadband that are totally adapted to the connectivity needs of such companies. Its offer includes the support, management and control required to cover a range, from Level of Service Agreements customised to suit the customer's needs, to total outsourcing of the corporate communications, supported by a thorough process of implementation planning.

Telefónica has developed e-BA, a proposal of services and solutions to aid Major Companies and Public Administrations to achieve closer relations with customers and citizens, suppliers and employees, through broadband communications. The value proposal of e-BA is based on broadband services to enable evolution of the technological platforms at companies toward more efficient, competitive computer models. It is also aimed at cost reduction and increased productivity through a complete, personalised offer of services.

Within this environment, Telefónica has consolidated the e-BA infrastructure for Data and Content, while it has progressed in integration of voice communications (Ibercom e-BA). During 2004, it will complete that process with the transformation of the Ibercom Service, that will allow our accessories to use scenarios for integration in Next Generation Networks. The Ibercom service is now the benchmark in voice for Corporations and Major Companies; backed by a market share of nearly 50%. There is

now a plant with 1,370,000 lines, and a million and a half lines are expected to be achieved during this financial year.

The evolution of the Ibercom Service toward new Voice and Data models in 2004 will allow the way forward to IP convergence, providing companies Value Services that considerably improve internal operating costs in exchange for a small increase in their communications expenditure. This new offer, will provide businesses with homogeneous services at all work stations, while each worker have mobility throughout the corporate network.

This evolution in Ibercom based on voice and data convergence will have the following objectives:

- To progressively cover up to 100% of the customer's premises.
- To integrate all the customer's voice services.
- To increase management and after-sales attention, including customised management centres and the service-level agreements demanded by the market.
- For the offer to include new services in IP environments: added value services and, in particular, mobility services, as revenue generators.

Telefónica has consolidated its broadband offer for Major Companies based on optical fiber in 14 Spanish cities, reaching up to 1Gbps in connectivity. This offer allows Major Companies to connect their premises at speeds previously reserved for local area networks, and provides the possibility of implementing remote backup centres at national level, or installed on the Telefonica Internet Centers ("TICs"), data processing and solution centres on the Internet, that allow companies to develop their presence on the Net to the maximum, thus improving security.



On the other hand, Telefónica continues to be a leader in solutions to provide Major Companies services to facilitate tele-working and mobility for their employees. Its Intranet Access service includes existing ADSL accesses, the possibility of switched mode access with flat rate 24x7, with reserved access, to always ensure the possibility of connection.

Telefónica was also the first operator to provide a service integrating management of virtual private networks with management of the new local wireless networks (WIFI), allowing Major Companies to adopt this new technology.

In 2003, Telefónica also launched the integration of virtual private networks with the Telefónica Internet Center (TIC) which allows integration of the TIC as another office / premises of the clients own private virtual network, which may use the intranet, storage, processing and security resources, available through Telefónica in a more efficient manner.

Telefónica is continuing to complete its Outsourcing and integrated management offer. Through its Personalised Management Centres (PMC) it has increased its management capacities to local devices (switches), international services, security (firewall, proxy) and has launched new options for smaller companies that do not have their own space for operators, so these are on the Telefónica premises: the PMC Silver.

On the other hand, the Company has developed a new platform eBA-Gestión, that will provide Major Companies information, monitoring, advanced supervision and management of the services contracted, easily and immediately.

Telefónica leads the IP Virtual Private Network market based on the new MPLS standards. That solution, which guarantees the same security as a private network, has begun to spread among Major Companies, being one of the

largest growth areas. It has also renewed its commitment to quality and confidentiality with the Major Company, by setting up new Service Level Agreements that guarantee companies in Spain may enjoy the best attention.

Internet content presence services and IT infrastructures housing have also provided our customers and suppliers an improvement in their image on the market, increased their customer loyalty and improved operating efficiency, with maximum availability services and optimum response times.

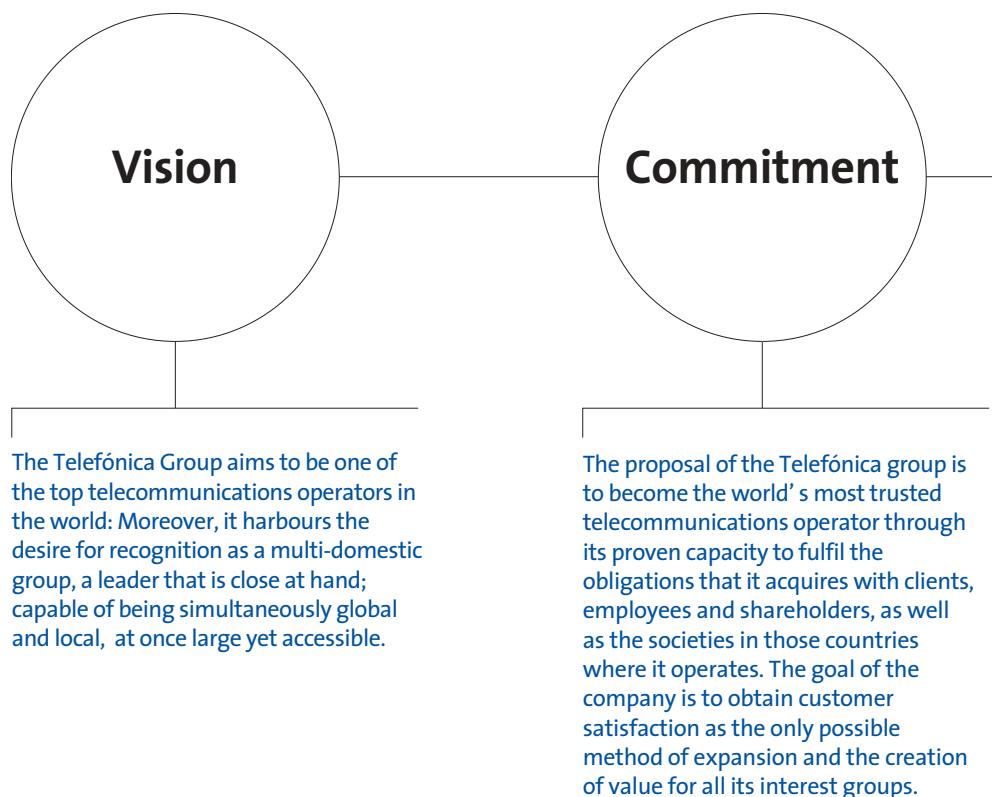
New services and applications have also been launched on the Hosting and Storage Services offered at the Telefónica Internet Centers, allowing Computing on the Net to become a reality.

Considering the present concern all companies have for security matters, the Logical Security Services family has been launched, which allows the information on the data and applications at the customer's office or the TIC to be assured. These services feature the launch of PcBackUP, Managed Firewall, Intruder Detection and Digital Certification. Likewise, the CRM services have been consolidated, to provide strategy, processes and technologies to optimise relations with Companies and Public Administrations, with customers, citizens, employees and partners.

03_03

Annex I. A Group that knows where it's going

THE TELEFÓNICA GROUP SHARES A SINGLE VISION OF LEADERSHIP WITH A COMMITMENT AND VALUES THAT FORM THE CORE OF ITS CORPORATE CULTURE. A CULTURE THAT IS BOTH SOLID YET FLEXIBLE, AND WHICH ALLOWS THE COMPANY TO ADAPT ITSELF TO NEW CONTEXTS AND FUTURE CHALLENGES. THIS IS TELEFÓNICA'S BUSINESS PROJECT FOR THE FORTHCOMING YEARS, A CHALLENGE FOR EVERYBODY THAT FORMS A PART OF THIS COMPANY



It is the desire of the Telefónica Group that everybody that has dealings with the firm feels able to place their trust and confidence with us due to our ability to satisfy the commitments that we undertake.

The firm has begun profound transformation in a totally commercial direction. In other words, setting client-satisfaction as the key element for growth. With more efficient management and anticipation of trends, in services as well as markets and businesses.

The generation of confidence includes the support of Telefónica's corporate values: more specifically certain obligations to its shareholders (profitability and transparency); with its clients (service quality and fulfilment of promises); with its employees (clearly defined working practices and professional development); with societies where it holds a presence (closeness and contribution).

These are the values that are shared by the entire group. All actions and decisions that are taken within the organisation need to reinforce these values. The whole company is very much focused on making this effort. Furthermore, the Telefónica Group relies on innovation, solidity, transparency, dynamism and technological leadership as the attributes upon which to establish our values.

Telefónica: a reliable operator

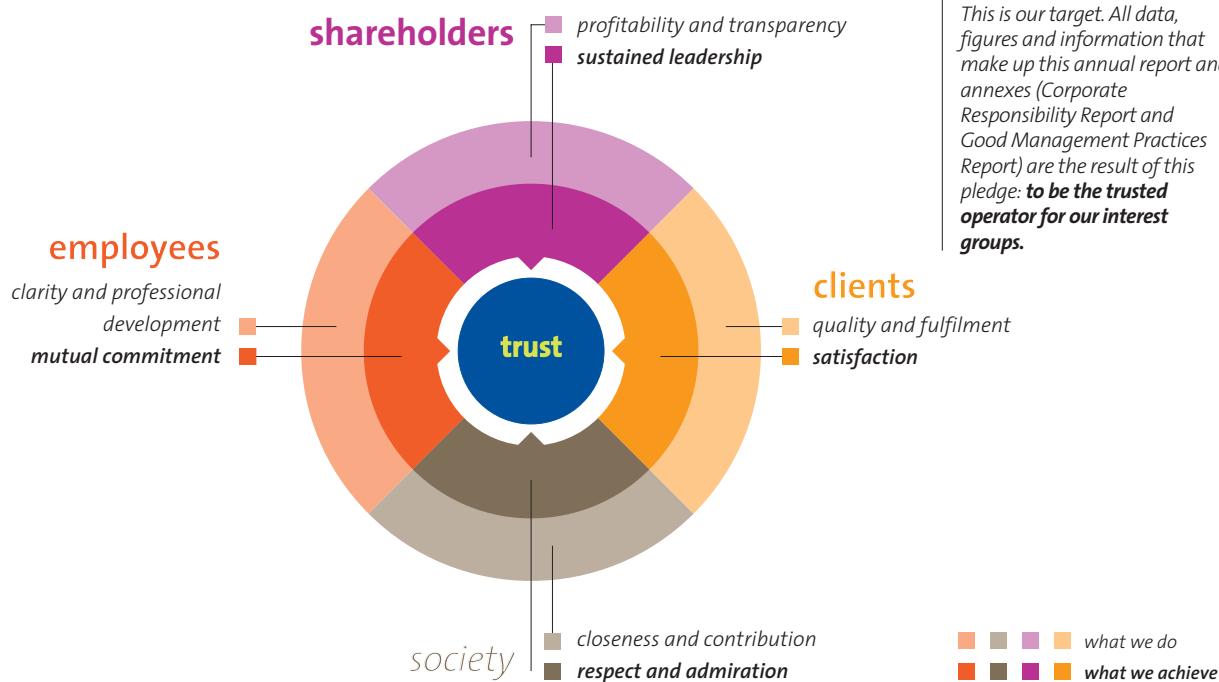
Telefónica wants to build its vision of leadership upon the foundations of reliability.

The different groups that have dealings with a telecommunications company look for an operator that makes things both easier and better for them. They want a supplier that meets their requirements and exceeds their expectations, both now and in the long-term. But above all, they want a partner they can trust.

Telefónica pursues the objective of being this partner. For this reason, our professionals manage the technology, products, services and dealings for across-the-board benefit of all the interest groups: shareholders; employees, those from the communities where we operate, as well as society in general. Telefónica aspires to achieve this objective from a baseline of understanding its clients; from continuous improvement in what it does; from the acceptance of responsibilities that leadership brings with it; and from the promise of transparent behaviour, integrity and ethics.

This is our target. All data, figures and information that make up this annual report and annexes (Corporate Responsibility Report and Good Management Practices Report) are the result of this pledge: **to be the trusted operator for our interest groups.**

THE VALUES OF THE TELEFÓNICA GROUP BY INTEREST GROUPS



Annex II. A committed Group with corporate control

THE FUNDAMENTAL PRINCIPLES OF CORPORATE GOVERNANCE OF TELEFÓNICA S.A. ARE SET FORTH IN THE ARTICLES OF ASSOCIATION AND IN THE BOARD REGULATIONS. THESE ARE AT THE DISPOSAL OF THE SHAREHOLDERS AND INVESTORS BOTH AT THE COMPANY HEADQUARTERS, AS WELL AS VIA THE WEB PAGE

Ownership ←

The share capital of Telefónica, subscribed and fully paid up, is comprised of 4,955,891,361 shares, each with a face value of €1.00, and of a single class and series, represented through account entries.

1,693,049 shareholders¹

(1) Information obtained from Iberclear on 1st April 2003

In accordance with existing information on the Company, there is no individual or legal person that holds, or may hold control over Telefónica either directly or indirectly. There are, however, certain shareholders that are owners of significant stakes:

Total shareholdings	Percentage	Shares
BBVA*	6.09	301,813,784
La Caixa**	3.50	173,456,198

(*) According to the Bank itself, the shareholding maintained with permanence criteria in the capital of Telefónica is 5.17%, as at 31st December 2003.

(**) According to the web page of the Savings' Bank, updated on 31st December 2003.

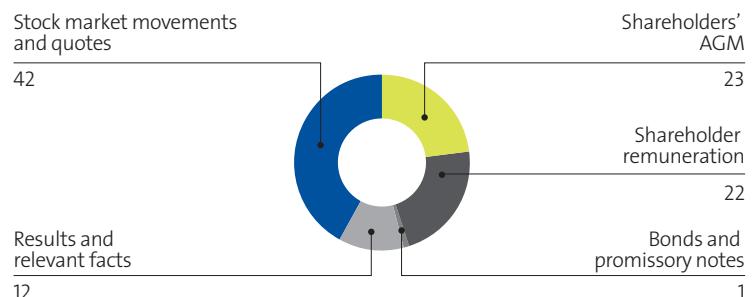
The Annual General Meeting of shareholders is the supreme deliberating and deciding body through which the Company's intentions are set forth and the shareholders decide by majority vote on those matters that fall within the terms of reference of the shareholders' AGM.

Telefónica proposes to submit a regulation for the consideration and, if appropriate, the approval of the ordinary AGM of shareholders (30th April 2004), in which the rules and principles of its organisation and performance are established. This is in pursuance of the provisions set forth in Act 26/2003, dated 17th July.

Loyalty, fulfilment and
transparency

Shareholders' Service Office: provides all the relevant company information to shareholders and resolves any doubts that they may have.

DISTRIBUTION OF SHAREHOLDER TELEPHONE ENQUIRIES
(data in percentages)

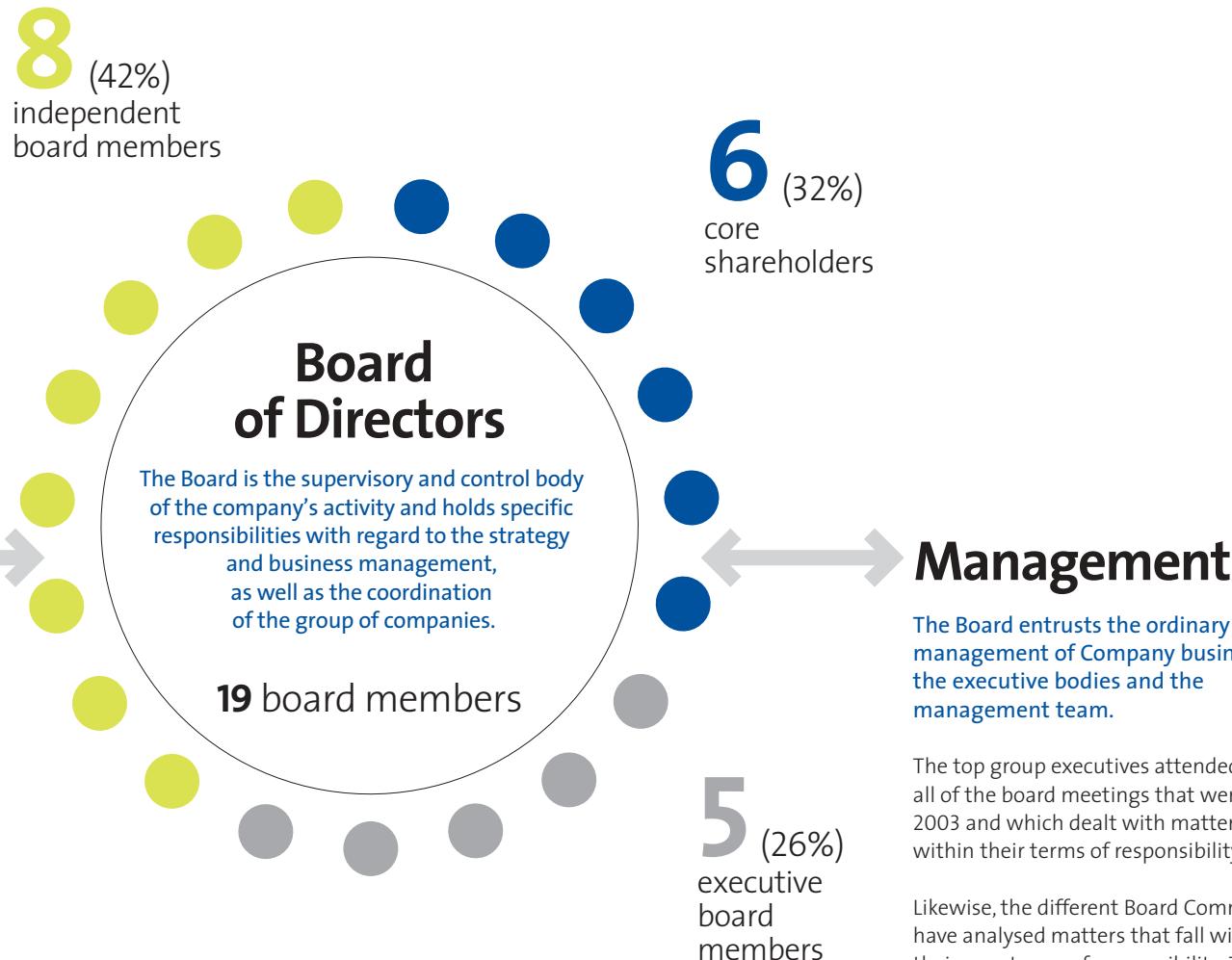


Investor dealings area. Designs and carries out the Telefónica communication programme with regard to national and international financial markets.

At its session on the 26th March 2003, the Board approved an internal regulation governing communication and information to the markets. This regulation regulates both these processes of communication, as well as the processes of producing the annual informative leaflets.

Major web improvements with regard to content that is relevant to shareholders and investors, restructuring existing information and bringing in new content. Moreover, a section specifically dedicated to issues of corporate governance has been created. These sections received a total of 680,000 visits during 2003.

www.telefonica.com/ir
www.telefonica.com/accionista
www.telefonica.com/gov
www.telefonica.es/hechosrelevantes



During the 2003 financial year, the Telefónica board held 13 meetings (11 ordinary and 2 extraordinary). Each meeting lasted approximately 4 hours.

Agreements shall be adopted through Board member majority of those present, attending or represented at the session.

Board Commissions. The existence of a **Deputy Committee**, whose duty is set forth in the Board regulations, provides greater effectiveness and efficiency to the Board. It is currently made up of eight directors. In 2003, the Deputy Committee held 19 sessions, each of which lasted for more than 3 hours.

Other Board Commissions	COMPOSITION (board members)		Sessions (2003)
	Non-executive	Executive	
Auditing and control	4	—	13
Appointments, remunerations and good practices	4	—	10
Human resources and corporate reputation	4	—	4
Regulation	2	1	8
Service quality and commercial service	3	—	6
International matters	4	1	2

(*) Since May 2003

Stock markets where Telefónica S.A. shares are quoted.

- 4 Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia)
- London Stock Exchange
- Paris Stock Exchange
- Frankfurt Stock Exchange
- Tokyo Stock Exchange
- New York Stock Exchange
- Buenos Aires Stock Exchange
- Lima Stock Exchange
- Sao Paulo Stock Exchange
- Included in the Stock Exchange Automated Quotation System (SEAQ International)

03 _ 05

Annex III. A responsible Group

TELEFÓNICA UNDERSTANDS THAT ITS FIRST AND FOREMOST RESPONSIBILITY IS TO DO ITS JOB EFFICIENTLY AND PROPERLY: ASSURING THE QUALITY OF WHAT IS DIRECTLY ROOTED IN ITS BUSINESS ACTIVITY

Thus, for the Telefónica Group, responsibility is understood from a global perspective, pursuing the creation of value for all interest groups.

An all-round commitment to convert Telefónica into a motor of economic, social and technological development of the companies in which it operates.

An all-round commitment

Customers	Shareholders/ investors	Suppliers	Media
<p>Quality & fulfilment</p> <ul style="list-style-type: none">• Excellence in service 99.35% of installation commitments fulfilled• Communication with customers 712 million calls taken in the customer service centres• Fidelity plans 15,355,818 customers belong to fidelity plans in Telefónica Móviles España• Customer satisfaction 78.5% average customer satisfaction with fixed telephony (Spain + Latin America)	<p>Profitability & transparency</p> <ul style="list-style-type: none">• Communication channels 680,000 Internet sessions devoted to shareholders and investors www.telefonica.com/ir www.telefonica.com/accionista• Complete and transparent information 964,302 files downloaded online• Investment using responsible criteria 1% of the Employees' Fund invested using sustainable criteria	<p>Equal opportunities and mutual benefit</p> <ul style="list-style-type: none">• Large number of suppliers More than 10,500 million euros awarded to 17,100 suppliers• Equal opportunities 10,500 suppliers registered in Suppliers Catalog• Mutual benefit 53 supplier development projects• Sustainable growth of the Company 88% of procurement from local suppliers in each country	<p>Information & transparency</p> <ul style="list-style-type: none">• Interest in Telefónica activities 31,138 hits on the Spanish press• Complete and rigorous information 1,834 press releases published in the world

For more information see the 2003 Annual Corporate Responsibility Report and web page www.telefonica.es/responsabilidadcorporativa

We all are society

Employees	Environment	Society
<p>Clarity & professional growth</p> <ul style="list-style-type: none"> • A large human group 148,288 employees in all the world (consolidated datum) • Reward 110,000 employees assessed on performance • Professional growth 6.3 million hours of training • Human Rights 106,593 employees covered by collective agreements • Collaborating employees 62,854 employees collaborate with ATAM 	<p>Respect & protection</p> <ul style="list-style-type: none"> • Commitment to the Environment <i>The Company has subscribed to the United Nations World Pact</i> • Environmental management <i>ISO 14001</i> <ul style="list-style-type: none"> • Telefónica de España (in the Logistics Centre) • Telefónica I+D (in all operations) • Telefónica Móviles España (in all operations) • Telefónica Móviles México (Certification in process) • Minimise the impact 7,000 base stations certified in 2003 (electromagnetic emissions) • Development of services with a positive impact on the Environment 353 projects assessed 	<p>Contribution & proximity</p> <ul style="list-style-type: none"> • Commitment to the countries where it operates 1.85% average contribution of Telefónica revenue to the GNP of Spain, Argentina, Chile, Peru and Brazil • Digital inclusion 3,334,560 low-cost lines between Spain and Latin America • Development of the information society 120 agreements made with Universities and Business Schools • Social use of communications 14,559,319 persons benefited from Fundación Telefónica projects in 2003 • Support for the disabled 1,000 disabled people Internet trained in Chile • Solidarity Investment in Social and Cultural Action 2003 Fundación Telefónica: 23,477,000 euros ATAM: 8,800,000 euros Rest of the Group: 14,271,000 euros Total: 46,548,000 euros

03 _ 06

Annex IV. A socially responsive Group

FUNDACIÓN TELEFÓNICA IS THE MAIN INSTRUMENT THAT CHANNELS SOCIAL AND CULTURAL ACTION OF THE TELEFÓNICA GROUP IN THE COUNTRIES WHERE IT IS PRESENT: SPAIN, ARGENTINA, BRAZIL, MOROCCO, PERU AND, SINCE 2003, MEXICO

Fundación Telefónica, in collaboration with social organisations, develops different projects to implement new information and communication technologies. The fundamental component of these projects is to pursue improvements in education, access to culture and arts, as well as development of Society and betterment of people's standard of living, and in particular that of the most disadvantaged groups.

All actions developed by Fundación Telefónica in the countries where it operates, are based on trans-national or specifically national projects, and characterised by being in the general interest, by representing a voluntary commitment beyond those laid down by law and by being not-for-profit.

Education, Co-operation and social promotion, Tele-medicine, tele-assistance and disability, Culture, Art and technology and Information Society are the main areas in which Fundación Telefónica carries out its activity.

Further information can be obtained by consulting the Fundación Telefónica Social Report or visiting the web site: www.fundacion.telefonica.com

FUNDACIÓN TELEFÓNICA

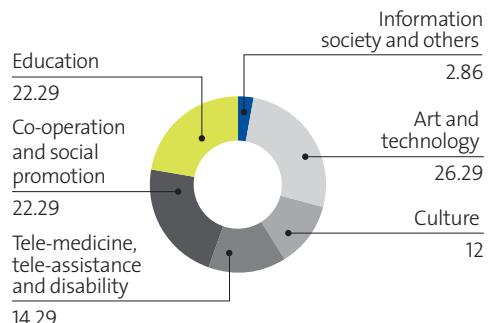
FUNDACIÓN TELEFÓNICA INVESTMENT IN SOCIAL AND CULTURAL ACTION IN 2003

(Data in euros)

Fundación Telefónica España	17,548,000
Telefónica Foundations for Latin America and Morocco	5,929,000
	23,477,000

DISTRIBUTION OF FUNDACIÓN TELEFÓNICA RESOURCES IN SPAIN BY ACTIVITY AREAS

(Data in percentages)

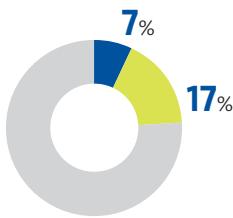


DISTRIBUTION OF FUNDACIÓN TELEFÓNICA PROJECTS BY ACTIVITY AREA

Spain Latin America and Morocco

Education

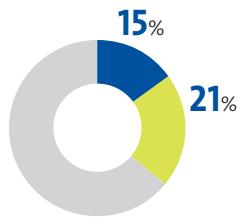
- EducaRed
- CampusRed
- Educational Internet
- Technology skills



16,693 Beneficiary organisations

Co-operation and social promotion

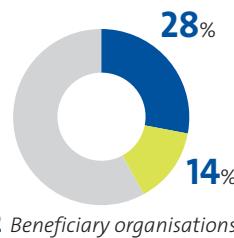
- Aid for telecommunication equipment
- Risolidaria
- Corporate volunteers
- Co-operating campaigns



1,786 Beneficiary organisations

Art and technology

- Exhibitions
- Management of artistic and historical wealth of the Group
- Preservation and restoration



62 Beneficiary organisations

TELEFÓNICA GROUP BUDGET FOR SOCIAL AND CULTURAL ACTION IN 2003

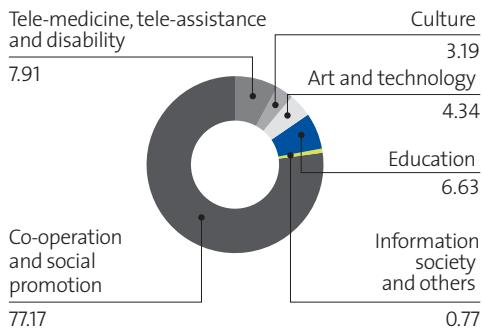
(Data in euros)

Fundación Telefónica	23,477,000
ATAM	8,800,000
Rest of Group*	14,271,000
	46,548,000

(*) Includes other activities carried out by the Companies of the Telefónica Group (in particular Telefónica, S.A., Telefónica de España, Telefónica Móviles, TPI, Terra and Atento) that comply with the basic criteria of Social and Cultural Action: actions of general interest, voluntary and not-for-profit.

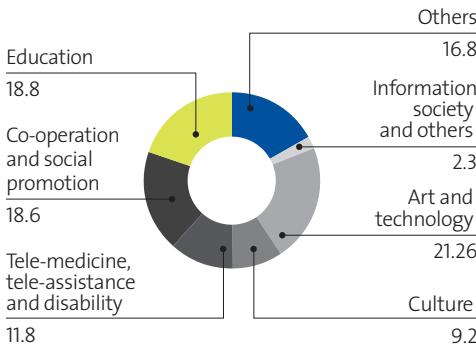
DISTRIBUTION OF THE 784 BODIES COLLABORATING WITH TELEFÓNICA ESPAÑA BY ACTIVITY AREA

(Data in percentages)



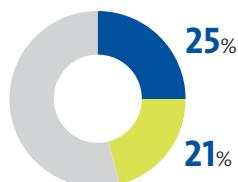
DISTRIBUTION OF FUNDACIÓN TELEFÓNICA RESOURCES BY ACTIVITY AREA, CONSOLIDATED DATA

(Data in percentages)



Tele-medicine, tele-assistance and disability

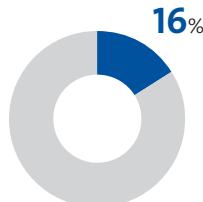
- Mercadis
- Support for abused women
- Support for Alzheimer sufferers
- Sport and disability



1,448 Beneficiary organisations

Information Society

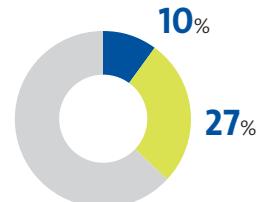
- Forums and conferences
- Dissemination
- Publications



6 Beneficiary organisations

Culture

- Ars Virtual
- Museums
- Publications



15 Beneficiary organisations

03_07

Annex V. An innovative Group

TELEFÓNICA I+D ACTS AS A CATALYST TO STRENGTHEN AND BOOST GROWTH OF BUSINESS ACTIVITY IN INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT)

Most of the Group's research and development (R & D) activity is carried out in Telefónica Investigación y Desarrollo (I+D). Owned 100% by Telefónica, it works, for the most part, for Telefónica Business Lines and participates in other research projects, both at the domestic and the international level.

INVESTMENT

TOTAL INVESTMENT IN INNOVATION OF THE TELEFÓNICA GROUP IN 2003

1,902
million euros

Telefónica is the most important investor in technological innovation for business purposes in Spain, investing more than 1,303 million euros during 2003 with the following break-down:

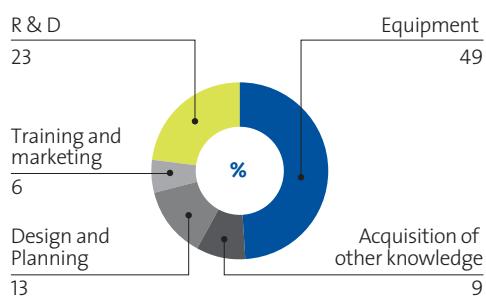
GEOGRAPHICAL SPHERE

Telefónica has committed to being one of the driving forces behind technological innovation in Latin America.

65% R & D Spain **35%** Others

Although over half the 100 million customers of the Telefónica Group are in other markets, the thrust of the R & D effort is carried out in Spain.

During the year 2003, Telefónica I + D worked on 1,800 projects, 35 of them belonging to the European IST Programme. It participated in or collaborated with 25 technological standardisation associations, forums or groups, directly employing 1,125 people and 1,258 indirectly and involving 32 firms from the ICT sector, as well as 14 Universities in this activity.



INDUSTRIAL PROPERTY PORTFOLIO

This strong commitment to innovation has allowed us to expand our industrial and intellectual property portfolio in the countries where Telefónica innovates.

1

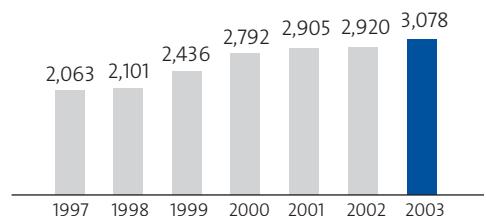
085

intellectual property registrations

1,541

patents

EVOLUTION OF PORTFOLIO OF INDUSTRIAL AND INTELLECTUAL PROPERTY RIGHTS OF TELEFÓNICA
Total rights registered



CHRONOLOGY OF INITIATIVES IN 2003

January

- Telefónica Móviles is the first operator in Peru to offer third generation services (CDMA 2000 1X)
- Telefónica I + D develops a prototype enabling implementation of an electronic ticket solution system.
- Telefónica Móviles facilitates the sending of short messages to Telefónica fixed-line telephones.

February

- Telefónica SP backs growth in wake-up call, weather and schedule information services.
- Telefónica de España incorporates dynamic addressing into its IP network.
- TPI-Páginas Amarillas launches the new 11888, the first offer of Telefónica information in a liberalised market.

March

- Unifón launches Asterisco Mail, to receive and reply to e-mails from telephones through voice messages.
- Telefónica de España launches Solución ADSL e-gestión, its new range of online software for SMEs and professionals.
- Telefónica de España begins to offer Internet connection by satellite.

April

- Imagenio, the Telefónica de España project of television via ADSL, received a prize for the most innovative service in tecnet 2003.
- Telefónica de España launches a new router modem that allows for the creation of a Wi-fi wireless local area network for ADSL.
- Telefónica Móviles installs one of the most advanced cell networks of Latin America in Chile.
- Telefónica CTC Chile, leader in the Chilean ADSL market, launches a multi-service offer for broad band.

May

- Movistar e-moción incorporates the downloading of videos into its contents offer.
- Telefónica Móviles España completes and simplifies access to the data services of Oficin@ Movistar.
- Telefónica de España and Terra initiate marketing of Mundo ADS:, a product that integrates communication, training and entertainment.

June

- Telefónica Soluciones presents a service that allows transport businesses to control their activity in real time.
- Telefónica Móviles launches in Movistar e-moción access to contents developed with I-mode technology.

July

- Telefónica presents the White Book of Digital Households to implement new technologies in Spanish households.
- TSA presents Globaline Vision, a service for businesses that transport audio-visual contents between countries and continents.
- Oficin@ Movistar integrates all the data services for the businesses of Telefónica Móviles España.
- Paginasamarillas.es brings out an automation section that allows control of a virtual intelligent household from a mobile telephone and the Internet.

August

- Telefónica de España offers a new range of security products and services for businesses and households.
- Telefónica Móviles, Orange, Tim and T-mobile unveil their first joint products

September

- Terra has a new Internet search service.

- Vivo, the first operator in Brazil to offer video services on mobiles.

- Telefónica deploys Speedy Wi-Fi in Peru, a service that allows wireless broad band access to the Internet.

October

- Terra launches a Wi-Fi wireless broad band Internet access service in Brazil.
- Telefónica Data España launches the PC backup service.
- Telefónica Móvil Chile is the first Latin American operator to launch broad band high speed mobile services based on edge.
- Telefónica Soluciones launches the first pre-commercial UMTS service in Spain.

November

- Telefónica Soluciones launches a service that allows businesses to know the exact situation of their staff, vehicles and goods.
- Telefónica de España renews its commercial voice offer with a new range of products tailored to the client.
- Telefónica Empresas and Unifón offer added value services and software in Argentina through broad band e-solutions.

December

- Telefónica Empresas launches a new service that offers broad band solutions by satellite.
- TME presents the new Movistar TSM 30 terminal, the first mobile telephone with I-mode fully developed in Spain.
- Telefónica del Perú launches a new service Speedy Plus with more advantages in terms of Internet access.

04

Information for shareholders

THE REMUNERATION POLICY FOR SHAREHOLDERS OF TELEFÓNICA IS ONE OF THE MOST AMBITIOUS IN THE EUROPEAN TELECOMMUNICATIONS SECTOR



The results attained by the Telefónica Group this financial year and its gradual quarterly improvement has enabled the Company to carry out a very active shareholder remuneration policy, as well as undertaking a commitment reaching up to the year 2006. Telefónica's shareholder remuneration policy has therefore become one of the most ambitious in the European telecommunications sector.

SHAREHOLDERS REMUNERATION IN 2003

In 2003, remunerations to shareholders consisted of the following actions:

- Execution of two share capital increases through bonus share issues, charged to unrestricted reserves, assigned in the proportion of one free share for every 50 (1 x 50) shares held. The first of these was carried out on January 28, 2003 (97,213,225 share issued) and the second on March 11, 2003 (99,157,490 shares issued). These bonus share issues were approved by the General Shareholders Meeting held on April 12, 2002.
- Reduction of the company share capital through the redemption of own shares held as treasury stock (101,140,640 shares), charged to reserves and effective on June 18, 2003.
- Payment of a cash dividend of 0.25 € per share through the distribution of an extraordinary paid-in capital reserve, in two stages (0.13€/share on July 3 and 0.12€/share on October 15, 2003).
- Payment of an extraordinary in-kind dividend of the paid-in capital reserve consisting of 1 share in Antena 3 for every 295.6 shares in Telefónica, on October 21, 2003.

REMUNERATION COMMITMENTS FOR THE 2003 - 2006 PERIOD

At the same time, Telefónica took a decisive step in strengthening its shareholder remuneration policy by undertaking an explicit, long-term commitment to be implemented through two basic mechanisms:

- firstly, a return to the payment of cash dividends as a means of direct remuneration, replacing the share capital increases through bonus share issues executed since 1998.
- and secondly, depending on the share listing, the buyback of own shares as an alternative and selective means to reward shareholders.

Thus, the Company intends to pay out a minimum of 0.40 euros per share per year and undertake a buyback of shares for a minimum of 4,000 million euros in the 2003 - 2006 period.

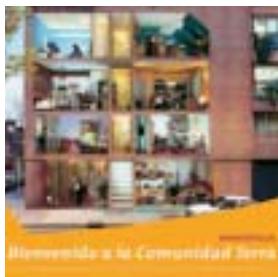
TELEFÓNICA STOCK

The stock markets closed the 2003 fiscal year with favourable earnings after three consecutive years of losses that began with the so-called "bursting of the technological bubble". Telefónica (+43.2%) showed gains on all the major indexes, not only on the American S&P 500 (+26.4%), but also on the European EuroStoxx 50, (+15.7%), and on sector indexes such as DJ Telco (+19.0%).

Despite the economic recovery of the past year, the international stock exchanges reached their lowest levels in recent years during the month of March, shortly before the beginning of the war in Iraq. From that moment on, the positions taken by investors caused an upward trend that continued until the end of the year.

The primary factors that marked the trends in 2003 were:

1. Confirmation of economic recovery in the USA, which has been the engine behind global



growth. Macroeconomic indicators continued to be favourable in the second half of the year and consumer confidence increased monthly.

2. The reduction of interest rates both in the USA and Europe, to 1 and 2% respectively, had a positive impact on variable yields by lowering the cost of capital and encouraging investment.
3. The growth in company profits, which surpassed the expectations of analysts, justified the current valuation of the stock markets to a large degree.
4. The countries in Latin America recovered stability throughout the year. All the economic and social indicators in Argentina showed improvement with respect to the previous year. Brazil was able to meet the economic obligations undertaken by its new Government and the country's risk rating fell to its lowest level in the last five years. This situation was reflected in gains on the region's stock exchanges; both the Merval index in Argentina and the Bovespa index in Brazil rose nearly 100% during this period.
5. The dollar depreciated with respect to the major international currencies, with a particularly notable fall in its value against the euro. Greater interventionism by the central Asian banks, particularly the Japanese, slowed the appreciation of the yen against the dollar to a large extent.

In this context and after a first quarter dominated by uncertainty, the markets closed the year with significant revaluations. The MSCI International equity index registered an increase of 30.8% based on the excellent performance of emerging markets. The foremost international stock exchanges obtained gains of 26.4% on the American S&P 500, 37.1% on the German DAX (the most accurate European indicator), and 15.7% on the EUROSTOXX 50. The Spanish IBEX 35 closed the year with an increase of 28.2%. By countries, perhaps the most outstanding results were the

gains of approximately 100% on the Merval in Argentina and the Brazilian Bovespa; by sectors, the excellent performance of technology was reflected in the annual gains on Nasdaq (+50.0%).

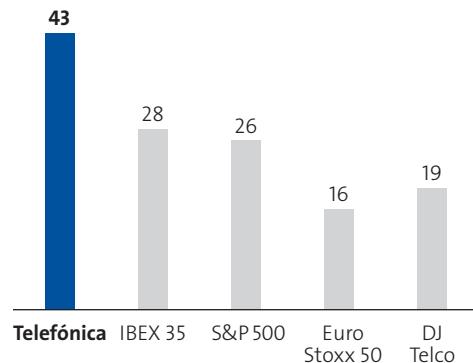
In line with the rest of the market, the telecommunications sector (+19.0%) showed an upward trend in 2003. The relative strength line of the main securities in the sector was determined by the market perception of the reorganisation processes initiated in the previous year. The positive results of such processes were reflected by a generalised improvement in the credit ratings of the majority of the companies in the sector. After cost cutting and upgrading efficiency, the greatest concern of analysts has now become the use of the cash flow generated, earmarked to a large extent for reducing the high degree of immobility and increasing shareholders remuneration in those companies where this is possible. The remaining key indicators in the sector for this period were: pressure on income from traditional fixed telephone service, compensated to a large degree by the favourable performance of broadband services; the delay in launching third generation mobile telephone services, although excellent progress was made in this respect; growth of the cellular client base, primarily in the emerging markets (Latin America and Asia); and a more positive perception by the chief investment banks toward the sector, which continues to be among those preferred in model portfolios for 2004.

The performance of the companies in the sector was favourable, particularly for those that had poorer results in the previous fiscal year. France Telecom and Telefónica showed clear progress far beyond that of other comparable companies. The former rose 56.9% in 2003, after revamping its management team and stabilising its financial situation, while Telefónica grew 43.2%. The remaining incumbent companies also showed gains (Deutsche Telekom +18.5%, Telecom Italia +14.3% and Portugal Telecom +21.8%), with the exception of BT and KPN (-3.5% and -1.3%

respectively), which had undertaken a significant part of their reorganisation the previous year.

With respect to stock-exchange performance in 2003, Telefónica shares closed with a listing of 11.64 euros as compared to 8.128€ (adjusted to reflect the two share capital increases) in 2002. This favourable performance was due largely to Telefónica's unique profile among the comparable companies, which combines the prospect of growth in earnings, efficient operations, strong cash flow generation and high returns to shareholders. In addition, other factors worthy of note were: 1) the economic, political and social recovery in Latin America, 2) the favourable performance of the domestic market, both in fixed and mobile telephony, 3) a solid financial position, 4) the efficient reorganisation of non-profitable businesses, and 5) the positive perception of the majority of market analysis firms. With regards to returns for shareholders, the company has undertaken a commitment to pay a minimum of 0.40 euros per share per year in the next three years and to conduct a share buyback for a minimum value of 4.000 million euros in the 2003 - 2006 period. The revaluation of Telefónica shares in 2003 was supplemented by the Company's commitment to shareholder remuneration.

STOCK MARKET REVALUATION 2003 TELEFÓNICA AND MARKET INDEXES (Percentage)



STOCK MARKET CAPITALISATION OF TELECOMMUNICATIONS COMPANIES (Millions of dollars)

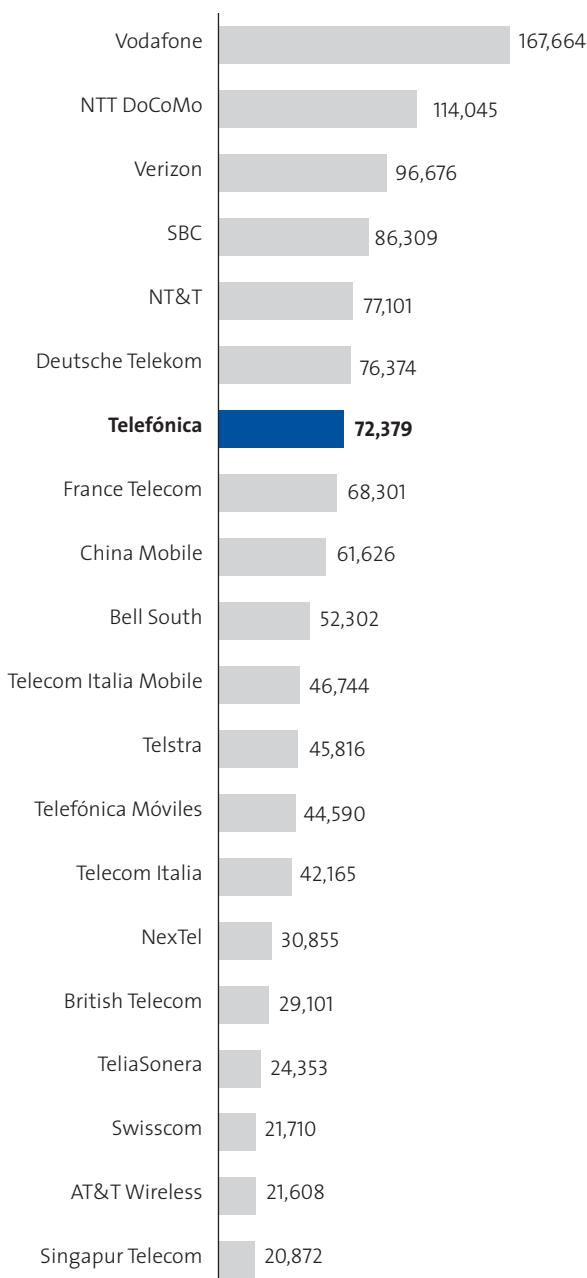


TABLE 1

Share Portfolio		Return on Portfolio		
Date	Reason	No. shares acquired	No. shares in portfolio	Net Amount
01/01/03	Acquisition of 100 shares at 8.53€ *	100	100	—
28/01/03	Capital increase due to bonus share issue 1x50	2	102	—
11/03/03	Capital increase due to bonus share issue 1x50	2	104	0.34€ (assuming the sale of 2 rights at 0.17€ **)
03/07/03	Cash dividend of 0.13€/share	—	104	13.52€
15/10/03	Cash dividend of 0.12€/share	—	104	12.48€
21/10/03	In-kind distribution of 1 A3 share for every 295.6 TEF shares	—	104	8.87€ (0.35 shares of A3 sold at 25.2€, the amount established for the settlement of fractions)
31/12/03			104	35.21€
Portfolio Value 01/01/03				853€ (100 shares at 8.53€ *)
Portfolio Value 31/12/03				1,210.56€ (104 shares at 11.64€)
Total return on portfolio				35.21€
Total value to the shareholder at 31/12/03				1,245.77€
Profitability 2003				46%

(*) Listing not adjusted by bonus share issues or redemption of treasury stock

(**) Average price of the right to free subscription on the stock exchange

(***) Final listing date of subscription rights

PROFITABILITY FOR SHAREHOLDERS

The combination of active shareholder remuneration and the favourable performance of the shares on the stock exchange during the 2003 fiscal year benefited the company shareholders, who obtained 46% profitability on their Telefónica holdings in the period from January-December 2003. A shareholder investing 853 € in Telefónica shares on January 1, 2003 would find that his/her portfolio was valued at 1,211€ (+42%) on December 31 of that same year and would have received a further 35€, primarily in dividends (+4%).

Table 1 details the profitability obtained by 100 shares of Telefonica acquired on January 1, 2003 and held for twelve months:

EVOLUTION OF THE COMPANY SHARE CAPITAL

At the end of the fiscal year 2003, Telefónica's share capital stood at 4,955,891,361 euros,

comprised of an equal number of ordinary shares in a single series, with a par value of one (1) euro each, fully paid-up.

During 2003 there were two capital increases due to bonus share issues, as approved by the General Shareholders Meeting of April 12, 2002 and a share capital reduction through the redemption of own shares, likewise approved by the General Shareholders Meeting of 11 April 2003.

The latest modifications to share capital executed by the Company in the past three years are shown in table 2.

Number of Company Shareholders:

According to information obtained on March 3, 2004 from the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear), the specific share registry records for both private individuals and legal entities showed a current total of 1,663,780 shareholders in Telefónica.

TABLE 2

Date	Modifications in Share Capital	No. Shares after Modification
June-03	Reduction of Share Capital through the redemption of 101,140,640 own shares.	4,955,891,361
March-03	Share Capital Increase through Bonus Share Issue 1 x 50. No. of shares issued: 99,157,490	5,057,032,001
Jan-03	Share Capital Increase through Bonus Share Issue 1 x 50. No. of shares issued: 97,213,225	4,957,874,511
March-02	Share Capital Increase through Bonus Share Issue 1 x 50. No. of shares issued: 95,307,084	4,860,661,286
Jan-02	Share Capital Increase through Bonus Share Issue 1 x 50. No. of shares issued: 93,438,317	4,765,354,202

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 (*see table 3*).

TABLE 3

	Total		Direct Shareholding		Indirect Shareholding	
	Percentage	Shares	Percentage	Shares	Percentage	Shares
BBVA (*)	6.09 %	301,813,784	1.81%	89,701,634	4.28 %	212,112,150
"La Caixa" (**)	5.37 %	266,476,222	1.86%	92,380,486	3.51 %	174,095,736

(*) At December 31, 2003

(**) At March 25, 2004

Shares Held by Members of the Board of Directors

The total number of Telefónica shares held individually, either directly or indirectly by the current Company Directors stands at 747,763 shares (0.015 % of the company share capital). *See table 4.*

TABLE 4

Name	Direct Shareholding	Indirect Shareholding	Number of shares held
Mr. César Alierta Izuel	481,397	—	481,397
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	629,633	118,130	747,763

(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.

05

Results. January-December 2003

THE MOST RELEVANT FACTORS OF TELEFÓNICA GROUP RESULTS IN 2003 ARE SUSTAINED GROWTH OF ALL BUSINESSES, GENERATION OF FREE CASH FLOW AND PROFITABILITY. THERE WAS AN INCREASE IN THE GROUP'S CLIENT BASE AND ITS FINANCIAL STRENGTH WAS REAFFIRMED





05_01

Telefónica Group

MARKET SIZE

<p>The map highlights several regions and countries where the Telefónica Group operates, including Mexico, Guatemala, El Salvador, Puerto Rico, Venezuela, Peru, Chile, Brazil, Argentina, Spain, Morocco, and Germany/UK.</p>	EUROPA			AFRICA	
	Spain	Wireline	T. de España 19,084	Morocco	Wireless
	Morocco	Wireless	T. Móviles 19,661		Medi Telecom 2,060
	Deutschland / UK	ADSL Connection	TData Deutschland 227		
LATINOAMERICA					
Argentina	Brazil	Chile	Guatemala	Peru	Venezuela
Wireline	Wireline	Wireline	Wireline	Wireline	Wireline
T. Argentina 4,238	Telesp 12,781	CTC 2,542	T. Guatemala 28	TdP 2,060	CANTV 2,734
Wireless	Wireless	Wireless	Wireless	Wireless	Wireless
TCP Argentina 1,824	CRT Celular 2,523	CTC. Móvil 2,270	T. Guatemala 157	T. Móviles 1,507	CANTV 2,681
	TeleSudeste Celular 3,709			Pay-TV clients	
	TeleLeste Celular 1,126	El Salvador		Cable Mágico 363	
	Global Telecom 1,691	Wireline			
	Global Telesp Celular 495	T. El Salvador 30	Puerto Rico		
	TeleCentro Oeste 4,113	Wireless	Wireless		
		T. El Salvador 248	NewComm Wireless 175		

TELEFÓNICA GROUP

MARKET SIZE

Unaudited figures (thousands)

December

	Total			Weighted (*)		
	2003	2002	% Chg.	2003	2002	% Chg.
Lines in service (1)	43,723.5	43,145.8	1.3	37,985.4	37,320.4	1.8
In Spain	19,084.1	18,705.6	2.0	19,084.1	18,705.6	2.0
In other countries	24,639.4	24,440.2	0.8	18,901.3	18,614.7	1.5
Cellular customers (2)	54,691.7	44,936.8	24.5	31,549.9	27,420.8	15.1
In Spain	19,660.6	18,412.0	6.8	18,174.3	17,018.2	6.8
In other countries	35,031.1	25,524.7	37.2	13,375.6	10,402.5	28.6
Total (3)	98,778.3	87,422.6	13.0	69,888.0	65,071.2	7.4

(*) Weighted by the equity interest of Telefónica in each of the companies. After the Via Digital-Sogecable merger, for comparison purposes, the customers from the platform TV are not included in 2002.

(1) Lines in service: includes all lines in service for Telefónica de España, Telefónica CTC Chile, Telefónica de Argentina, Telefónica del Perú, Telesp, Can TV, 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), NewCom Wireless Puerto Rico, Telefónica Móviles Guatemala, Telefónica Móviles El Salvador, Telefónica Móviles and CanTV Cellular.

(3) Includes Pay TV customers of Cable Mágico in Peru.

FINANCIAL HIGHLIGHTS

The most relevant factors of Telefónica Group results during the year 2003 are the following:

- The sustained growth of all businesses together with a general improvement in non-operating results have led to obtain a net income of 2,203.6 million euros:
 - Telefónica Group EBITDA grew by 7.5% and Operating Profit by 25.8% in relation to the previous year.
 - All non-operating items on the profit and loss account (associates, financial expenses, extraordinary results and goodwill amortization) improved significantly compared with 2002.
- Substantial growth of free cash flow generation and Group's profitability:
 - Free cash flow generation (EBITDA-CapEx) increased by 11.8% to reach 8,875.0 million euros, with significant increases in the cellular business (+14.5%) and in Telefónica de España Group (+12.8%).
 - The consolidated EBITDA margin grew 3.1 percentage points over the past twelve months to 44.4%, thanks to greater or similar profitability in all business lines.
- Fourth quarter results confirm the trend of quarterly improvement seen over the year, with a significant growth in revenues (+9.0%), EBITDA (+18.3%) and Operating Profit (+41.6%) during the last quarter.
- Progressive improvement of Latin American operations over the year, which continue to recover:
 - The slow-down of the negative impact of exchange rates on revenues and EBITDA continues (deducting 6.6 percentage points and 6.0 percentage points, respectively, in December, compared with -9.1 percentage points and -9.0 percentage points in September, -13.5 percentage points and -13.7 percentage points in June and -17.2 percentage points and -18.4 percentage points in March).
 - For the second consecutive quarter of the year, Telefónica Latinoamérica showed a positive year on year performance in revenues (+13.6%) and EBITDA (+17.2%).
- 2003 Financial commitments have been met and even surpass, based on the solid organic performance of all business lines:
 - Revenues, EBITDA and Operating Profit, excluding exchange rates effect and changes in consolidation, improved by 6.0%, 12.5% and 29.7%, respectively.
 - The performance of the cellular business over the year must be highlighted, with annual growth rates of 10.4% in revenues and 19.6% in EBITDA.
 - Telefónica de España Group results recovered at the end of the year, ending 2003 with a year on year EBITDA growth of 0.4% and limiting the fall in revenues to 0.5%.
 - Solid evolution of Telefónica Latinoamérica with respect to the previous year, recording an 8.4% increase in revenues and an 8.6% growth in EBITDA, without taking into account the effect of exchange rates.
- Acceleration in the rate of growth of the Group's total client base (99 million, 13.0% higher than in 2002) through strong commercial activity in the cellular business and the expansion of broadband, setting the basis for future revenue growth at the Group level:
 - Cellular managed client base increased by over 10.6 million in 2003 to reach 52.0 million. Fourth quarter net adds (4.2 million) was the highest in the Company's history.
 - The Group's ADSL connections reached 2.7 million, with net adds of 1.2 million connections over the year.
- Group's financial strength is reaffirmed:
 - Net debt dropped by 14.6% in relation to December 2002, to reach 19,235.3 million euros.
 - Net debt/EBITDA ratio stood at 1.5x in 2003 compared with 1.9x in 2002.
- During the year, a clear and ambitious long-term shareholder remuneration policy has been established, at the forefront of the European telecommunications sector:
 - In 2003, a cash dividend of 0.25 euros per share and a dividend in kind corresponding to a 30% stake in Antena3 TV has been paid, and a 2% capital stock has been cancelled.
 - Commitment to pay a minimum dividend on 0.4 euros per share for the period 2004-2006.

Commitment to dedicate a minimum of 4,000 million euros to the acquisition of treasury stock over the period 2003-2006.

Telefónica Group

RESULTS

TELEFÓNICA GROUP 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.

Moreover, the results corresponding to Data, Solutions, and TIWS (wholesale international IP traffic and Broadband Capacity Management business, integrating Emergia within its assets) are published in the business line of Telefónica Empresas.

The results obtained by the Telefónica Group during 2003 were characterized by an improvement in the main operating and non-operating items of its income statement, the growth of its client base, net income and free cash flow generation, the increasing profitability of all business lines, and a reduction in net debt. Thus, the company was able to meet and ever surpass its main commitments adopted with the financial community for 2003.

Total client base exceeded 99 million compared with the almost 87 million of 2002, net income was in excess of 2,200 million euros, free cash flow generation (EBITDA-CapEx) grew by 11.8% in relation to 2002 to reach 8,875.0 million euros, EBITDA margin reached 44.4% (41.3% a year ago) and net debt amounted to 19,235.3 million euros at December 31, 3,297.8 million euros less than at the end of 2002.

Furthermore, there was a progressive improvement over the year in the economic situation of Latin America, reflected in the solid performance of local currency operations and allowing for the negative effect of local currency depreciation against the euro to be reduced quarter by quarter in the Group's accounts.

The result obtained by the Telefónica Group was a consequence of a dual effort to manage and implement the strategic priorities of Telefónica: On one hand, focusing on the management of key businesses (fixed and cellular) and, on the other hand, simplifying the Group's lines of activity and structure. This was reflected in the organic growth of operations and in the strengthening of the company's position on key markets and businesses, in line with the aim to turn the company into a more flexible and efficient business model with a greater client orientation.

Secondly, during 2003, the restructuring process of unprofitable businesses that begun with the strategic decisions and agreements taken in 2002 was completed. It is worth mentioning the

closing of the merger of Vía Digital with Sogecable, the take-over bid of Terra Lycos as well as the sale of certain assets (Antena 3 TV, the data business in Italy, the Austrian third-generation mobile telephony subsidiary, etc.).

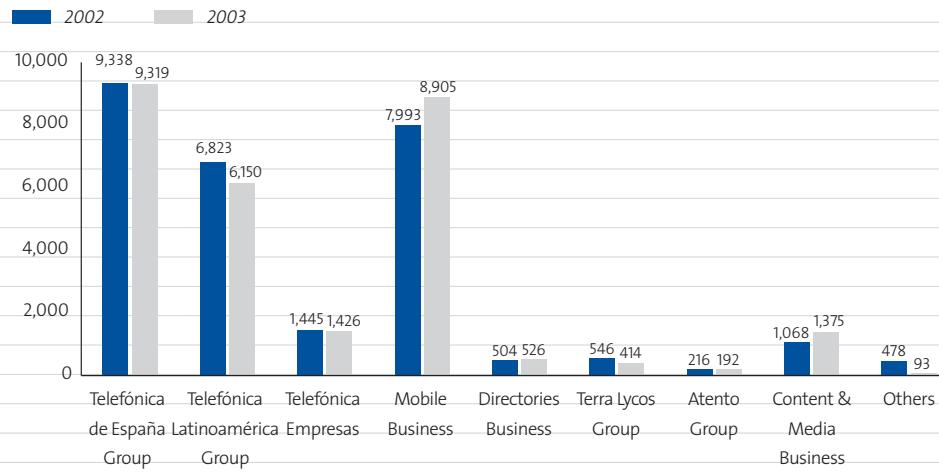
The organic growth in operations was shown by the evolution of revenues, EBITDA and Operating Profit in 2003 that, in comparable terms, that is excluding exchange rates and changes in consolidation, recorded a significant year on year growth (+6.0%, +12.5% and +29.7%, respectively). In turn, non-operating result has improved line by line in 2003 compared with 2002: associates (-212.6 million euros compared with -527.9 million euros), financial results (-1,060.7 million euros compared with -2,221.6 million euros), amortization of goodwill (-442.5 million euros compared with -665.4 million euros) and extraordinary results (-1,249.7 million euros compared with -16,217.9 million euros).

Likewise, it is worth noting that the Group's results in euros have improved quarter by quarter in view of the better year on year exchange rate comparison and the acceleration in the rhythm of underlying growth.

This performance has enabled the Telefónica Group to commit to a more explicit and long-term policy of shareholder remuneration during 2003, this being one of the most ambitious in the European telecommunications sector. Thus, during 2003, a cash dividend of 0.25 euros per share and a dividend in kind corresponding to a 30% stake were paid, and a 2% of capital stock has been amortized. For 2004-06, the Company has agreed to pay a minimum dividend of 0.4 euros per share each year and to devote a minimum of 4,000 million euros (during the period 2003-2006) to share buy-backs.

EXTERNAL SALES BY BUSINESS LINES

(Data in euro millions)



Operating revenues amounted to 28,399.8 million euros over the entire year, a similar level to that recorded in 2002 (28,411.3 million euros) and recovered significantly over the year (-12.9% in March, -7.3% in June and -3.0% in September), primarily due to the lower negative effect of exchange rates (-17.2 percentage points during the first quarter, -13.5 percentage points in the first half, -9.1 percentage points in January-September and -6.6 percentage points as of December). Taking constant exchange rates into account and excluding changes in consolidation, the year on year growth rate for operating revenues was placed at 6.0%, supported by the contribution of the cellular business (+12.9%), Telefónica Latinoamérica (+8.1%) and Telefónica Empresas (+8.7%). This 6.0% adjusted growth in Group sales accelerated during the last quarter, as it had grown by 5.5% as of September.

By operator, the solid performance in 2003 of Telefónica Móviles España (+10.7%), Telesp (+18.2% in local currency), TASA (+14.5% in local currency) and Telefónica Data España (+6.0%) must be underlined. In quarterly terms, revenues during the last quarter of 2003 were the best of the year in absolute term (7,566.7 million euros) and reached a year on year growth rate of 9.0% in nominal euros (+6.4% in the third quarter).

This evolution of results is based on the growth of the Group's client base. The Group's managed client base at December 31, 2003 rose to 93.4 million, 11.2 million more than at the end of 2002 and 4.5 million more than in September 2003. This growth came about by the cellular and broadband business. Thus, the managed cellular client base reached 52.0 million, with a 25.7% growth compared with December of the previous year, notably due to strong commercial activity in all areas of operations. ADSL connections recorded a year on year growth of 81.8% to almost 2.7 million, 1.9 million corresponding to Europe and the remainder to Latin America.

Telefónica Latinoamérica, which accounts for 22.5% of consolidated revenues, reached sales of 6,377.1 million euros in 2003, limiting its year on year decrease rate to 8.3% (-14.4% as of September). It is worth noting that, for the second consecutive quarter, operating revenues had a positive year on year variation (4Q03/4Q02 +13.6%). In constant euros and over the past twelve months, sales grew by 8.4% (+9.1% to September).

Operating revenues for the cellular business, the first business line by sales contribution (36.7% of the total, 3.4 percentage points higher than in December 2002), rose to 10,428.3 million euros, 10.4% above those of January-December 2002. This growth was mainly promoted by the expansion of the client base (strong commercial activity during the last quarter) and the favorable performance of Telefónica Móviles España (+10.7%, with service revenues higher than in 2002 by 9.9%).

During the last quarter, the Telefónica de España Group changed the negative trend recorded during previous quarters and, for the first time since the last quarter 2002, operating revenues recorded an year on year increase (4Q03/4Q02 +1.4%). This evolution pushed 2003 revenues to 10,217.4 million euros (36.0% of total revenues), 0.5% below the 2002 figure.

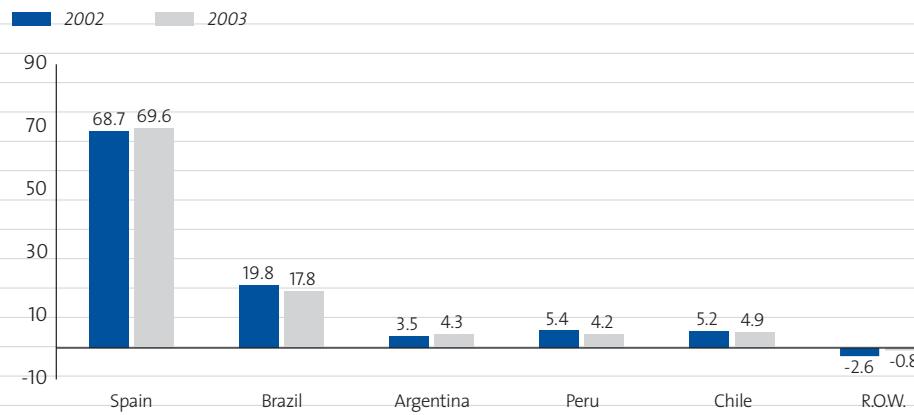
In terms of the geographical breakdown of Telefónica Group revenues and EBITDA, Spain increased its contribution to 61.6% and 69.6% respectively at the end of 2003 (58.8% and 68.7% a year ago), while Latin American reduced its contribution to revenues to 33.3% of total (35.2% at 31/12/02) and in EBITDA to 30.6% (33.7% as of December 2002).

Operating costs decreased by 5.1% in 2003 compared with the previous year to reach 16,617.8 million euros, proving the efficiency of operations within the Group. This decrease was 2.9 percentage points lower than that cumulative as of September due to the lesser negative effect of exchange rate variations (-6.8 percentage points in December and -9.0 percentage points in September). In comparable terms, excluding this effect and changes in consolidation, operating costs grew by 1.5% compared with the 0.7% in January-September, primarily due to the cellular business (+7.4% versus +1.4% to September) because of higher commercial costs in Spain, Brazil and Mexico associated to the Christmas campaigns. In relation to December 2002, the adjusted year on year growth of operating costs (+1.5%) is almost entirely due to the strong commercial activity of Telefónica Móviles, together with the development of the long-distance business in Brazil.

Bad debt continued to be managed efficiently in the Telefónica Group over the entire year, as reflected in the ratio of bad debts over revenues that, at the end of 2003, stood at 1.5% and had improved by 0.8 percentage points each compared to December 2002. Telefónica Latinoamérica and the Telefónica de España Group were the lines to have most reduced their bad debts to revenues ratio (-0.6 percentage points each in relation to 2002, to 3.1% and 0.8%, respectively). The drop of TASA's ratio to revenues must be underlined (around 1.2% in December 2003 versus 6.9% a year ago), due to the economic recovery of Argentina and the effectiveness of the measures implemented over the past twelve months (scoring procedures, control lines, etc.). Of the remaining Latin American operators, Telesp maintained its bad debt ratio at 3.7%, while CTC recorded a 0.8 percentage point increase over the past twelve months to 3.6% of revenues, although it has launched a series of initiatives in order to reverse this trend (ratio reduced by 0.1 percentage point over the past three months). In relation to the first nine months of the year, the bad debt ratio to revenues of the Telefónica Group remained almost unchanged (1.6% to revenues as of September versus 1.5% as of December).

EBITDA DISTRIBUTION BY COUNTRIES

(Dates in percent)



Consolidated EBITDA amounted to 12,602.1 million euros, having exceeded that recorded in 2002 by 7.5%. The favourable evolution of operations and the moderation in the negative effect of exchange rates, which subtracted 6.0 percentage points from this growth, were the determining factors in this performance. In quarterly terms, the EBITDA for the last quarter grew by 18.3% compared with the same quarter of the previous year, the highest level of the year (+17.0% in 3Q03 and +3.5% in 2Q03). Excluding the fluctuations of exchange rates and changes in consolidation, the EBITDA grew by 12.5%, 0.3 percentage points higher than in September.

In 2003, the cellular business became the greatest contributor in absolute terms to the Group's EBITDA (36.4% of the total compared to 32.7% twelve months ago), reaching 4,581.9 million euros, 19.6% above 2002 level, supported by Telefónica Móviles España (+12.9%). However, it must be noted that the strong commercial activity of the last quarter (net adds being 5.2 times higher than 4Q02) was reflected in a lower EBITDA margin during this period (39.1% compared with 43.9% for the full year).

Telefónica Latinoamérica (24.3% of the total EBITDA) has registered an EBITDA of 3,065.3 million euros at the end of 2003, 8.4% less than at the end of 2002 due to the depreciation of Latin American currencies against the euro. However, the slowing down of this effect over the second half of the year was reflected in the positive year on year performances of the third and fourth quarters of the year (+15.8% and +17.2%, respectively). In constant euros, there was an 8.6% increase in EBITDA for the year (8.4% as of September). Local currency growth rates of Telesp (+9.7%) and TASA (+35.5%) explained this performance and compensated for the decreases, also in local currency of CTC (-3.5% excluding Sonda) and TdP (-3.8%).

The EBITDA of the Telefónica de España Group, contributing with 36.0% of consolidated EBITDA (38.5% a year ago), amounted to 4,534.2 million euros during the year, 0.4% higher than that obtain during the same period of the previous year. The highest growth rate posted in the last quarter in comparison with the third quarter (+3.4% versus +2.0%), which is explained mostly by the savings brought about in personnel expenses by the 2003-2007 Pre-retirement Program, allowed for the downward trend recorded by the EBITDA over the year to be reversed (-1.6% in March, -1.9% in June and -0.7% in September).

In terms of operating profitability, the Group's EBITDA margin rose to 44.4% at the end of the year, 3.1 percentage points higher than that cumulative in 2002. All business lines improved their margins, particularly the cellular business (43.9% versus 40.5% in 2002) and Telefónica Empresas (17.1% compared to 7.3% at the end of 2002) and with the exception of Telefónica Latinoamérica, where its margin to revenues remained unchanged at 48.1%.

The operating profit reached 6,327.9 million euros at the end of the year, an annual growth rate of 25.8%, 5.1 percentage points more than the January-September figure. This performance is explained by the higher rhythm of EBITDA growth (+7.5% versus +4.1% to September), which has compensated for the drop in the amortization decrease rate (-6.2% as of December compared to -8.2% in the first nine months of the year) due to the decrease in the exchange rate effect. Thus, excluding this effect and the changes in consolidation, amortizations continued with the improvement shown over the entire year and fell by 0.4% in December (+3.8% in March, +2.1% in June and +0.2% in September). If the operating profit is adjusted to reflect these two factors, its growth rate would have risen to 29.7% (28.3% in January-September 2003).

The negative results for associates was reduced over 2003 by 59.7% to 212.6 million euros as a result of both the sale of certain subsidiaries (ETI Austria, Data Uruguay, Azul TV in 2002, and Antena3 TV and Atlanet in 2003) and the smaller losses related to IPSE-2000, Medi Telecom, Pearson and Vía Digital (Sogecable was included in the Consolidated Group's accounts in July 2003).

Total net financial costs reached 1,060.7 million euros as of December 2003, including a positive impact from the appreciation of the Argentinean peso of 134.4 million euros. Excluding that effect, the financial results rose to 1,195.1 million euros, which meant a drop of 29.4% compared to the comparable financial results for 2002 (1,692.8 million euros). Out of that percentage, 15.8 percentage points were due to the positive result of 267.5 million euros coming from the cancellation of US dollars denominated debt. Excluding also this positive result, 2003 financial results would have totaled 1,462.6 million euros, falling 13.6% versus the above-mentioned comparable figure of 2002.

The free cash flow generated by the Telefónica Group in 2003 reached 6,312.4 million euros, of which 1,233.3 million euros were devoted to dividend payments, 1,715.9 million euros to financial investments (net of real state divestitures) and 818.3 million euros to cancelation of commitments adquired by the Group, derived basically from the headcount reduction plan. Finally, Free Cash Flow after dividends, which corresponds to the one available for debt reduction, reached 2,544.9 million euros.

Net debt of Telefónica Group reached 19,235.3 million euros as of December 2003. The reduction of 3,297.8 million euros from 2002 consolidated net debt (22,533.1 million euros) arose mainly from the generation of 2,544.9 million euros of Free Cash Flow after dividends. Also, out of the total net debt reduction in the period, 859.4 million euros were related to the currencies movements effect on the non-euro denominated debt, basically due to the euro apreciation versus dollar, partially compensated by the increase of debt of 106.4 million euros due to changes in consolidation and other effect on financial statements.

Goodwill amortization dropped by 33.5% compared to 2002 to 442.5 million euros, following last year write-offs at Terra Lycos, Telefónica Deutschland, lobox and Pearson carried out last year. The acquisitions of Pegaso in September 2002 and TCO in May 2003 are the reasons behind the annual increase of the cellular business goodwill amortization (+14.6%).

Extraordinary results as of December 2003 (-1,249.7 million euros) are not comparable with those recorded during the previous year (-16,217.9 million euros), because of the write-offs related to the assets and restructuring costs of UMTS and those of Terra Lycos, Telefónica Deutschland and Pearson that were accounted for last year. Two significant extraordinary items have been accrued over the last quarter of 2003: 1) the provision related to the 5,489 employees that joined to the first stage of the 2003-2007 Pre-retirement Program at Telefónica de España, amounting to -1,372.3 million euros and 2) the capital gain for the sale of Antena3 TV for 392.3 million euros. Of the remaining extraordinary items to have occurred over the year, on a positive side it is important to note: i) the net capital gain related to real estate disposals (180.9 million euros), ii) the reversion of the provision for adapting to market prices treasury stock amortized last June and treasury stock as of December 31 (0.8% of share capital), which rose to 160.0 million euros, and on the negative side: i) the costs associated to the different contingencies

and compensation for workforce restructuring at Telesp and TdP and ii) updating the provision for retirement and early retirement of Telefónica de España's previous Pre-retirement Program.

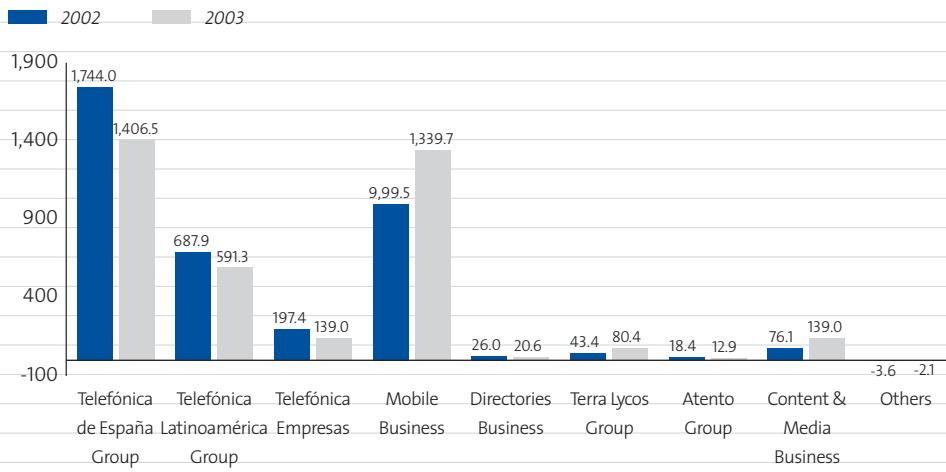
The provision for tax over the year reached 913.4 million euros compared to the fiscal credit that arose in 2002 due to the depreciation in value (provision for investment valuation allowances, deductible) of European subsidiaries that were awarded UMTS licences. This tax provision will mean a very reduced cash outflow for the Group due to the application of deductions and the compensation of negative tax bases incurred in previous years.

The result attributable minorities was negative in 245.5 million euros over the period January-December 2003, compared to the 5,795.6 million euros in 2002, mainly due to the write-off of UMTS assets in Europe -excluding Spain-, and to the investment in Terra-Lycos. Excluding these effects, minorities for the previous year would have been positive in 266.4 million euros. This change in sign over 2003 was mostly due to: 1) lower losses in Terra Lycos and in the cellular business due to the closing of activities in Germany, 2) higher net income for operators of Telefónica Latinoamérica, 3) change in the consolidation of Atlanet (consolidated by the equity method since July 2002) and 4) remuneration of the preferred shares issued in December 2002.

Subsequent to the factors detailed in previous pages, Telefónica Group net income reached 2,203.6 million euros in 2003, compared to the net loss of 5,576.8 million euros recorded over the previous year. This difference is explained among other factors by the accounting for the writing off of assets and UMTS business restructuring costs in Germany, Austria, Switzerland and Italy. During the last quarter, net income amounted to 189.2 million euros, as they included the provision related to the first phase of the 2003-07 Telefónica de España Pre-retirement Program.

CAPEX BY BUSINESS LINES

(Figures in euro millions)



On the other hand, the CapEx of the Telefónica Group in 2003 rose to 3,727.1 million euros and recorded an year on year decrease of 1.6% compared to the previous year (+1.9% in constant currency terms and excluding changes in consolidation), representing a ratio to revenues of 13.1%, almost the same level as that reached in 2002 (13.3%). In general, all business lines have continued to reduce their level of investment from the previous year, with the exception of the cellular business, which experienced a 34.0% growth due to the deployment of GSM networks in Mexico and Chile.

The average workforce of the Telefónica Group was 149,465 employees in 2003, 5.1% lower than a year ago (-8,039 employees). This decrease is due to cuts in personnel made by Telefónica de España following the implementation of the 2003-2007 Pre-retirement Program and by Telefónica Latinoamérica, where most cuts are from the workforce restructuring programs carried out by Telesp in the first and last quarters of the year.

With regard to the abovementioned impact of the updating of external debt in the Group's companies in Argentina, the consolidated accounts for 2003 showed positive impacts on the consolidated profit and loss account and in the heading "Translation differences in consolidation" in the Shareholder Equity caption of 84.0 million euros and of 420.3 million euros respectively, as a result of the appreciation of the Argentine peso from \$US1 per 3.37 pesos at December 31, 2002 (1 euro per 3.53 pesos) to \$US1 per 2.93 pesos at December 31, 2003 (1 euro per 3.70 pesos). In 2002, a negative impact of 354.7 million euros was recorded in the profit and loss account.

At December 31, the exposure of the Telefónica Group in the different Argentine companies was 1,095.3 million euros, this amount including goodwill, internal financing and the equity value to be assigned in these investments.

Among the aspects pending completion as of today, is, among others, the necessary renegotiation with the Government of its future tariffs due to the effect of the provisions of Law 25.561.

Telefónica Group

SELECTED FINANCIAL DATA

TELEFÓNICA GROUP

SELECTED FINANCIAL DATA

Unaudited figures (euro millions)

	January - December		
	2003	2002	% Chg.
Operating revenues	28,399.8	28,411.3	(0.0)
EBITDA	12,602.1	11,724.2	7.5
Operating profit	6,327.9	5,031.8	25.8
Income before taxes	3,362.5	(14,601.1)	C.S.
Net income	2,203.6	(5,576.8)	C.S.
Net income per share	0.44	(1.10)	C.S.
Avg. No of shares, millions (1)	4,984.6	5,057.0	(1.4)

(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. More over, 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 4,984,615,303.

TELEFÓNICA GROUP

RESULTS BY COMPANIES

Unaudited figures (euro millions)

	REVENUES			EBITDA			OPERATING PROFIT		
	January - December			January - December			January - December		
	2003	2002	% Chg.	2003	2002	% Chg.	2003	2002	% Chg.
Telefónica de España Group	10,217.4	10,272.1	(0.5)	4,534.2	4,517.2	0.4	1,966.2	1,815.4	8.3
Telefónica Latinoamérica Group	6,377.1	6,954.1	(8.3)	3,065.3	3,346.7	(8.4)	1,346.5	1,347.3	(0.1)
Telefónica Empresas	1,782.0	1,758.5	1.3	304.4	128.6	136.7	58.7	(163.5)	C.S.
Mobile Business	10,428.3	9,449.3	10.4	4,581.9	3,830.0	19.6	3,065.9	2,438.1	25.7
Directory Business	589.3	550.5	7.1	184.0	150.9	22.0	153.3	119.7	28.1
Terra-Lycos Grouo	545.1	600.0	(9.1)	(39.5)	(141.7)	(72.1)	(118.2)	(284.4)	(58.4)
Atento Group	493.0	571.1	(13.7)	66.5	54.3	22.4	14.3	(21.1)	(167.6)
Content and Media Business	1,378.5	1,076.2	28.1	210.3	114.5	83.7	160.4	64.9	147.2
Other companies	406.4	867.8	(53.2)	(208.0)	(204.9)	1.5	(281.1)	(288.4)	(2.5)
Eliminations	(3,817.2)	(3,688.2)	3.5	(97.0)	(71.5)	35.6	(37.9)	3.8	C.S.
Group	28,399.8	28,411.3	(0.0)	12,602.1	11,724.2	7.5	6,327.9	5,031.7	25.8

TELEFÓNICA GROUP

CONSOLIDATED INCOME STATEMENT

Unaudited figures (euro millions)

	January - December			January - December		
	2003	2002	% Chg.	2003	2002	% Chg.
Operating revenues	28,399.8	28,411.3	(0.0)	7,566.7	6,944.3	9.0
Internal expend capitalized in fixed assets (1)	531.1	527.8	0.6	174.1	130.1	33.8
Operating expenses	(16,136.9)	(16,773.3)	(3.8)	(4,442.7)	(4,184.9)	6.2
Supplies	(6,412.9)	(7,002.8)	(8.4)	(1,842.0)	(1,796.1)	2.6
Personnel expenses	(4,641.3)	(4,793.8)	(3.2)	(1,170.7)	(1,152.2)	1.6
Subcontracts	(4,558.4)	(4,564.6)	(0.1)	(1,285.4)	(1,138.2)	12.9
Taxes	(524.2)	(412.1)	27.2	(144.7)	(98.3)	47.2
Other net operating income (expense)	(191.9)	(441.7)	(56.5)	10.0	(94.3)	c.s.
EBITDA	12,602.1	11,724.2	7.5	3,308.0	2,795.2	18.3
Depreciation and amortization	(6,274.2)	(6,692.4)	(6.2)	(1,571.5)	(1,569.0)	0.2
Operation profit	6,327.9	5,031.7	25.8	1,736.5	1,226.3	41.6
Profit from associated companies	(212.6)	(527.9)	(59.7)	(51.2)	(112.4)	(54.5)
Financial net income (expense)	(1,060.7)	(2,221.6)	(52.3)	(310.1)	(210.8)	47.1
Amortization of goodwill	(442.5)	(665.4)	(33.5)	(116.5)	(162.4)	(28.3)
Extraordinary net income (expense)	(1,249.7)	(16,217.9)	(92.3)	(1,197.3)	(9,861.6)	(87.9)
Income before taxes	3,362.5	(14,601.1)	c.s.	61.4	(9,121.0)	c.s.
Income taxes	(913.4)	3,228.7	c.s.	204.7	3,022.4	(93.2)
Net income before minority interests	2,449.1	(11,372.4)	c.s.	266.2	(6,098.6)	c.s.
Minority interests	(245.5)	5,795.6	c.s.	(77.0)	5,557.8	c.s.
Net income	2,203.6	(5,576.8)	c.s.	189.2	(540.7)	c.s.
Average shares (millions) (2)	4,984.6	5,057.0	(1.4)	4,955.9	5,057.0	(2.0)
Net income per share	0.44	(1.10)	c.s.	0.04	(0.11)	c.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 4,984,615,303.

TELEFÓNICA GROUP
CONSOLIDATED BALANCE SHEET
Unaudited figures (euro millions)

	December		
	2003	2002	% Chg.
Subscribed shares not paid-in	—	292.5	n.d.
Long-term assets	45,003.9	50,008.8	(10.0)
Start up expenses	543.6	496.5	9.5
Intangible net assets	7,673.2	7,629.6	0.6
Fixed net assets	24,315.8	27,099.7	(10.3)
Investment	12,471.4	14,783.1	(15.6)
Goodwill on consolidation	6,053.9	6,364.0	(4.9)
Deferred expenses	535.0	802.3	(33.3)
Current assets	10,482.4	10,573.7	(0.9)
Inventories	401.0	449.8	(10.9)
Accounts receivable	6,218.3	6,029.1	3.1
Short-term investments	3,199.6	3,031.7	5.5
Cash and banks	336.4	543.9	(38.1)
Others	327.1	519.1	(37.0)
Assets = Liabilities	62,075.2	68,041.3	(8.8)
Shareholder's equity	16,756.6	16,996.0	(1.4)
Minority interests	4,426.2	5,612.9	(21.1)
Badwill on consolidation	11.4	11.4	0.6
Deferred income	658.0	880.5	(25.3)
Provisions for risks and expenses	7,688.2	8,014.9	(4.1)
Long-term debt	17,693.8	20,096.7	(12.0)
Accrued taxes payable	801.6	1,629.5	(50.8)
Short-term debt including current maturities	5,587.1	6,409.3	(12.8)
Interest payable	376.5	409.5	(8.1)
Other creditors	8,075.8	7,980.6	1.2
Financial Data			
Consolidated net debt (1)	19,235.3	22,533.1	(14.6)
Consolidated debt ratio (2)	45.9%	47.3%	1.4 p.p.

(1) Net debt: Long-term debt (net of minorities' interests) + 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 (euro millions)

		January-December		
		2003	2002	% Chg.
I	Cash flows from operations	11,974.8	11,757.5	1.8
II	Extraordinary payments related to operating activities and commitments	(1,006.4)	(1,139.1)	
III	Net interest payment (1)	(1,496.9)	(1,558.3)	
IV	Payment for income tax	(277.7)	(226.6)	
A= I+II+III+IV	Net cash provided by operating activities	9,194.0	8,833.5	4.1
B	Payment for investment in fixed and intangible assets	(3,458.7)	(4,311.8)	
C = A+B	Net free cash flow after CapEx	5,735.3	4,521.7	26.8
D	Cash received from sale of Real State	399.1	88.1	
E	Net payment for financial investment	(2,115.1)	(1,564.0)	
F	Dividends paid (2)	(1,474.5)	(63.4)	
G=C+D+E+F	Free cash flow after dividends	2,544.9	2,982.4	(14.7)
H	Effects of exchange rate changes on net debt	(859.4)	(3,044.0)	
I	Effects on net debt of changes in consolidation and others	106.4	(382.1)	
J	Net debt at beginning of period	22,533.1	28,941.6	
K=J-G+H+I	Net debt at end of period	19,235.3	22,533.1	(14.6)

(1) Including cash received from dividends paid by fully consolidation.

(2) Dividends paid by Telefónica S.A., and dividend payments to minoritaries from subsidiaries that are not under full consolidation method.

TELEFÓNICA GROUP

NET FINANCIAL DEBT AND COMMITMENTS

Unaudited figures (euro millions)

		December 2003
	Long-term debt	17,693.8
	Short term debt including current maturities	5,587.1
	Cash and Banks	(336.4)
	Short and Long-term financial investments (1)	(3,709.2)
A	Net Financial Debt	19,235.3
	Guarantees to IPSE 2000	555.2
	Guarantees to Sogecable	80.0
	Guarantees to Newcomm	48.3
B	Commitments related to guarantees	683.5
	Gross commitments related to workforce reduction (2)	5,226.8
	Value of associated Long-term assets (3)	(676.9)
	Taxes receivable (4)	(1,360.3)
C	Net commitments related to workforce reduction	3,189.6
A + B + C	Total Debt + Commitments	23,108.4
	Net Financial Debt / EBITDA	1.53 x
	Total Debt + Commitments / EBITDA	1.83 x

(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 69.9 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.

TELEFÓNICA GROUP

RECONCILIATION OF CASH FLOW AND EBITDA MINUS CAPEX

Unaudited figures (euro millions)

	January - December		
	2003	2002	% Chg.
EBITDA	12,602.1	11,724.2	7.5
- CAPEX accrued during the period (EoPexchangerate)	(3,727.1)	(3,789.0)	
- Extraordinary payments related to operating activities and commitments	(1,006.4)	(1,139.1)	
- Net interest payment	(1,496.9)	(1,558.3)	
- Payment for income tax	(277.7)	(226.6)	
- Investment in working capital	(358.8)	(489.5)	
= Net free cash flow after CapEx	5,735.3	4,521.7	26.8
+ Cash received from sale of Real Estate	399.1	88.1	
- Net payment for financial investment	(2,115.1)	(1,564.0)	
- Dividends paid	(1,474.5)	(63.4)	
= Free cash flow after dividends	2,544.9	2,982.4	(14.7)

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.

	2002	2003
Net Free Cash Flow after Capex	5,735.3	4,521.7
+ Payments related to cancellation of commitments	818.3	505.7
- Dividend payments to minoritaries	(241.2)	(63.4)
= Free Cash Flow	6,312.4	4,964.0

EXCHANGE RATES APPLIED TO P&L

	December	
	2003	2002
US Dollar / Euro	1.129	0.942
Argentinean Peso / Euro	3.324	2.982
Chilean Peso / Euro	670.174	676.896
Brasilian Real / Euro	3.454	2.752
Peruvian Nuevo Sol / Euro	3.910	3.311
Mexican Peso / Euro	12.681	9.714

Note: 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 (Mexico, Chile, Peru, 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.

EXCHANGE RATES APPLIED TO BALANCE SHEET AND CAPEX

	December	
	2003	2002
US Dollar / Euro	1.263	1.049
Argentinean Peso / Euro	3.701	3.534
Chilean Peso / Euro	749.969	753.606
Brasilian Real / Euro	3.649	3.705
Peruvian Nuevo Sol / Euro	4.375	3.686
Mexican Peso / Euro	14.191	10.815

Note: Exchange rates as of 31/12/03 and 31/12/02

05_02

Analysis of results by business line

Analysis of results by business line

FIXED LINE BUSINESS

TELEFÓNICA DE ESPAÑA GROUP

Throughout 2003, efforts at Telefónica de España were focused on continuing the transformation process being undertaken by the company in order to base its business on a more agile, efficient and flexible model; on revitalizing voice services, and on deploying mass broadband roll-out on a profitable basis, having achieved a 73.5% growth on the whole ADSL plant. Within this process of company transformation, it is noteworthy mentioning the workforce reduction scheme being implemented through a Redundancy Program, covering the period 2003-2007, by which the company intends to reduce its workforce by up to 15,000 employees. In 2003, 5,489 employees have joined the aforementioned program, being approximately 2,000 the number of employees expected by the company to do so in 2004.

The market environment has been characterized by the following factors:

- The total number of direct accesses, including broadband, experienced an annual growth close to 5%, after the consolidation of broadband lines as the main driver of growth (more specifically, ADSL accesses).
- The market's voice traffic registered an estimated annual decline of 4.9%.
- The downturn of narrowband Internet switched traffic growing trend through 2003; while dial-up Internet traffic was growing by close to 3% during the first quarter, it registered a 0.1% year-on-year decline at the end of December 2003.
- The application of the Price Cap set for 2003 at CPI-4% led to a decrease of nominal tariffs for fixed-to-mobile and DLD calls. The reduction, accomplished in November 2003, was equivalent to a 2% average price reduction of outgoing voice traffic. On January 2003 an increase in the monthly fee of 8.0% (0.94 euros) for the PSTN lines came into force; the monthly fee increase was excluded for the purpose of 2003 Price Cap calculation. For year 2004, Price Cap has been set at CPI-4%, excluding again from the Price Cap calculation the approved 4.35% increase in PSTN monthly fee (0.55 euros).
- During third quarter of 2003, an increase of the capacity-based interconnection tariffs and a decrease of time-based tariffs, both 7%, was approved.
- The continuing heavy competitive pressure, both in traffic and access, resulted in additional market share loss.

In this context, Telefónica de España Group succeeded in limiting the loss of revenues (they were down by 0.5%), which together with the major efforts made in rationalizing operating expenses, made it possible to show an EBITDA growth of 0.4%.

The estimated direct access market share of Telefónica's competitors stood at 9.6%, after a year-on-year loss of 2.6 percentage points, having lost 0.7 percentage points in the fourth quarter. This has resulted in a loss of 334,299 PSTN and ISDN basic access lines over the last twelve months, a significantly better performance than that of 2002, when 492,793 lines were lost. It is also noteworthy to highlight lines lost (PSTN and ISDN basic access) during the fourth quarter, which at 36,348 were 74.5% lower than those lost in the same quarter 2002.

Preselected lines amounted to 2,279,022, 28.2% more than at the end of 2002, being 91.4% of them globally preselected (81.4% in 2002). After the upturn in the net gain in preselected lines registered in the second quarter of the year, performance in the following quarters improved until in the period October-December 2003 it stood at similar levels (down by 0.6%) as in the same period of 2002.

The estimated total volume of minutes processed by the Telefónica de España network amounted to 138,174 million at December 31, 2003, 3.6% less than in December 2002, the same year-on-year figure as in September. Outgoing traffic (voice + Internet) which accounted for 60.9% of total traffic, amounted to 84,180 million minutes, with an annual decrease of 12.6% (11.8% down in September). Outgoing voice traffic amounted to 56,479 million minutes, down by 9.1% year-on-year due to the deterioration of the fixed telephony market and the estimated voice traffic market share loss of 5.0 percentage points during the year, which at the end of 2003 stood at 77%. At the end of the year, usage continued to exhibit signs of weakness since only fixed-to-mobile and Intelligent Network traffic recorded positive growth of 2.2% and 6.7%, respectively, whilst the remaining types of outgoing voice traffic fell. Local traffic fell by 13.7%, provincial traffic by 6.2%, DLD traffic by 9.1% and international traffic by 1.4%. The number of outgoing minutes to the Internet amounted to 27,701 million, presenting a year-on-year decrease of 18.9% and declining more sharply in the last two quarters of the year due primarily to the cannibalization of switched Internet traffic by the broadband ADSL services. Finally, incoming traffic rose by 14.8% to 53,993 million minutes.

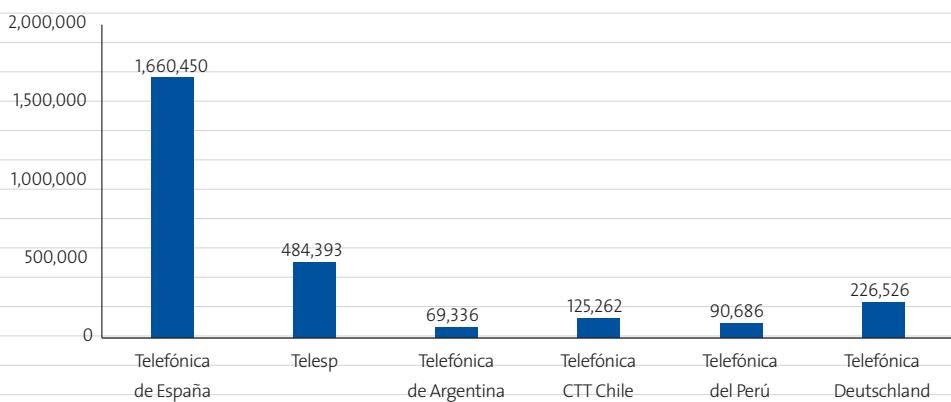
In November 2003, Telefónica de España launched new modular plans, named "Combinados", an innovative offering which for the first time combines PSTN monthly fee with flat and semi-flat rates for voice calls. This product, which constitutes the main focus of Telefónica de España's efforts to revitalize the voice business and increase client's loyalty, was extremely well received by the market, with 173,474 "Combinados" sold in 9 weeks. This success, together with the plans launched in June (Bonos Minuto Compacto 500 plus, Bononet 7-20, Bono Américas 120, etc.) amounting to 64,564 plans, made it possible in the fourth quarter to partially offset the drop in the total number of subscribers to Telefónica de España plans and to continue renewing the commercial offer on franchised plans. The total number of plans at the end of 2003 were 3,760,291.

Value Added Services on the Traditional Business have been consolidated throughout the year, particularly as regards the number of mailboxes available, which rose by 4.4% to 11,548,881, and the number of subscribers to the Caller ID Service which in December stood at 6,816,593, with an annual growth of 27.9%. The number of text messages managed continued to grow, reaching a total of 23,100,517, of which 13,532,521 were sent from fixed line telephones and 9,567,996 were sent from mobile telephones and received by fixed line telephones. Within this category of

services, in the last quarter of 2003 Telefónica de España launched its new "SMS Web" service which enables text messages to be sent from any PC to a fixed telephone line in the Telefónica de España network or to any mobile telephone.

In addition, Telefónica de España continued to develop its Internet and Broadband Services throughout 2003, with the emphasis placed on the mass rollout of ADSL, as evidenced by the service's 1,660,450 customers at the end of the year and the 100.7% year-on-year increase in total ADSL revenues (retail + wholesale), which account for 7.4% of Telefonica de España's Parent Company revenues. The number of ADSL accesses in service at the end of 2003 was 73.5% higher than at the end of the previous year, with a net gain in the fourth quarter of 239,992 accesses, which represent 34% of the total number of accesses sold in the year. There were 1,070,330 retail ADSL accesses at year end, an increase of 76.5% over the previous year's figure. 64.8% of the 463,913 net new retail ADSL lines added in 2003 used the self-installation kit.

ADSL CONNECTIONS 2003



ADSL Value Added Services (VAS) advanced strongly in the fourth quarter reaching a total of 418,002 services sold. There were a total of 101,727 Soluciones ADSL (ADSL Solutions) fully operational, of which 89,982 were sold to business customers, including 35,220 Net Lans (ADSL head-offices and remote accesses) enabling businesses to set up their own virtual private networks. Noteworthy success was achieved by the service "Mantenimiento Integral ADSL" (ADSL Comprehensive Maintenance: a maintenance service including labor and the replacement of faulty equipment), which is expected to continue to make very good progress (20,737 units at year end). Moreover, wireless (WiFi based) ADSL VAS services marketing campaigns were also stepped up.

As a result, the equivalent number of lines in service at year end stood at 19,084,074, with a net gain in the year of 378,427 lines, which represents an increase of 2.0% over the previous year.

Telefónica de España Group operating revenues fell by 0.5% to 10,217.4 million euros at year end 2003. Revenues increased by 1.4% in the fourth quarter, improving the quarterly year-on-year revenues growth due to a better behavior of Telefónica de España parent company, and the positive contribution made by its subsidiary Telyco after the latest mobile handset sales during the Christmas campaign. Operating revenues at Parent Company showed a quarterly decline of 0.4%, 0.9 percentage points better than the cumulative figure as of September 2003.

Operating revenues obtained by Telefónica de España parent company totaled 9,798.0 million euros at the end of December, after achieving the highest quarterly figure for 2003 in the fourth quarter, and thus improving the quarterly trend: -1.5% in the first quarter, -1.9% in the second quarter, -0.6% in the third quarter and -0.4% in the fourth quarter. The positive evolution during the fourth quarter is mainly due to the improvement on the year-on-year comparison of wholesale services revenues. In annual terms, operating revenues were down by 1.1% compared to year 2002, due to the fall in revenues from Traditional Services (down by 3.6%), which was not fully offset by the increase in revenues from Internet and Broadband services (up by 32.3%). In addition, revenues from wholesale services were down by 2.4% in December with respect to 2002. The percentage of total revenues accounted for by recurring fixed revenues (monthly fees plus franchised plans and flat rates) amounted to 52.6%, an increase of 4.5 percentage points since the beginning of the year.

Revenues from Traditional Services amounted to 7,510.7 million euros, 3.6% less than that of 2002 as a result of the decrease in revenues from Voice Usage and the loss of PSTN lines. In addition, the continued reduction of fixed telephony prices according to the regulatory Price Cap system was partially offset by the 8% increase in the monthly fee, resulting in an annual increase of 2.9% in revenues from Client network access.

Revenues from Internet and Broadband services rose by 32.3% and amounted to 849.7 million euros at the end of the year, representing 8.7% of total operating revenues. This growth was due to the good performance of retail broadband revenues which as a result of the momentum of the ADSL market allowed that revenues were more than double those obtained in the previous year (+111.0%). On the contrary, narrowband Internet revenues deteriorated significantly and fell by 22.7% as a result of the lower volume of traffic and the reduction in the average price per minute.

Revenues from Wholesale Services were down by 2.4% year-on-year at 1,437.6 million euros. This result was mainly due by the decrease in the revenues from leased lines and interconnection, effects partially compensated by the increase of wholesale broadband revenues.

Telefónica de España Group operating expenses for 2003 amounted to 5,795.6 million euros, representing a year-on-year decrease of 1.2%. The annual evolution of supplies expenses, together with the reduction in personnel expenses in the fourth quarter as a result of the Redundancy Program 2003-2007 at the Telefónica de España parent company, were the main reasons for the fall in expenses recorded in the year. In the fourth quarter of 2003, Telefónica de España Group operating expenses were virtually the same as those for the same period of 2002.

Telefónica de España Group supplies expenses totaled 2,490.3 million euros and were down by 6.5% year-on-year. These expenses fell by 6.2% at the Telefónica de España parent company and reflected the effect of the reduction in prices of fixed-to-mobile interconnection and lower expenses related to equipment purchases.

Telefónica de España Group expenses for external services and others were up by 7.9% at the end of December and totaled 957 million euros. These expenses increased by 14.2% in the fourth quarter 2003 compared to the same quarter 2002 as a result of the increased commercial activity at the parent company related to ADSL services and the launching of the "Combinados" modular plans.

Telefónica de España Group personnel expenses amounted to 2,174.9 million euros, representing a year-on-year increase of 0.9%. Personnel expenses at Telefónica de España parent company, which accounted for 97.8% of the Group figure, were 1% higher as of December due to a double effect: the salaries increase under the collective agreement for 2003, and the adjustment of 2002 salary increase to bring pay into line with the real rate of inflation in 2002 (carried out in the first quarter of 2003). Both effects were partially offset in the last quarter by the launch of the Redundancy Program 2003-2007, pushing cumulative personnel expenses at the parent company from a 3.7% increase as of September to the above mentioned 1% increase as of December. As a result of the aforementioned Redundancy Program, extraordinary expense amounting to 1,363.8 million euros was booked in October. It is noteworthy to highlight that the Telefónica de España parent company workforce consisted of 35,216 employees at year end, 13.4% less than in December 2002.

Bad debt provisions performed favorably and were down by 42.7% at the Telefónica de España Group at 2003 year end. This substantial improvement contributed to the 55.4% reduction in "Other Operating Expenses".

As mentioned before, Telefónica de España Group EBITDA amounted to 4,534.2 million euros in December 2003, up 0.4% year-on-year. The Group's EBITDA margin stood at 44.4% (0.4 percentage points more than that of 2002). At the parent company level, the EBITDA margin was 46%, 0.3 percentage points higher than in 2002.

Operating profit at Telefónica de España Group amounted to 1,966.2 million euros, showing growth of 8.3% as a result of the performance of the amortization and depreciation of fixed assets, which were 5.0% lower at the end of December.

CapEx by Telefónica de España Group through December 2003 amounted to 1,406.5 million euros, representing a decrease of 19.4% from 2002 figure. 36.7% of the total CapEx was devoted to investments generating Internet and Broadband Business revenues, 49.3% to investments generating Traditional Business revenues and the remaining 14% to Information Systems and Others.

FCF generation at Telefónica de España Group, defined as EBITDA minus CapEx, amounted to 3,127.7 million euros, representing an increase of 12.8% over 2002.

TELEFÓNICA DE ESPAÑA
SELECTED OPERATING DATA
Unaudited figures (thousands)

	January - December		
	2003	2002	% Chg.
Lines in service			
PSTN lines	19,084.1	18,705.6	2.0
ISDN equivalent basic access	15,061.0	15,470.2	(2.6)
ISDN equivalent primary access	1,827.0	1,752.1	4.3
2/6 Accesses for PBX and Ibercom	426.6	413.9	3.1
ADSL connections	109.0	112.3	(2.9)
Employees (units)	1,660.5	957.2	73.5
Traffic (millions of minutes)	35,216	40,659	(13.4)
	138,174.0	143,345.0	(3.6)

Note: PSTN (including Public Use Telephony) (x 1) - ISDN Basic access (x 2) - ISDN Primary access (x 30) - 2/6 Accesses (x 30) - ADSL Lines (x1).

TELEFÓNICA DE ESPAÑA
OPERATING REVENUES (INDIVIDUAL)
Unaudited figures (euro millions)

	January - December			October - December		
	2003	2002	% Chg.	2003	2002	% Chg.
Traditional services	7,510.7	7,791.4	(3.6)	1,873.7	1,966.1	(4.7)
Client network access (1)	2,957.1	2,873.9	2.9	727.5	718.4	1.3
Voice usage (Net total) (2)	3,382.7	3,682.6	(8.1)	831.1	907.0	(8.4)
Local	820.9	900.8	(8.9)	214.8	233.8	(8.2)
Provincial	268.6	292.8	(8.3)	66.4	74.3	(10.6)
Domestic long distance	464.1	515.9	(10.0)	119.9	129.7	(7.6)
International long distance	244.7	246.8	(0.9)	53.8	58.7	(8.5)
Fixed to mobile	1,256.1	1,388.0	(9.5)	312.3	334.6	(6.7)
IRIS and others (3)	328.3	338.3	(3.0)	64.0	75.8	(15.6)
Handsets sales and maintenance	706.3	731.4	(3.4)	182.8	199.5	(8.4)
Leased circuits and TV broadcasting	145.4	162.9	(10.7)	37.6	43.6	(13.9)
Other business lines (4)	319.3	340.6	(6.3)	94.7	97.6	(3.0)
Internet and broadband services	849.7	642.3	32.3	238.7	185.4	28.7
Narrowband	292.1	378.0	(22.7)	75.6	92.0	(17.9)
Broadband (retail)	557.6	264.3	111.0	163.1	93.4	74.6
Wholesale services	1,437.6	1,473.0	(2.4)	380.6	351.4	8.3
National interconnection	368.0	386.4	(4.8)	101.3	89.9	12.6
Wholesale ADSL (Megabase and GigADSL)	168.5	97.4	72.9	51.1	32.2	58.5
International operators services	291.1	297.6	(2.2)	71.2	50.0	42.5
Other national operators services (5)	610.0	691.5	(11.8)	157.0	179.3	(12.4)
Total operating revenues	9,798.0	9,906.7	(1.1)	2,493.0	2,503.0	(0.4)

(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.

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

TELEFÓNICA DE ESPAÑA
CONSOLIDATED INCOME STATEMENT
Unaudited figures (euro millions)

	January - December			October - December		
	2003	2002	% Chg.	2003	2002	% Chg.
Operating revenues	10,217.4	10,272.1	(0.5)	2,624.1	2,587.2	1.4
Internal expend capitalized in fixed assets (1)	158.7	179.2	(11.5)	51.1	54.3	(5.9)
Operating expenses	(5,795.6)	(5,868.6)	(1.2)	(1,492.1)	(1,493.4)	(0.1)
Other net operating income (expense)	(46.4)	(65.5)	(29.2)	3.4	(0.9)	c.s.
EBITDA	4,534.2	4,517.2	0.4	1,186.5	1,147.2	3.4
Depreciation and amortization	(2,568.0)	(2,701.8)	(5.0)	(625.9)	(665.1)	(5.9)
Operation profit	1,966.2	1,815.4	8.3	560.6	482.1	16.3
Profit from associated companies	(0.9)	(2.4)	(64.0)	(0.1)	(1.1)	(89.1)
Financial net income (expense)	(450.1)	(398.5)	13.0	(109.9)	(106.8)	2.9
Amortization of goodwill	(0.3)	(8.2)	(96.2)	(0.1)	(0.8)	(90.8)
Extraordinary net income (expense)	(1,373.1)	(373.7)	267.4	(1,396.2)	(126.6)	1,002.6
Income before taxes	141.8	1,032.7	(86.3)	(945.7)	246.6	c.s.
Income taxes	36.3	(224.7)	c.s.	338.0	(58.9)	c.s.
Net income before minority interests	178.1	808.0	(78.0)	(607.7)	187.7	c.s.
Minority interests	(0.0)	(0.1)	(41.7)	(0.0)	0.0	c.s.
Net income	178.1	807.9	(78.0)	(607.7)	187.8	c.s.

(1) Including work in process.

TELEFÓNICA LATINOAMÉRICA GROUP

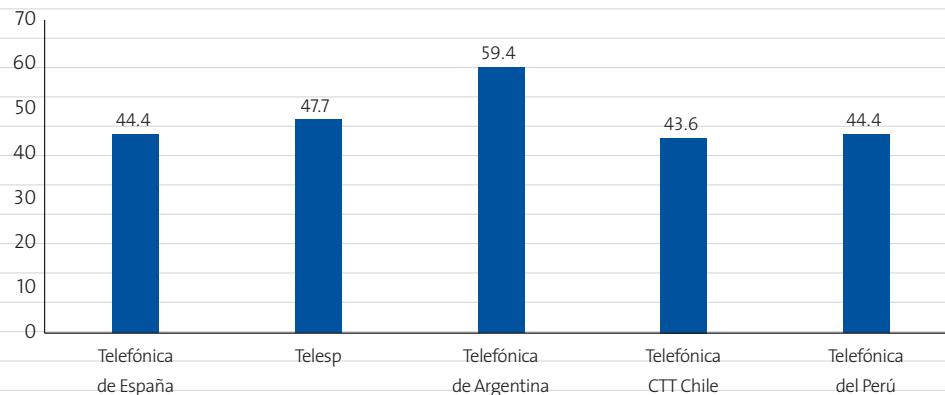
In 2003 the Latin American currencies appreciated against the dollar. Nevertheless, the substantial depreciation of the dollar against the euro meant that all the currencies, with the exception of the Chilean peso, depreciated against the euro (exchange rates applied to the income statement: Brazilian real -20.3%, Argentinean peso -10.3%, Chilean peso +0.7%, Peruvian new sol -15.3%). Accordingly, the variation in exchange rates continued to have an adverse effect on the performance of revenues and EBITDA at Telefónica Latinoamérica, although keeping the downward trend of preceding quarters.

Thus, Telefónica Latinoamérica operating revenues totaled 6,377.1 million euros, an increase of 8.4% in constant euros (-8.3% in current euros, as compared with -14.4% in the first nine months of the year). Particularly noteworthy were:

- Telesp: Revenues were up by 18.2% year on year in local currency as a result of the increases in tariffs and the expansion of long distance and broadband services.
- TASA: Growth of 14.5% in revenues in local currency, as a result of the increase in the plant generating traffic, the rise in total traffic per line (+10.2%), and the application of the CER (inflation indexing of the wholesale offering).
- CTC: Revenues were 3.5% down in local currency from those of 2002 (excluding the effect of the change in the consolidation method of Sonda from September 2002) as a result of the drop in both traffic and lines in service influenced by mobile substitution.
- TdP: A slight increase (+0.9% in local currency) on the previous year, affected by the launch of the new tariff plans in March devoted to improve the range of services available to customers.

The total operating expenses of Telefónica Latinoamérica stood at 3,449.2 million euros and were up year-on-year by 9.6% in constant euros (-7.2% in current euros). Such evolution reflects mainly the greater commercial activity, since the effort associated to project OPEX -framed in the set of cross-sectional projects to increase efficiency- has been reflected in a containment of the costs associated to network operations (provision, operation and maintenance). By company, it should be noted the increases in expenses recorded by Telesp (+26.3% in local currency as a result of the increase in activity relating to long distance and ADSL services, as well as the indexing of some operating expenses), and by TdP (+4.8% in local currency as a result of the increase in activity relating to the new tariff plans and ADSL rollout). In opposite sense, although they do not

ACUMMULATED EBITDA MARGIN 2003
(*Fixed telephony*)



compensate these increases, a reduction in expenses was recorded by TASA (-6.4% in local currency as a result of the strict policy of cost control and the significant fall in the levels of bad debts), and by CTC (-3.9% in local currency, excluding the Sonda effect, because of the decrease in activity and the measures to control operating expenses).

As a result of the performance in revenues and expenses, EBITDA at the end of 2003 stood at 3,065.3 million euros, with a growth of 8.6% in constant euros. This evolution reflects the good performance in local currency by Telesp (+9.7%) and TASA (+35.5%), which offset the falls, also in local currency, at CTC (-3.5% excluding Sonda effect) and TdP (-3.8%). In current euros, EBITDA at Telefónica Latinoamérica fell by 8.4% as a result of the exchange rate effect mentioned above (although the negative impact of exchange rates fell to -17.0 percentage points as compared with -23.7 percentage points in the first nine months of 2003).

Depreciation and amortization (1,718.8 million euros) kept in line with the previous year in constant terms. The good performance of EBITDA and the level of amortization and depreciation lead the operating profit to reach 1,346.5 million euros, which grew 21.6% in constant terms (a slightly higher increase than the +20.3% recorded in September).

There were negative extraordinary results of 141.3 million euros (down year on year by 55.5%) contributed by: Telesp that recorded expenses relating mainly to severance payments and contingencies; CTC reflected the negative result from the sale of the 35% stake in Sonda; in the case of TdP there was the expense relating to compensation payments and legal contingencies. The consolidated extraordinary results also include the write-off of TLD's investment in the TCS-1 cable system due to the cancellation of its exploitation.

The financial results stood at -182.6 million euros at the end of December, compared with the previous year's figure of -1,181.1 million euros, as a result, on the one hand, of the change in sign of the exchange differences produced by the foreign debt in dollars in Argentina (+114.3 million euros in 2003 as opposed to -447.4 million euros in 2002), and to the profit of 248.7 million euros obtained due to the cancellation of a debt at the holding company denominated in dollars, as well as to the lower indebtedness of the operators.

These results, minus a tax provision of 168.8 million euros and minority interests of 97.3 million euros (which underwent a marked increase due to the improvement in the operators' net income), led to net income for the year of 677.2 million euros, compared with losses of 182.6 million euros in 2002.

The aggregate free cash flow (EBITDA-CapEx) generated by the operators amounted to 2,474.5 million euros, which represented an increase in constant euros of 13.9% (a decrease of 6.9% in current euros) and reflected both the improvement in EBITDA and the restrictive investment policy in place at the operators (aggregate CapEx was down by 12.0% in constant euros and by 14.1% in current euros).

At December 31, 2003, Telefónica Latinoamérica had equivalent lines in service totaling 21,621,561, which was similar to the previous year's plant (-0.1%), of which 3.6% were broadband connections (compared with 2.1% in 2002).

There were 20,851,881 traditional lines in service, 1.6% less than in 2002 and reflected the fall in lines of 1.7% at Telesp, 0.3% at TASA, and 10.0% at CTC due to the increase in the disconnection of lines with bad debt problems. On the other hand, there was an increase at TdP of 8.5% due in part to the impact of the new tariff plans.

The increased efforts focused on ADSL expansion meant that ADSL connections stood at 769,680 at the end of December, an increase of 68.7% year on year, thanks to the commercial efforts of all the operators.

The headcount at Telefónica Latinoamérica was 21,518 (23,112 including the subsidiaries consolidated in TdP, which was 9.8% less than in December 2002).

Brazil

In 2003, Telesp consolidated its presence nationwide by beginning to provide long distance services outside São Paulo on March 7, targeted mainly at the corporate segment. Additionally, July saw the entry into force of the new SMP ruling (Serviço Móvel Pessoal) for cellular operators, with two implications: the enlargement of the local areas in calls to mobile telephones and the possibility of mobile telephone customers choosing their long distance carrier. Telesp has thereby added calls originating from mobile handsets to its potential market.

The good evolution recorded by the long distance business from São Paulo, where Telesp is the leader, was reflected in the upward trend in estimated market shares, that at the end of December stood at 88% in intra-state long distance, 51% in inter-state long distance and 39% in international long distance, with increases on the figures for December 2002 of 5, 15 and 7 percentage points, respectively.

The number of lines in service, including both traditional and ADSL lines, remained virtually unchanged during the year (-0.5%) thanks to the expansion of broadband, which offset the 1.7% decrease in traditional lines.

In the fourth quarter Telesp stepped up its efforts directed at broadband development and by the end of the year had reached a total of 484,393 ADSL connections (up by 45.3% year on year), with a net gain in the year of 151,112 connections. It is important to highlight the sharp increase in the last quarter (with net adds of 60,845 connections), following the launch of the new Speedy product portfolio in September.

Regarding the narrowband business, Telesp began offering a free ISP service (i-Telefónica) in July, becoming the second biggest free ISP, with an estimated market share close to 25%, and more than one million users at the end of December.

Telesp's operating revenues of 3,483.0 million euros registered year-on-year growth of 18.2% in local currency, driven by both the increase in long distance revenues (+51.9% as a result of the introduction of the new services in 2002 and 2003) and the higher revenues obtained in local telephony (+12.3%) as a result of the increase in tariffs applied in July 2002 and 2003, together with the higher fixed to mobile tariff applied in February 2003, which made it possible to offset the 2.4% reduction in the company's billable plant. Although to a lesser extent, the expansion of broadband services also contributed to revenue growth, with an increase in sales of 76.2% in local currency.

Operating expenses rose by 26.3% in local currency in the year (+16.3% excluding interconnection expenses), mainly as a result of the higher level of activity due to the expansion of the long distance business, the acceleration of broadband rollout, and the increase in prices of inflation-linked contracts. There was also an increase in the provision for bad debts, partly as a result of the increase in the average bill, although the ratio of bad debts to revenues remained stable at 3.7% vs 2002.

Accordingly, Telesp obtained an EBITDA of 1,662.8 million euros (9.7% higher in local currency than the figure for 2002). The operator achieved a margin of 47.7%, which was 3.7 percentage points less than in 2002, due mainly to the increased proportion of long distance business, with a lower margin.

CapEx continued decreasing (-18.9% in local currency), although with an increase in the investment relating to the broadband business (more than 20% of total CapEx), placing CapEx to revenues ratio to 11.2% in local currency. This reduction in CapEx, together with the increase in EBITDA in local currency, led to a year-on-year increase in the free cash flow (EBITDA-CapEx) generated of 22.9% in local currency, amounted to 1,294.5 million euros.

Telesp ended the year with 7,134 employees, 25.0% less than in December 2002, due to the restructuring and activity outsourcing programs that were carried out in the first and fourth quarters affecting a total of 2,836 employees. In this way the operator's productivity ratio rose to 1,792 lines per employee at the end of the period.

Argentina

The recovery of the economic situation in Argentina was consolidated in 2003, following the sharp deterioration suffered in 2002. The evolution of the main macroeconomic parameters, particularly the 15% appreciation of the peso against the dollar during the year, together with management efforts adapted to a context of greater activity and increased consumer spending, led to the recovery of plant and traffic operating indicators that had shown very negative performance in 2002.

The plant of traditional lines, 4.2 million, remained virtually unchanged with respect to 2002 (-0.3%), as a result of the recovery in demand which was reflected in the number of gross adds (up by 56.3% year on year). The good performance in plant was accompanied by the recovery in traffic per line, mainly local traffic, which was 11.9% higher than in 2002, driven mainly by prepaid traffic (+21.6%) and Internet (+18.5%). It is also important to note the good performance of the Long Distance business, with a 28.4% rise in revenues with respect to the previous year, due to the elimination of discounts. Finally, of particular note in 2003 was the increased pace of broadband rollout, which allowed a net gain of 34,926 connections in the year and led to a total of 69,336 ADSL connections at the end of December (twice the connections in December 2002), giving TASA a 9 percentage point increase in its broadband market share in the Southern region (68%).

As a result of the good performance of the operating variables of plant, traffic and long distance prices with respect to 2002, together with the impact of establishing agreements with operators for mutual invoicing applying CER (inflation indexing of wholesale offerings) retroactive 2002, TASA's operating revenues rose by 14.5% in local currency year on year to 805.3 million euros,

despite the freezing of tariffs since January 2002 (excluding the CER effect, the company's revenues rose by 8.2% in local currency year on year).

The good performance of revenues was accompanied by the aggressive cost reduction and control policy applied by TASA, enabling the reduction of operating expenses by 6.4% in local currency in relation to 2002. Of particular note was the effective management of bad debts with the launch of specific products into the market aimed at maximizing debt recovery and ensuring that profitable customers are maintained. Thus, bad debt provision as a percentage of revenues stood at around 1.2%, in comparison with 6.9% in 2002.

The positive evolution in operating variables, combined with the ongoing policy of cost containment, enabled TASA to achieve EBITDA of 478.7 million euros in the year, an increase in local currency of 35.5% on that of 2002 (25.6% disregarding the CER effect). The EBITDA margin was 9.2 percentage points higher than in 2002, reaching 59.4%. In addition, as part of its financial policy, TASA took steps to restructure its debt in 2003, thereby extending its maturity period.

With respect to investment, the 26.8% rise in CapEx in local currency reflects the company's bet on Broadband, a business which is expected to grow strongly in 2004. The increase in EBITDA, assisted by a tight policy of investment enabled the company to achieve a free cash flow (EBITDA-CapEx) of 433.8 million euros, 21.6% higher in local currency than that of 2002.

At the end of the year, TASA had 8,007 employees, and the resulting ratio of lines to employee was 529 (a year-on-year increase of 4.0%).

Chile

For CTC, 2003 was marked by strong competition from the mobile business which adversely affected both traffic, particularly long distance, and lines. In July the regulator authorized the launch of prepaid plans by CTC and in October granted tariff flexibility to the company, thereby enabling it to offer new commercial products and plans providing an attractive alternative offer compared to its competitors'.

The launch in July of the new prepaid products "Línea Control" and "Full Variable" made it possible to partially offset the negative trend in traditional lines (-10.0% to 2.4 million lines, due to the increased number of lines disconnected because of bad debt problems), with 129,328 of those lines at the end of December. These new products increased the proportion of "Low Income" products which at the end of the year accounted for 11.1% of the total plant in service (2.5 percentage points more than in 2002).

Despite the squeeze in the long distance market, CTC succeeded in increasing its share in the domestic long distance market by 2.6 percentage points to 41.6% at the end of December, maintaining its position as market leader, thanks to the launch of different products based on flat rates. The company's share of the long distance international market was 29.1% at the end of 2003.

The ADSL business performed positively in 2003, with CTC as market leader since September. By the end of December, the operator had achieved a market share of 36% (6 percentage points

more than in 2002) with 125,262 connections, 71,099 more than in 2002. Regarding revenues, the broadband business contributed 2.0% of total revenues, 1.3 percentage points more than in the previous year.

The operator ended the year with revenues of 1,029.1 million euros, 11.2% less than in 2002 in local currency, that affected by the change in the consolidation method of Sonda in September 2002. Excluding the Sonda effect, the drop in revenues was only 3.5% in local currency, due primarily to the decrease in billable plant (-6.4%), and to the fall in domestic and international long distance traffic, which together with the lower average prices meant that long distance revenues were down by 15.2%.

In order to counteract the negative trend in revenues, the company implemented a strict cost control plan, the effects of which were observed in the last quarter of the year. Overall, expenses were reduced by 3.9% in the year (as compared with an increase of 2.0% as of September), favoured by the lower interconnection expenses associated with the reduction in traffic, and the lower personnel expenses resulting from the decrease in the average workforce due to the effect of the October 2002 layoff program. In contrast, commercial expenses rose, in line with the operator's aggressive objectives relating to ADSL and the new prepaid products. The bad debt ratio for the year as a whole stood at 3.6%, 0.8 percentage points higher than in 2002. The introduction of a series of strict bad debt control measures, as well as the launch of the new prepaid products helped to contain bad debt levels (3.7% through September).

EBITDA was down by 3.5% from 2002 in local currency (excluding the Sonda effect), reaching 448.7 million euros, and reflected the fall in revenues, which was not offset by the containment of expenses. The last quarter also brought the implementation of an extremely strict rationalization of investment, which was restricted to revenue generating projects or to those of a very strategic nature, and resulted in CapEx for the year of 80.3 million euros (down by 16.0% in local currency, excluding the Sonda effect). This decision to limit investment spending enabled the company to keep its free cash flow (EBITDA - CapEx) constant in local currency at 368.4 million euros.

CTC's workforce remained virtually unchanged during the year and stood at 3,202 employees at the end of 2003.

Peru

With the aim of enhancing the range of services available to its customers, since March 14, 2003, TdP has launched new tariff plans in basic telephony in addition to the range of packages previously available (at the moment there are 12 new plans). Although, on the one hand, these plans had a negative effect on the company's revenues due to the migration of 642,008 lines, leading to a fall in the ARPU of these customers; on the other hand they also contributed to the growth in lines. The operator's plant of traditional lines increased by 8.5% year on year (44.0% of the traditional lines were associated with the new plans at the end of the year).

Finally, it should be highlighted that TdP has significantly fostered the expansion of the broadband business which, with net adds of 56,300 connections, twice that of 2002. The number of connections achieve a total of 90,689 ADSL and Cablemodem customers at the end of 2003, tripling the customer base at December 2002.

The operator's revenues for 2003 totaled 1,088.1 million euros, 0.9% more in local currency than the figure for the previous year, affected by the marketing of the tariff plans, by the reduction in revenues from public telephony and the poorer performance of the long distance business.

Revenues from local telephony (down by 4.1%) were affected by the migrations to new plans, although this was offset by the increases in operators services revenues (+12.9%) and broadband revenues. Revenues from public telephony fell by 5.9% as a result of the cannibalization by mobile telephony, the competition from prepaid cards and the strategies of Indoor Public Telephony applied by the company's competitors. Long distance revenues, which were down by 15.9%, were still suffering the effects of competition, as a result of which TdP continued to launch commercial campaigns, which explains the reduction of the average national long distance tariff by 6.2%. At the end of December, the company's shares of the domestic and international long distance markets stood at 76.2% and 69.3%, respectively, which represented an increase on the shares of the previous year by 3.5 percentage points and 1.8 percentage points, respectively.

In order to compensate for the behavior of revenues, TdP made strong efforts to contain expenses, since the increase of 4.8% in operating expenses is basically related to the commercial plans and the expansion of the ADSL business, as well as the increase in interconnection expenses, primarily as a result of the growth in traffic to mobile networks. As a result of this, the company's EBITDA fell by 3.8% in local currency to 480.9 million euros.

In the course of the year, 378 employees out of the 410 envisaged under application of the judgment handed down by the Constitutional Court were reinstated, which meant that at the end of 2003 TdP had 3,175 employees (4,769 employees including the workforce of the fully consolidated subsidiaries) and the level of productivity was 649 lines per employee, 11.4% more than in 2002.

TdP focused its investment efforts on the development of projects considered to be strategic or revenue-generating, leading to CapEx of 96.2 million euros, which was 32.6% more than in 2002 in local currency (23.1% of CapEx was allocated to broadband projects), and giving a ratio of CapEx to revenues of 9.9% in local currency. Accordingly, the free cash flow (EBITDA-CapEx) generated at TdP amounted to 384.7 million euros, a decrease of 10.9% year on year in local currency.

TELEFÓNICA LATINOAMERICA GROUP
SELECTED OPERATING DATA
Unaudited figures (thousands)

	December		
	2003	2002	% Chg.
Telesp			
Lines in service (1)	12,781.3	12,839.2	(0.5)
PSTN Lines	11,171.5	11,174.5	(0.0)
ISDN equivalent accesses	29.9	37.5	(20.3)
2/6 Accesses for PBX and Ibercom	1,095.6	1,293.9	(15.3)
ADSL connections	484.4	333.3	45.3
Employees (units) (3)	7,134	9,515	(25.0)
Traffic (millions of minutes) (2)	84,399.9	79,882.7	5.7
Telefónica de Argentina			
Lines in service (1) *	4,238.2	4,216.7	0.5
PSTN Lines	4,088.5	4,100.4	(0.3)
ISDN equivalent accesses	6.4	6.1	3.9
2/6 Accesses for PBX and Ibercom	73.9	75.7	(2.4)
ADSL connections	69.3	34.4	101.5
Employees (units) (3)	8,007	8,284	(3.3)
Traffic (millions of minutes) (2)	35,870.5	33,052.5	8.5
Telefónica CTC Chile			
Lines in service (1) *	2,542.0	2,740.9	(7.3)
PSTN Lines	2,272.5	2,546.0	(10.7)
ISDN equivalent accesses	89.2	90.2	(1.1)
2/6 Accesses for PBX and Ibercom	55.1	50.5	9.2
ADSL connections	125.3	54.2	131.3
Employees (units) (3)	3,202	3,150	1.7
Traffic (millions of minutes) (2)	24,207.3	26,139.2	(7.4)
Telefónica del Perú			
Lines in service (1)	2,060.0	1,850.0	11.4
PSTN Lines	1,934.8	1,780.9	8.6
ISDN equivalent accesses	34.5	34.7	(0.4)
2/6 Accesses for PBX and Ibercom	—	—	—
ADSL connections	90.7	34.4	163.7
Employees (units) (3)	4,769	4,668	2.2
Traffic (millions of minutes) (2)	13,215.8	13,031.8	1.4
TELEFÓNICA LATINOAMÉRICA GROUP			
Lines in service (1) *	21,621.6	21,646.7	(0.1)
PSTN Lines	19,461.1	19,600.9	(0.7)
ISDN equivalent accesses	164.1	166.0	(1.2)
2/6 Accesses for PBX and Ibercom	1,226.7	1,423.6	(13.8)
ADSL connections	769.7	456.2	68.7
Employees (units) (3)	23,112	25,617	(9.8)
Traffic (millions of minutes) (2)	157,693.5	152,106.2	3.7

(1) PSTN (including Public Use Telephony) (x 1) - ISDN Basic access (x 2) - ISDN Primary access (x 30) - 2/6 Accesses (x 30) - ADSL Lines (x 1) and Cablemodem (in Peru).

* In 2002, number of lines is affected by internal reclassification in line with 2003 criteria, homogeneous within the operators.

(2) Including total invoiced incoming and outgoing traffic: Local, PUTs (except at Telesp in 2002, not available), DLD and ILD. January-December accumulated data.

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

TELEFÓNICA LATINOAMERICA GROUP

COMPANIES FINANCIAL DATA

Unaudited figures (euro millions)

	January - December		
	2003	2002	% Chg.
Telesp			
Operating revenues	3,483.0	3,700.3	(5.9)
EBITDA	1,662.8	1,903.2	(12.6)
EBITDA Margin	47.7%	51.4%	(3.7) p.p.
Telefónica de Argentina			
Operating revenues	805.3	784.2	2.7
EBITDA	478.7	393.7	21.6
EBITDA Margin (1)	59.4%	50.2%	9.2 p.p.
Telefónica CTC Chile			
Operating revenues	1,029.1	1,149.2	(10.5)
EBITDA	448.7	472.2	(5.0)
EBITDA Margin	43.6%	41.1%	2.5 p.p.
Telefónica del Perú			
Operating revenues	1,088.1	1,273.2	(14.5)
EBITDA	480.9	590.5	(18.6)
EBITDA Margin	44.2%	46.4%	(2.2) p.p.

Note: EBITDA before management fees. Data for Telefónica de Argentina include the ISP business of Advance, while those of Telefónica CTC Chile (in 2002) and Telefónica del Perú include Sonda and CableMágico, respectively.

(1) Net of fixed to mobile interconnection.

TELEFÓNICA LATINOAMERICA GROUP

CONSOLIDATED INCOME STATEMENT

Unaudited figures (euro millions)

	January - December			October - December		
	2003	2002	% Chg.	2003	2002	% Chg.
Operating revenues						
Operating revenues	6,377.1	6,954.1	(8.3)	1,727.2	1,519.9	13.6
Internal expend capitalized in fixed assets (1)	46.2	63.4	(27.0)	13.2	10.9	21.0
Operating expenses	(3,215.0)	(3,407.5)	(5.7)	(882.8)	(771.1)	14.5
Other net operating income (expense)	(143.1)	(263.3)	(45.7)	(23.6)	(48.0)	(50.7)
EBITDA	3,065.3	3,346.7	(8.4)	834.0	711.6	17.2
Depreciation and amortization	(1,718.8)	(1,999.4)	(14.0)	(446.7)	(419.9)	6.4
Operation profit	1,346.5	1,347.3	(0.1)	387.2	291.8	32.7
Profit from associated companies	3.7	(4.3)	C.S.	1.7	0.4	379.5
Financial net income (expense)	(182.6)	(1,181.1)	(84.5)	(146.3)	(79.5)	84.0
Amortization of goodwill	(83.1)	(89.7)	(7.4)	(20.3)	(22.5)	(9.6)
Extraordinary net income (expense)	(141.3)	(317.2)	(55.5)	(41.8)	(207.7)	(79.9)
Income before taxes	943.3	(245.0)	C.S.	180.5	(17.6)	C.S.
Income taxes	(168.8)	103.7	C.S.	102.5	51.2	100.2
Net income before minority interests	774.5	(141.3)	C.S.	282.9	33.6	743.0
Minority interests	(97.3)	(41.3)		135.6	(39.9)	(20.5)
Net income	677.2	(182.6)	C.S.	243.0	13.1	N.S.

(1) Including work in process.

TELEFÓNICA EMPRESAS

Throughout 2003 Telefónica Empresas has advanced in a new organizational model in which the operations of Telefónica Empresas in Spain are integrated with those of Telefónica de España and the operations of Telefónica Empresas in America form a unit of management with the fixed telephony operators in this region, in a process that culminates the reorientation of the company from a product oriented organization to another one with a clear commercial vocation. The final goal of this process is to fully develop the corporate segment potential by means of an integrated management of the services catalogue, a greater organizational coordination and by obtaining synergies in costs and investments.

The operating revenues of the consolidated Telefónica Empresas Group (Telefónica Data, Telefónica Soluciones and Telefónica International Wholesale Services), amounted to 1,782.0 million euros in 2003, 1.3% higher than in 2002. Excluding the effects caused by the variations in exchange rates and the consolidation perimeter, revenue growth would have been approximately 11%.

The consolidation of Atlanet by the full consolidation method in the first half of 2002 versus the consolidation by the equity method in 2003 until the deconsolidation in October 2003, together with the effective inclusion of the Telefónica Mobile Solutions results within the consolidation perimeter of Telefónica Soluciones from April 2003, were the main factors contributing to the change in the company's perimeter with respect to the previous year. Excluding the variations in the consolidation perimeter, there would have been a 3.8% increase in revenues.

As a result of the actions undertaken to improve operating efficiency by means of strict control of CapEx and operating expenses, the Group's cumulative EBITDA amounted to 304.4 million euros in 2003, compared with 128.6 million euros in 2002, due to the increase in revenues already mentioned and to the 8.6% decrease in operating expenses. The EBITDA margin achieved of 17.1% means an improvement of 9.8 percentage points on the previous year's figure. Taking into account the same perimeter and if the effects of the variation in exchange rates were eliminated, there would have been an 8.3 percentage point improvement in the EBITDA margin.

Noteworthy was the fact that for the first time in the fourth quarter of 2003, positive net income of 17.4 million euros was achieved, with an EBITDA margin of 22.1%. Likewise, with a cumulative CapEx figure for the year of 139.0 million euros, the operating cash flow generated (EBITDA-CapEx) amounted to 165.4 million euros, as compared with the negative figure of 68.8 million euros in 2002.

Telefónica data group

The operating revenues of the Telefónica Data Group amounted to 1,626.6 million euros in 2003, 1.6% less than in the previous year. Excluding the changes in the perimeter of consolidation and in exchange rates, revenues would have increased by approximately 8.7%. Taking into account the same perimeter (excluding Atlanet in 2002), the increase in revenues would have been 4.1%.

The cumulative EBITDA of the Telefónica Data Group for 2003 amounted to 294.4 million euros, compared with 192.9 million euros in 2002. The 18.1% EBITDA margin achieved shows an improvement of 6.4 percentage points with respect to the previous year's figure. If the effects of the variation in exchange rates and perimeter of consolidation were eliminated, there would have been a 4.0 percentage point improvement in the EBITDA margin. The capacity to generate operating cash flow was enhanced by the 30.1% year-on-year reduction in CapEx, down to 125.2 million euros, thereby achieving a CapEx/Revenues ratio of 7.7%.

Spain

Operating revenues in Telefónica Data España for the full year 2003 amounted to 815.9 million euros, 6.0% more than in 2002. Following the trend observed in the preceding quarters, the Business Communications and Internet business (94.6% of the operating revenues) continued to be the main driver of growth (5.7% year-on-year).

The top management priority of Telefónica Data España is to offer integrated technological solutions that make it possible for the company's customers to achieve a significant and sustainable improvement in their businesses' running. In this respect, 40 integrated telecommunications management agreements were obtained in 2003, worth a total of more than 95 million euros a year.

The Hosting, Network Application Services, Security Services and Content Distribution business lines contributed 4.4% of Telefónica Data España's total revenues, with year-on-year growth of 12.8%.

At the end of 2003, cumulative EBITDA stood at 238.8 million euros, up by 26.4% year on year, with a margin over revenues of 29.3%, representing a year-on-year improvement of 4.7 percentage points.

As a result of the year-on-year increase in EBITDA and the appropriate control of CapEx, the generated operating cash flow (EBITDA-CapEx) was 27.1% higher than in the previous year, reaching the figure of 171.7 million euros.

Latin America

In a greater macroeconomic environment stability, significant advances were achieved in the incumbent Latin America markets, both in local currency denominated revenues and in operating profitability. The operating cash flow (EBITDA-CapEx) totaled 33.7 million euros in 2003, as compared with the 0.2 million euros figure achieved in 2002.

Operating revenues in Argentina, Brazil, Chile and Peru in 2003 amounted to 362.2 million euros, 5.1% more than in 2002. Without the exchange rate effect, this revenue figure would have registered a year-on-year increase of 22.5%, driven by Telefónica Empresas Brazil, which increased its operating revenues in local currency by 33.3%, and achieved an EBITDA margin of 14.6%.

It is also important to highlight the positive progress made by Telefónica Empresas Chile, whose revenues in local currency recorded year-on-year growth of 21.9%, thereby achieving an EBITDA

margin of 25.2%, which is a reflection of the company's efficient management and the quality of its customer portfolio.

EBITDA for the Telefónica Data Group in the aforementioned countries rose to 64.5 million euros, representing a year-on-year improvement in the EBITDA margin of 1.9 percentage points, reaching 17.8%.

In the American countries in which the Telefónica Data Group is operating as a new entrant (Mexico, USA and Colombia), operating revenues totaled 67.7 million euros in 2003, 42.9% more than those obtained in 2002. The EBITDA generated during the period was negative by 13.0 million euros, in comparison with the negative figure of 30.3 million euros recorded in 2002, with an improvement in the EBITDA margin of 44.7 percentage points.

Europe

In the German and British markets, Telefónica Empresas obtained revenues of 382.7 million euros in 2003, a decrease of 4.4% 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 accounted for 10% of the total revenues in Germany.

With respect to the broadband business, noteworthy was the addition of 193,000 new ADSL users within Telefónica Deutschland's wholesale (T-ZISP) offer in the German market. As a result, the total number of the company's ADSL users exceeded the figure of 220,000 and its customers include 4 out of the 5 leading ISPs in Germany. Likewise, at the end of 2003, there were more than 5,000 broadband SDSL direct accesses and point-to-point circuits for business customers. Major contracts have been gained in the field of RPV services for corporations, most notably those of Lotto Niedersachsen and Hermes in Germany and with NAAFI (the British Army's Logistics Organization) in the United Kingdom. It is also important to highlight that 2003 saw the start of voice-over-IP service provision, targeted at both the business and the residential segments (via ISPs connected to Telefonica Deutschland's IP network).

EBITDA reached a total of 22.3 million euros in 2003. Although the EBITDA margin of 5.8% achieved is 0.4 percentage points lower than in 2002, there was a substantial improvement in the operating cash flow (EBITDA-CapEx) generated, which amounted to 9.3 million euros, as a result of the efforts made in CapEx containing.

Telefónica soluciones

Following completion of this business line restructuring process in the first quarter of 2003, the total revenues from this business unit amounted to 150.5 million euros in 2003, which was 9.8% higher than in 2002. EBITDA for the period was negative in 6.4 million euros, which represented an improvement of 79% with respect to the figure of 2002. It is important to highlight that in the fourth quarter of 2003 this business line generated positive EBITDA of 5.7 million euros.

Telefónica international wholesale services

This is the unit that serves telecom operators and is responsible for the integrated management of the Group's international services and the network that supports them.

Operating revenues amounted to 136.7 million euros in 2003, representing year-on-year growth of 48.2%. This rise was mainly due to the 98% increase in IP traffic managed in the markets in which Telefónica is making major efforts to roll out broadband access infrastructures, particularly Spain, which accounts for 52% of the total traffic managed, and Brazil, with 16%.

Cumulative EBITDA was positive in 2003, amounting to 17.8 million euros, as compared with the negative figure of 42.7 million euros recorded in the previous year.

TELEFÓNICA DATA GROUP

SELECTED OPERATING DATA

Unaudited figures (euro millions)

	January - December		
	2003	2002	% Chg.
Telefónica Data España			
Operating revenues	815.9	769.8	6.0
EBITDA	238.8	188.8	26.4
EBITDA Margin	29.3%	24.5%	4.7 p.p.
Telefónica Data en Latinoamérica Incumbente (1)			
Operating revenues	362.2	344.5	5.1
EBITDA	64.5	54.7	17.9
EBITDA Margin	17.8%	15.9%	1.9 p.p.
Telefónica Deutschland & Telefónica UK (2)			
Operating revenues	382.7	400.5	(4.4)
EBITDA	22.3	25.1	(11.2)
EBITDA Margin	5.8%	6.3%	(0.4) p.p.
Telefónica Data en Latinoamérica Expansión (3)			
Operating revenues	67.7	47.4	42.9
EBITDA	(13.0)	(30.3)	57.1
EBITDA Margin	(19.2%)	(63.9%)	44.7 p.p.
Grupo Telefónica Data			
Operating revenues	1,626.6	1,652.6	(1.6)
EBITDA	294.4	192.9	52.6
EBITDA Margin	18.1%	11.7%	6.4 p.p.

(1) Brazil, Argentina, Peru and Chile.

(2) Germany and United Kingdom.

(3) Mexico, USA and Colombia. For 2002, Uruguay is also included.

TELEFÓNICA EMPRESAS

CONSOLIDATED INCOME STATEMENT

Unaudited figures (euro millions)

	January - December			October - December		
	2003	2002	% Chg.	2003	2002	% Chg.
Operating revenues	1,782.0	1,758.5	1.3	473.7	440.5	7.5
Internal expend capitalized in fixed assets (1)	12.7	9.9	28.0	5.0	3.6	39.5
Operating expenses	(1,487.0)	(1,626.4)	(8.6)	(370.3)	(377.8)	(2.0)
Other net operating income (expense)	(3.3)	(13.4)	(75.0)	(3.5)	(5.1)	(31.7)
EBITDA	304.4	128.6	136.7	104.9	61.2	71.4
Depreciation and amortization	(245.7)	(292.1)	(15.9)	(63.2)	(65.7)	(3.8)
Operation profit	58.7	(163.5)	c.s.	41.7	(4.5)	c.s.
Profit from associated companies	(2.8)	(40.2)	(93.1)	(1.2)	(12.0)	(90.1)
Financial net income (expense)	(31.5)	(151.7)	(79.2)	5.7	(22.4)	c.s.
Amortization of goodwill	(49.8)	(69.1)	(27.9)	(12.5)	(7.9)	58.8
Extraordinary net income (expense)	(32.6)	(892.9)	(96.3)	1.5	(159.0)	c.s.
Income before taxes	(58.0)	(1,317.5)	(95.6)	35.2	(205.9)	c.s.
Income taxes	(10.7)	541.1	c.s.	(15.5)	125.6	c.s.
Net income before minority interests	(68.7)	(776.4)	(91.2)	19.7	(80.3)	c.s.
Minority interests	(6.0)	48.1	c.s.	(2.3)	10.8	c.s.
Net income	(74.7)	(728.2)	(89.7)	17.4	(69.5)	c.s.

(1) Including work in process.

Analysis of results by business line

MOBILE BUSINESS

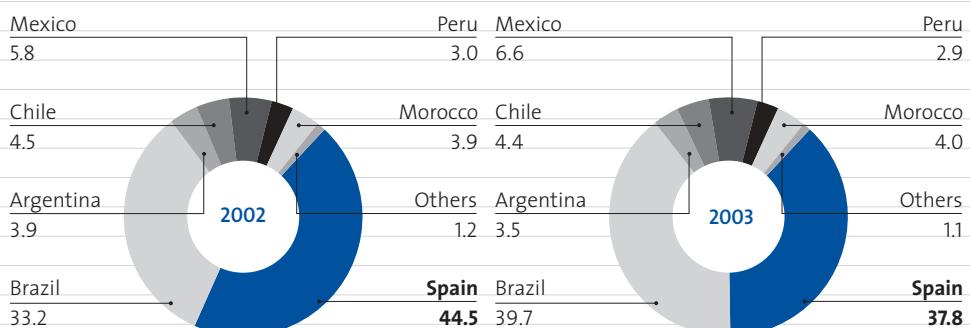
MOBILE BUSINESS

Telefónica Móviles has reported a net income in 2003 of 1.607,9 million euros vs. the losses of 3.724,5 million euros registered in 2002. Excluding the impact of the net extraordinary provisions booked in 2002, the Group would have reported a year-over-year net income increase of 14.4%.

These results are the consequence of a solid operating performance in a year shaped by strong commercial activity in main areas of operations, especially in the second half of the year, reflecting Telefónica Móviles' high organic growth profile.

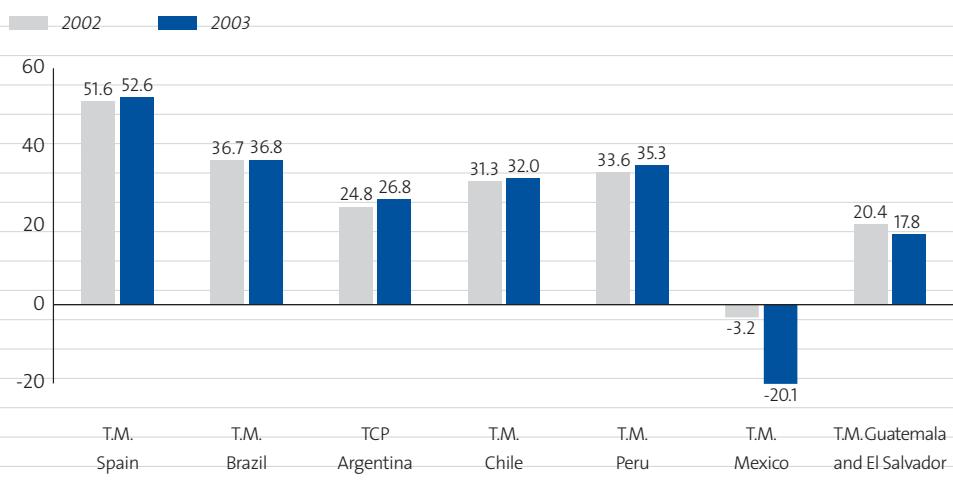
DISTRIBUTION OF MANAGED CUSTOMERS IN MOBILE TELEPHONY

(Data in percentages)

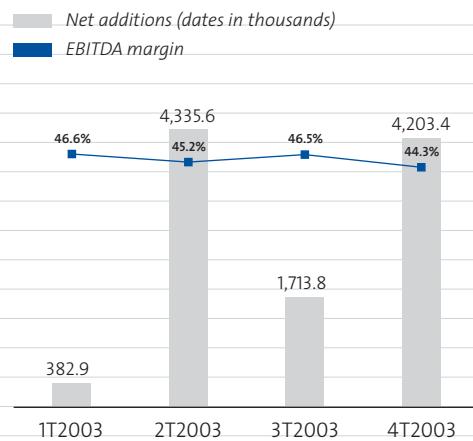


ACCUMULATED EBITDA MARGIN. TELEFÓNICA MÓVILES

(Data in percentages)



NET ADDITIONS AND EBITDA MARGIN TELEFÓNICA MÓVILES



Key aspects of these results are listed below:

Sharp growth in operating revenues of 10.2% year-over-year, to 10,070.3 million euros for the year. We would highlight the acceleration in growth of operating revenues since the beginning of the year, with an increase in the fourth quarter 2003 of 19.7% vs. the same period last year compared with year-over-year growth of 15.4% in the third quarter 2003. Assuming constant exchange rates and excluding the impact of the acquisition of TCO, revenues would have grown 14.1% in 2003 year-over-year.

- Consolidated revenue growth was mainly driven by the increase in the customer base. Telefónica Móviles increased its managed customer base by more than 10.6 million in 2003, a year-over-year growth above 25% (15.8% excluding TCO). Noteworthy was the strong commercial activity during the Christmas campaign in all countries of operations, achieving net adds of over 4.2 million customers in the fourth quarter 2003, marking the largest quarterly organic growth in the Group's history. Telefónica Móviles ended 2003 with more than 52 million managed customers.

By geographical areas, operating revenues at Telefónica Móviles España show a year-over-year increase of 10.7% in 2003 and 16.4% in the fourth quarter 2003, driven by the strong commercial activity in the last quarter. Operating revenues from the Latin American operators accounted for 26% of Group revenues in 2003, and showed a year-over-year increase of 12.1% in euros. Excluding the impact of exchange rates and the incorporation of TCO into the Group's consolidation perimeter, these revenues would have shown growth of 27.7% vs. 2002.

- Group consolidated EBITDA in 2003 reached 4,462.9 million euros, 19.5% higher than in 2002. Excluding the impact of exchange rates and the incorporation of TCO into the Group's consolidation perimeter, EBITDA would have shown growth of 20.6% vs. 2002. With EBITDA growing faster than revenues, the consolidated EBITDA margin advanced 3.4 p.p. from 2002 to 44.3%.

On a quarterly basis, EBITDA in the fourth quarter 2003 was 22.0% higher than in the same period last year, leading to an EBITDA margin of 39.6%, an advance in nearly 1 p.p. vs. the fourth quarter 2002, despite registering 5.2 times more net adds in the last quarter 2003. The decline in the margin in the fourth quarter 2003 vs. the third quarter was due to increased commercial activity in the last quarter of the year.

EBITDA for TME for the year 2003 rose 12.9%, leaving an EBITDA margin of 52.6% (+1.p.p. in the last 12 months). EBITDA for the Group's consolidated Latin American subsidiaries, assuming constant exchange rates and excluding TCO's incorporation into the Group's consolidation perimeter, rose 4.7% vs. 2002, fuelled by higher EBITDA in Brazil and Argentina, which offset the negative contribution from operations in Mexico after the heavy commercial efforts made during the year –brand launch, increased distribution channel, introduction of GSM service–. However, in euros they show a year-over-year decline of 2.3% (-13.6% as of September 2003).

- In 2003, CapEx for Telefónica Móviles totalled 1,214 million euros, a 32% year-over-year increase, mostly deriving from the rollout of the GSM network in Mexico, which required CapEx of 483 million euros. CapEx in other countries of operations was virtually unchanged from the year before.

Regarding the evolution of the Mobile Business of Telefónica Group (Telefónica Móviles Group and Telefónica Móvil Chile), the operating revenues totalled 10,428.3 million euros as of December 2003, a year-over-year increase of 10.4% compared to the same period in 2002. On the other hand, EBITDA reached 4,581.9 million euros, a year-over-year increase of 19.6%.

SPAIN

In 2003, the Spanish cellular market grew by nearly 4 million new customers, reaching more than 37.5 million customers by the end of 2003 (+12% vs. 2002). This led to an estimated penetration rate of 88.1% at the end of 2003, 8.3 p.p. higher than in 2002. Particularly noteworthy was the fact that approximately one-third of the annual customer growth came in the fourth quarter 2003.

Against this backdrop, Telefónica Móviles España ended 2003 with more than 19.6 million customers, 7% more than in 2002, reinforcing its position as the undisputed leader of the Spanish market, with an estimated market share of 52.4%. In the fourth quarter 2003, the Company stepped up its commercial efforts, registering net adds of 553 thousand customers, leading the market growth in the quarter.

As regards prepaid to contract migrations, the volume in the fourth quarter 2003 (more than 357 thousand) was the largest in the Company's history, with total migrations for the year of nearly 1.2 million (+63% vs. 2002). As a result, contract customers at the end of the year represented 40.3% of the total, 5.2 p.p. more than in 2002.

As for customer loyalty initiatives, the volume of handset upgrades in the fourth quarter 2003 was slightly over 1 million, 11% more than in the fourth quarter 2002, taking the total number for the year to 4 million (+71% vs. 2002).

Alongside this commercial performance was the consolidation of strong growth in usage seen throughout the year. In the fourth quarter 2003, traffic carried on Telefónica Móviles España's networks exceeded 9,800 million minutes (+17% vs. in the fourth quarter 2002), taking total annual traffic to 37,700 million minutes, 18.2% more than in 2002.

As for customer usage ratios, 2003 saw the beginning of a clearly upward trend in MOU. In the fourth quarter 2003, MOU continued to grow strongly, reaching 118 minutes, a year-over-year increase of 10% from the same period last year. MOU for the whole year was 116 minutes, also a 10% higher than in 2002. The positive performance of outgoing MOU must be highlighted, since it registered double-digit growth in all four quarters and totalled 77 minutes for the full year (+13% vs. 2002). By segments, prepaid MOU stabilised in 2003, despite the sharp increase in the rhythm of migrations, whilst contract MOU increased by 3% vs. 2002.

As for short messages, we must highlight the high level of usage registered in December when, coinciding with the Christmas season, 52% of Telefónica Móviles España's customers sent at least one short message, enabling the penetration rate to improve by 4 p.p. from previous months. For the year, Telefónica Móviles España's customers network carried a total of 9,302 million SMS (vs. 8,375 million in 2002).

We would also highlight the significant increase seen in other kinds of data services in the last months of the year, which led to an increase of 5 p.p. in the percentage of non-SMS revenues on total data revenues to 8.8% for 2003.

Meanwhile, from February 13th, 2004, Telefónica Móviles España offers its corporate clients 'Oficin@ MoviStar UMTS', the first high speed (up to 384 Kbit/s) third generation data transmission service to be provided by a wireless operator in Spain.

As a result of these efforts, total data revenues in the fourth quarter 2003 increased by 17% vs. the same period last year to nearly 220 million euros. The total for full year 2003 amounted to 844 million euros (+15% vs. 2002). Therefore, data ARPU in the fourth quarter 2003 reached 3.8 euros, with growth accelerating throughout the second half of the year. That implies a total data ARPU for 2003 of 3.7 euros (+8.8% vs. 2002).

Overall, ARPU for Telefónica Móviles España reversed its annual trend in 2003, registering year-over-year growth for the first time in the Company's history. Total ARPU for 2003 was 29.7 euros (3.7% more than in 2002). ARPU in the fourth quarter 2003 was 30.1 euros, 7% more than in the

same period last year. The decline with respect to the third quarter 2003 was due to seasonal factors of the business and to the decline in termination fees.

Accordingly, and even despite the impact of the increased commercial activity registered in the fourth quarter 2003, Telefónica Móviles España has delivered a solid set of earnings:

- Operating revenues stood at 2,028 million euros in the fourth quarter 2003 (+16% vs. the fourth quarter 2002), taking the total for the year to nearly 7,500 million euros, 10.7% more than in 2002. Service revenues advanced 9.9%, accelerating its year-over-year growth in the last quarter vs. the previous quarters, while handset sales, fuelled by the increased commercial activity, rose 17%.
- As regards the key cost items, the weight of subscriber acquisition and retention costs over operating revenues stood at 7.8% in the fourth quarter, and at 7.1% for 2003 (a decline of 0.8 p.p. from 2002).
- EBITDA in the fourth quarter 2003 stood at 974 million euros, (+10% vs. the fourth quarter 2002), whereas EBITDA for the year was 3,940.8 million euros, a year-over-year increase of 12.9%. This led to an EBITDA margin for 2003 of 52.6%, 1 p.p. higher than in 2002, confirming Telefónica Móviles España's position as one of the sector's most efficient wireless operators. The quarterly reduction in the EBITDA margin in the fourth quarter vs. the third one is a logical result of the underlying impact of the greater commercial efforts made in the last quarter of the year for the Christmas campaign and of the increase in handsets sales, with a reduced margin.

CapEx in 2003 totalled 521 million euros, in line with the figure for 2002 and equivalent to 7.0% of operating revenues. It must be mentioned that despite the strong advance in traffic, the Company follows an active management program in order to guarantee adequate quality levels.

MOROCCO

Médi Telecom ended 2003 with 2.1 million customers, 28.7% more than in 2002. This marks an acceleration in growth from previous quarters (+23.4% in the third quarter 2003) and leads to an estimated market share of 43% (up from 41% in 2002).

We would highlight the improvement in the financial results, setting EBITDA margin in the fourth quarter 2003 at 38.2% and at 35% in full year 2003. In absolute terms, EBITDA amounted to 94 million euros in 2003, from 34.5 million euros in 2002 (+173%). The year 2003 was also the first of positive operating cash flow for Médi Telecom, with EBITDA–CapEx standing at 33 million euros, thanks to both higher operating results and CapEx rationalization.

LATIN AMERICA

Brazil

In Brazil, Vivo surpassed 20.6 million customers in 2003, with net adds of approximately 2.2 million in the fourth quarter 2003. The strong increase in net adds in the last quarter of the year reflects the strong growth in the Brazilian market in general, and in the regions where Vivo operates in particular. It also shows the impact of the successful Christmas campaign carried out by the Group operators, which started in November, and emphasized aspects of Innovation, Community, Group and Family among Vivo customers.

In this context, Vivo has led growth in the market, with an average share of net adds of 50% in the fourth quarter 2003, in spite of the increasing competitive environment and the launching of operations by a new competitor in some of Vivo's regions (Sao Paulo, through the acquisition of BCP by Claro, and Bahía-Sergipe and Paraná-Santa Catarina). Thus, in 2003 Vivo has consolidated its position as the Brazilian market leader, with an average estimated market share of over 56% in its areas of operations and 45% for Brazil as a whole.

Despite the sharp increase in the customer base (+11.8% vs. the third quarter 2003), total MOU in the fourth quarter 2003 was 103 minutes. This figure was slightly higher than in the third quarter 2003 (101 minutes). Total MOU in 2003 was 101 minutes. On the other hand, total ARPU in the fourth quarter 2003 totalled 39 reais, vs. 40 reais in the third quarter 2003. In 2003 total ARPU was 39.5 reais.

The 2003 figures are not comparable with 2002, due to the change in prepaid revenues accounting methodology at TCP and the incorporation of TCO to the consolidation perimeter.

As for data, the increasing trend in the usage of these services seen since the beginning of the year, has continued in the fourth quarter, with data revenues standing at 3.3% of service revenues (vs. 2.9% in the third quarter 2003 and 2.2% in the second quarter). The higher use of these services is driven by the increased use of handsets with SMS and WAP capabilities. Vivo maintained its position of leadership in the development and innovation of data services in Brazil throughout 2003, taking advantage of the competitive advantages granted by its CDMA 1xRTT network over other operators' offer. In the fourth quarter 2003 CDMA 1xRTT coverage increased substantially, reaching 101 cities.

As regards the Brazilian companies' contribution to Telefónica Móviles Group consolidated results, it should be remembered that year-over-year comparison between results is distorted because last year's figures include Brasilcel under proportional consolidation –including TCO's results from 1 May, 2003– while in 2002 the consolidated results included those of the three companies controlled by Telefónica Móviles in Brazil at that time.

In the fourth quarter 2003 operating revenues showed growth in local currency of 9.4% vs. the third quarter, fuelled by strong net adds in the last quarter of the year. Regarding service revenues (+2.1% vs. third quarter 2003), we would note that over 60% of net adds were recorded in December, and therefore, these customers' usage revenues will be reflected in the next quarters.

EBITDA evolution (-10.1% vs. third quarter 2003 in reais) was heavily affected by commercial activity in the fourth quarter, with net adds 130% higher than in the third quarter. EBITDA margin, after management fees, stood at 33% in the fourth quarter and 36.8% for the whole year.

Total CapEx in 2003 amounted to 153.2 million euros.

Mexico

In Mexico, the efforts made in the fourth quarter have allowed Telefónica Móviles México to widely surpass the network and commercial targets initially set by the Company. Thus, in addition to improvements in logistics, in the last quarter there has been a significant increase in the coverage of the GSM network, from 17 cities in September to 96 in December 2003, compared to the initial target of 46 cities. Additionally, there have been further advances in the distribution channel, practically tripling the number of points of sale throughout the country since the beginning of the year to over 6,200, an increase of 70% compared to the third quarter 2003.

Telefónica Móviles México has clearly strengthened its competitive position, which has allowed it to substantially increase commercial activity in the second half of the year. The Christmas campaign was particularly successful –with over half a million new customers in the month of December–. In the fourth quarter 2003 net adds stood at 725 thousand customers, with a sharp rise compared to the previous quarter (191 thousand), and an estimated share of net adds of 33% in the quarter. In all, the customer base increased by over one million customers in 2003, leading to a customer base of 3.5 million at December 2003 (+43% vs. 2002). Thus, in 2003 Telefónica Móviles México has increased its market share by 2.1 p.p. to 11%. It is worth noting that 26% of the customer base are already GSM customers.

In the fourth quarter 2003, total MOU¹ was 66 minutes, a decline of 4.7% vs. 3Q03 due to the strong growth in the customer base. Total MOU in 2003 was 74 minutes. On the other hand, ARPU¹ in the fourth quarter was 185 Mexican pesos, a fall of 4.8% vs. the third quarter 2003 (194 pesos), due to the strong advance in the customer base. In 2003 ARPU was 202 Mexican pesos.

	1Q03	2Q03	3Q03
<i>Recalculated MOU Data</i>	87	75	69
<i>Old MOU Data</i>	87	80	70
<i>Recalculated ARPU Data (pesos)</i>	220	212	194
<i>Old ARPU data (pesos)</i>	211	205	184

As for Telefónica Móviles México's financial results, it must be remembered that the year-over-

¹ As a result of the homogenisation to Telefónica Móviles Group's methodology of MOU and ARPU calculation, past quarters' Telefónica Móviles Mexico ARPUs have been recalculated in 4Q03

year comparison of 2003 with 2002 is distorted by the incorporation of Grupo Pegaso Telecomunicaciones from September 2002.

Analysing the evolution of results in the last quarter of the year in local currency, operating revenues increased 44% in the fourth quarter 2003 vs. the third quarter, boosted by the strong growth in service revenues (+7.6%) –underpinned by the increase in prepaid recharges at the end of the year– and the rise in handset sales during the Christmas campaign. On the other hand, as a result of the strong increase in commercial activity, Telefónica Móviles México has recorded larger operating losses this quarter. In 2003, EBITDA stood at -108.7 million euros, slightly higher than the original forecast, due to the larger than expected increase in the customer base.

Total CapEx in 2003 totalled 483 million euros, with a positive impact from exchange rates. Therefore, in 2003 the sum of operating losses and CapEx stood at 592 million euros, better than the Company's expectations (700 million euros) despite the increase in commercial activity and the rollout of the network and distribution channel.

Argentina

In an environment of stability and economic growth, the Argentine mobile market has ended 2003 surpassing the original targets and consolidating a new growth phase.

Unifón's customer base increased by 12.8% in 2003 and 8.0% in the fourth quarter 2003 vs. the third quarter, and now stands at 1.8 million, maintaining its position as Argentina's second largest operator. Thus, in the fourth quarter net adds surpassed 134 thousand new customers (81 thousand in the third quarter 2003), boosted by the successful commercial activities, particularly the Christmas and Mother's Day (October) campaigns.

Total traffic in minutes increased by 13% in 2003, boosted by the larger customer base and growth in MOU. We would highlight the strong increase in usage in the fourth quarter vs. the previous one (+10%). In year-over-year terms, MOU increased 16% vs. 2002, whilst ARPU in pesos registered a year-over-year growth of 30%, fuelled by the increased MOU and higher prices vs. 2002.

Unifón recorded a year-over-year increase in operating revenues of 37% in pesos in 2003, boosted by higher service revenues. Quarter-over-quarter, growth was 15% vs. the third quarter 2003. Despite the increase in commercial activity vs. 2002, EBITDA in pesos rose 49%, with a margin of 26.8%, 2 p.p. higher than in 2002. The smaller margin in the fourth quarter 2003 vs. the third one was due to the increase in commercial costs.

We would highlight the good performance of revenues and EBITDA in euros (+23.2% and +33.3% vs. 2002, respectively), despite the peso's strong depreciation in the past 12 months.

Peru

As of December 2003 Telefónica Móviles Perú's customer base was 1.5 million, an advance of 21.6% vs. 2002. The acceleration in growth during the last quarter (11.3% as of September 2003 vs. September 2002) was due to the successful Christmas campaign, which allowed Telefónica Móviles Perú to lead the growth in the market, with net adds of over 139 thousand customers,

bringing its estimated share of net adds to 52% for the fourth quarter 2003 and 45% for the full year.

Regarding financial results, operating revenues rose 3.4% in 2003 in local currency, on the back of the larger customer base. Moreover, EBITDA growth in local currency has picked up in the past few months to 8.7% for full year 2003 (vs. 6.5% as of September 2003).

Despite the increase in commercial activity in 2003, and reflecting the company's rationalisation and cost control policies, EBITDA margin advanced 1.7 p.p. to 35.3%. We would also highlight the launch of the CDMA 2000 1xRTT network on November 27, with the first phase concluded in December 2003.

Chile

Telefónica Móvil ended the fourth quarter 2003 with 2.3 million customers, 22.7% higher than in December 2002. The company is market leader in terms of customer acquisition, with total net adds of 239 thousand in the fourth quarter 2003, vs. 181 thousand as of September 2003, boosted by the good acceptance of the GSM commercial offer. These services were launched last April and the operator already has 422 thousand customers using this technology, almost 19% of its total customer base.

The increase in the customer base has prompted an improvement in financial results, with increases in both revenues and EBITDA. The EBITDA margin in 2003 stood at 32.0%, 0.7 p.p. higher than in 2002.

Guatemala and El Salvador

At the end of December 2003, the total customer base managed by Telefónica Móviles' operators in Guatemala and El Salvador stood at 405 thousand customers (157 thousand in Guatemala and 248 thousand in El Salvador), with a year-over-year increase of 23.5%, reversing the declining trend seen at the beginning of the year. As a result of the advance in commercial activity, net adds in the fourth quarter 2003 stood at 33 thousand new customers, vs. 12 thousand in the third quarter.

TELEFÓNICA MÓVILES GROUP

SELECTED OPERATING DATA

Unaudited figures (thousands)

	Cellular costumers		
	December 2003	% Chg. 03/02	Weighted (1)
Telefónica Móviles España	19,661	6.8	19,661
Brasilcel	20,656	50.3	5,714
TCP Argentina	1,824	12.8	1,786
T Móviles Perú	1,507	21.6	1,476
TEM El Salvador	248	7.2	224
TEM Guatemala	157	61.6	157
NewCom Wireless Puerto Rico (2)	175	3.3	0
Telefónica Móviles México	3,454	42.8	3,178
Medi Telecom	2,060	28.7	663
Telefónica Móvil Chile (3)	2,270	22.7	0
Total Managed	52,011	25.7	32,858

(1) Number of lines weighted for Telefónica Móviles Group's stake in each company. In 2003 proportional clients from TCO are included.

(2) Managed by TEM.

(3) Managed by TEM and part-owned by the Telefónica Group.

TELEFÓNICA MÓVILES ESPAÑA

SELECTED OPERATING DATA

Unaudited figures (thousands)

	December		
	2003	2002	% Chg.
Cellular suscribers	19,661	18,412	6.8
Contract	7,930	6,475	22.5
Prepaid	11,731	11,937	(1.7)
Suscribers net adds in year to date (1)	1,249	1,619	(22.9)
Contract	1,455	1,176	23.7
Prepaid	(206)	443	c.s.
Total airtime minutes (millions) (1)	37,657	31,869	18.2
SMS (millions)	9,302	8,375	11.1
Employees (units)	4,441	4,371	1.6

(1) January-December accumulated data.

TELEFÓNICA MÓVILES GROUP PARTICIPATED COMPANIES

SELECTED OPERATING DATA

Unaudited figures (thousands)

	December (1)		
	2003	2002	% Chg.
Spain and Mediterranean area customers			
Contract	21,721	20,013	8.5
Prepaid	8,059	6,589	22.3
Latin America customers (2)			
Contract	13,661	13,423	1.8
Prepaid	27,846	19,346	43.9
Total airtime minutes (millions) (3)	63,219	43,574	50.4
			45.1

(1) Includes total customers from all operators in which Telefónica Móviles holds an economic participation.

(2) 2003 includes subscribers of Brasilcel, the Joint Venture with Portugal Telecom in Brazil (from May 2003, TCO is also incorporated). Chile and Puerto Rico are excluded.

(3) January-December cumulative air minutes of TEM fully consolidated companies.

TELEFÓNICA MÓVILES GROUP
SELECTED OPERATING DATA
Unaudited figures (euro millions)

	January - December		
	2003	2002	% Var.
Telefónica Móviles España			
Operating revenues	7,495.5	6,770.0	10.7
EBITDA	3,940.8	3,490.3	12.9
EBITDA Margin	52.6%	51.6%	1.0 p.p.
Brazilian companies (1)			
Operating revenues	1,377.8	1,160.3	18.8
EBITDA	506.8	425.8	19.0
EBITDA Margin	36.8%	36.7%	0.1 p.p.
Telefónica Móviles México (2)			
Operating revenues	540.0	465.0	16.1
EBITDA	(108.7)	(14.7)	n.s.
EBITDA Margin	(20.1%)	(3.2%)	(16.9) p.p.
TCP Argentina			
Operating revenues	240.1	194.8	23.2
EBITDA	64.4	48.3	33.3
EBITDA Margin	26.8%	24.8%	2.0 p.p.
Telefónica Móviles Perú			
Operating revenues	247.4	282.5	(12.4)
EBITDA	87.4	95.0	(7.9)
EBITDA Margin	35.3%	33.6%	1.7 p.p.
Telefónica Móviles Guatemala y El Salvador			
Operating revenues	163.5	188.9	(13.4)
EBITDA	29.1	38.5	(24.4)
EBITDA Margin	17.8%	20.4%	(2.6) p.p.

(1) 2003 figures reflect consolidation by proportional method for Brasilcel, the Joint Venture with Portugal Telecom (from May 2003 TCO is incorporated). 2002 figures reflect full consolidation of TeleSudeste Celular, TeleLeste Celular and CRT Celular.

(2) Due to the consolidation of Telefónica Móviles México financial statements after the integration of the northern Mexican operators and Pegaso Telecomunicaciones Group, 2003 and 2002 figures are after intragroup adjustments between these operators.

TELEFÓNICA MÓVILES GROUP
CONSOLIDATED INCOME STATEMENT
Unaudited figures (euro millions)

	January - December			October - December		
	2003	2002	% Chg.	2003	2002	% Chg.
Operating revenues	10,070.3	9,139.8	10.2	2,766.5	2,310.8	19.7
Operating expenses	(5,660.5)	(5,364.8)	5.5	(1,707.0)	(1,327.5)	28.6
Other net operating income (expense)	53.1	(39.2)	c.s.	34.7	(86.3)	c.s.
EBITDA	4,462.9	3,735.8	19.5	1,094.2	897.0	22.0
Depreciation and amortization	(1,420.6)	(1,316.4)	7.9	(348.4)	(327.6)	6.4
Operation profit	3,042.3	2,419.4	25.7	745.8	569.4	31.0
Profit from associated companies	(80.7)	(159.5)	(49.4)	(23.8)	(41.3)	(42.3)
Financial net income (expense)	(378.1)	(316.2)	19.6	(119.2)	(115.0)	3.6
Amortization of goodwill	(101.7)	(87.1)	16.8	(27.4)	(25.9)	5.8
Extraordinary net income (expense)	(4.5)	(12,075.9)	N.S.	(10.4)	(7,187.5)	N.S.
Income before taxes	2,477.3	(10,219.3)	c.s.	565.0	(6,800.3)	c.s.
Income taxes	(890.5)	2,130.8	c.s.	(223.8)	2,738.2	c.s.
Net income before minority interests	1,586.8	(8,088.5)	C.S.	341.2	(4,062.1)	C.S.
Minority interests	21.1	4,364.0	n.s.	9.1	4,260.8	n.s.
Net income	1,607.9	(3,724.5)	C.S.	350.3	198.7	76.3

MOBILE BUSINESS

CONSOLIDATED INCOME STATEMENT

Unaudited figures (euro millions)

	January - December			October - December		
	2003	2002	% Chg.	2003	2002	% Chg.
Operating revenues	10,428.3	9,449.3	10.4	2,888.9	2,401.2	20.3
Internal expend capitalized in fixed assets (1)	90.1	75.3	19.7	34.3	9.6	259.6
Operating expenses	(5,881.3)	(5,600.3)	5.0	(1,785.7)	(1,458.2)	22.5
Other net operating income (expense)	(55.2)	(94.3)	(41.5)	(6.9)	(28.0)	(75.3)
EBITDA	4,581.9	3,830.0	19.6	1,130.6	924.5	22.3
Depreciation and amortization	(1,516.0)	(1,391.9)	8.9	(380.1)	(349.3)	8.8
Operating profit	3,065.9	2,438.1	25.7	750.5	575.2	30.5
Profit from associated companies	(80.7)	(159.5)	(49.4)	(23.8)	(41.3)	(42.3)
Financial net income (expense)	(416.6)	(364.1)	14.4	(130.6)	(126.7)	3.1
Amortization of goodwill	(116.4)	(101.5)	14.6	(32.0)	(30.0)	6.9
Extraordinary net income (expense)	(7.5)	(12,077.8)	N.S.	(13.0)	(7,189.0)	N.S.
Income before taxes	2,444.7	(10,264.8)	c.s.	551.0	(6,811.7)	c.s.
Income taxes	(889.0)	2,130.4	c.s.	(222.3)	2,734.4	c.s.
Net income before minority interests	1,555.7	(8,134.4)	c.s.	328.7	(4,077.4)	c.s.
Minority interests	38.6	4,389.9	n.s.	16.2	4,269.4	n.s.
Net income	1,594.3	(3,744.5)	c.s.	344.9	192.0	79.6

(1) Including work in process.

Analysis of results by business line

OTHER BUSINESS

DIRECTORIES BUSINESS

In spite of the slight growth experienced in the advertising market in Spain, as well as the weak exchange rates in Peru and Brazil, full year 2003 TPI's operating revenues increased by 7.1% up to 570.8 million euros. The group's EBITDA amounted to 179.6 million euros, 19.6% higher than the figure accounted in 2002. Net income rose 19.4% to 90.1 million euros. These results are explained by:

- Good performance of TPI España whose advertising revenues rose by 5.5% to 394.5 million euros, despite the still poor advertising market in Spain.
- Good behaviour in Chile (Publiguías); in local currency operating revenues grew by 5.8% and EBITDA soared by 10.1%. Not only EBITDA margin in Chile continues to be the highest within the group but it also improves 1.4 percentage points compared to 2002, reaching 36.5%.
- TPI Brasil's revenues declined 6.2% in local currency, mainly due to discontinuation of Curitiba's directory and the lower revenues stemming from the new contract with Telesp. However, thanks to the implementation of a cost-cutting plan, negative EBITDA margin improved from -12.9 million euros in 2002 to -5.3 million euros in 2003 (+48.0% in local currency).
- In TPI Peru, it must be highlighted the good EBITDA performance in local currency, which grew by 65.4%, together with the increase of 9.6% in revenues also in local currency. EBITDA margin improved 6.7 percentage points during the year up to 19.7%.

With these results, TPI met the upper part of the guidance provided to the market last May 2003 of between 7-9% growth in revenues in constant euros terms, with a final growth of 8.9%. In addition, TPI also exceeded the 14-17% EBITDA growth guidance in 2.3 percentage points, reaching a 19.3% growth in constant euros terms.

During 2003, TPI España (including Goodman Business Press) contributed 78% of the Group's revenues, and 84% of Group's EBITDA. TPI España revenues (excluding Goodman Business Press) rose by 10.7% up to 445.3 million euros, due to:

- The 4.0% growth in advertising revenues in the editorial product, helped by the recent launch of the building directory, which has already generated, revenues amounting 3.1 million euros in its first edition;
- The good performance of the internet product, where revenues increased by 17.0% vs. 2002;
- The successfully take off of telephony traffic revenues after the launch of 11888, which multiplied by almost 12 times up to 23.9 million euros.

Latin America represents the remaining 22% of revenues and contributed 27.9 million euros to the Group's consolidated EBITDA (16%), compared to an EBITDA of 16.0 million euros in 2002 (11%).

Finally, the directories business of the Telefónica Group, which includes the Argentinean company Telinver, recorded an increase in revenues of 7.1% compared with 2002, due to a better performance in the fourth quarter 2003, driven by a more stable situation in the country and the improvement of exchange rates. Revenues amounted to 589.3 million euros. EBITDA totaled 184.0 million euros, representing a year-on-year growth rate of 22.0%.

**TPI - PÁGINAS AMARILLAS GROUP
OPERATING FIGURES IN SPAIN**
Unaudited figures

	January - December		
	2003	2002	% Chg.
Books published			
Yellow Pages*	105	78	
White Pages	62	61	
<i>(Euros in millions)</i>			
Revenue breakdown (1)			
Advertising	394.5	373.9	5.5
Publishing	361.2	347.4	4.0
Yellow pages	291.1	285.7	1.9
White Pages	66.1	60.6	9.0
Building directory	3.1	—	n.d.
Europages	0.9	1.1	(19.0)
Internet	26.7	22.8	17.0
Operator assisted yellow pages	4.0	3.4	18.1
Others	2.7	0.4	645.3
Telephony traffic	23.9	2.0	1,074.4
Operator	24.6	24.2	1.3
Others	2.4	2.2	8.5

* 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. result.
Goodman Business Press is not included.

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

	January - December			October - December		
	2003	2002	% Chg.	2003	2002	% Chg.
Operating revenues	570.8	532.8	7.1	149.1	123.9	20.3
Operating expenses	(391.2)	(382.7)	2.2	(107.6)	(90.8)	18.5
EBITDA	179.6	150.1	19.6	41.5	33.1	25.3
Depreciation and amortization	(30.0)	(30.1)	(0.3)	(10.9)	(9.7)	12.7
Operating profit	149.6	120.1	24.6	30.5	23.4	30.5
Profit from associated	(1.2)	(1.8)	(34.9)	(0.2)	(0.7)	(76.1)
Financial net income (expense)	(2.6)	(1.8)	43.4	0.1	(5.9)	c.s.
Amortization of goodwill	(3.0)	(3.0)	0.0	(0.8)	(0.7)	n.s.
Consolidation adjustements	0.6	1.8	(67.8)	0.0	0.7	n.s.
Extraordinary net income (expense)	(0.8)	(7.9)	(89.4)	0.3	(7.4)	c.s.
Income before taxes	142.5	107.3	32.8	30.0	9.4	218.2
Income taxes	(48.9)	(36.0)	35.7	(10.9)	(4.0)	171.3
Net income before minority interests	93.7	71.3	31.4	19.1	5.4	253.1
Minority interests	(3.6)	4.1	c.s.	(0.1)	5.8	c.s.
Net income	90.1	75.4	19.4	19.0	11.2	69.8

DIRECTORIES BUSINESS

CONSOLIDATED INCOME STATEMENT

Unaudited figures (euro millions)

	January - December			October - December		
	2003	2002	% Chg.	2003	2002	% Chg.
Operating revenues	589.3	550.5	7.1	163.5	134.9	21.2
Internal expend capitalized in fixed assets (1)	0.0	0.0	n.s.	0.0	0.0	n.s.
Operating expenses	(375.9)	(361.5)	4.0	(111.4)	(91.3)	22.0
Other net operating income (expense)	(29.4)	(38.1)	(23.0)	(6.5)	(9.3)	(30.1)
EBITDA	184.0	150.9	22.0	45.6	34.3	33.2
Depreciation and amortization	(30.8)	(31.2)	(1.3)	(11.1)	(9.9)	12.1
Operation profit	153.3	119.7	28.1	34.5	24.3	41.8
Profit from associated companies	(1.2)	(1.8)	(34.9)	(0.2)	(0.7)	(76.1)
Financial net income (expense)	(6.6)	(5.0)	31.8	(0.6)	(9.1)	(93.3)
Amortization of goodwill	(2.5)	(1.3)	95.3	(0.8)	(0.0)	n.s.
Extraordinary net income (expense)	(1.7)	(8.4)	(79.7)	0.2	(7.6)	c.s.
Income before taxes	141.4	103.2	36.9	33.1	6.9	378.6
Income taxes	(48.9)	(36.0)	35.7	(10.9)	(4.0)	171.3
Net income before minority interests	92.5	67.2	37.6	22.2	2.9	N.S.
Minority interests	(3.7)	4.3	c.s.	(0.2)	5.7	c.s.
Net income	88.8	71.6	24.1	22.0	8.6	155.3

(1) Including work in process.

TERRA LYCOS GROUP

In 2003, the operating revenues obtained by Terra Lycos totaled 545.1 million euros, 9.1% less than in the same period of the previous year. Without the exchange rate effect, and excluding the revenues from the Bertelsmann agreement and the Alliance with Telefónica, Terra Lycos would have achieved a 16% increase in revenues in 2003 as a whole.

As a result of the Alliance there were significant changes both in the revenues from the different business lines and in the geographical origin of those revenues. In this respect, we should take into account that the revenues arising from the agreement with Bertelsmann related mainly to the online advertising line (26% of the total in 2003, compared with 45% in 2002) and were almost wholly obtained in the United States. After establishing the Strategic Alliance with Telefónica, the revenues came from other business lines, mainly Communication Services (22% in 2003, compared with 11% in 2002) and were generated in Spain and the Latin American countries in which Telefónica operates. Spain and Brazil were the countries with the highest contributions, of 37.2% and 26.1%, respectively, whilst the USA contribution to the company's total sales fell to 17.3% (19.8 percentage points lower than in 2002), for the reasons already mentioned and disregarding One Travel. The rest of the company's revenues came from the other countries in which Terra Lycos operates, with noteworthy contributions of 6.6% from Mexico and 5.0% from Chile.

Terra Lycos has maintained during this year the objective to obtain a greater efficiency and control of the operating expenses. This policy led to a significant decrease in communication costs (-21.1%) and to the containment of marketing, content and personnel expenses, with an average reduction of 31.6%.

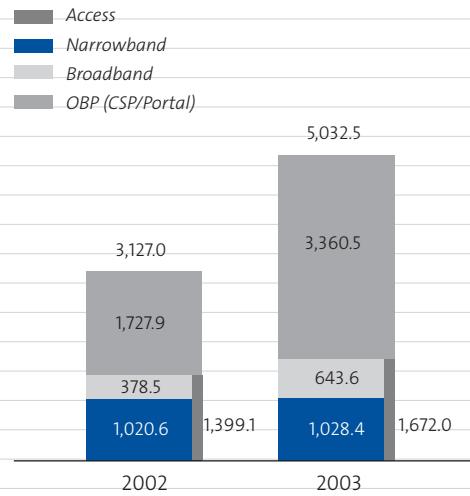
EBITDA for the year as a whole stood at -39.5 million euros, representing an EBITDA margin of -7.2%, which was an improvement of 16.4 percentage points on the same period of 2002. In the fourth quarter, the company obtained positive EBITDA for the first time ever amounting to 7.6 million euros. The Alliance with Telefónica registered 100% coverage of the value committed, reaching a total of 78.5 million euros in the year.

Terra Lycos ended the year with a total of more than 5 million subscribers, representing a significant increase of 60.9% on the figure for the same period of the previous year. The number of paying access customers was close to 1.7 million by the end of the year, and of these a significant 643,567 were ADSL access subscribers (up by 70.0% year on year).

It should be mentioned that 66.8% of the company's total paying customers had signed up for OBP products, consisting of either communication or portal products (CSPs or OBPs). The trend noted during the rest of the year continued: customers for CSP (Communication Service Provider) products registered the highest growth (+113.0% vs. 2002) and totaled 2,156,636 users, largely due to the new Alliance entered into with Telefónica (up by 286.6% vs. 2002).

At December 31, 2003, Terra Lycos had a cash position of 1,594 million euros, placing it in a privileged position of liquidity within the sector.

TOTAL PAY CUSTOMERS



During the last quarter of the year the company continued to pursue its policy of launching new products and services and establishing strategic alliances with a view to strengthening its competitive position. Among the initiatives for the last quarter, we can highlight the following: the launch by Terra España of wireless Internet access using the new WIFI technology; the agreement with MovieLink LLC to launch a new co-branded site providing Lycos users with access to MovieLink's movie download service; the launch of the new multimedia health channel, Lycos Health, in partnership with Healthology, Inc., and the launch by Terra España of the "Terra Bono Libre", an Internet access product that allows users to connect a set number of minutes a day during their chosen time band, for both narrow band and ADSL access.

TERRA LYCOS GROUP OPERATING FIGURES

Unaudited figures (thousands)

	December		
	2003	2002	% Chg.
Total pay subscribers	5,032.5	3,127.0	60.9
Access	1,672.0	1,399.1	19.5
Narrowband	1,028.4	1,020.6	0.8
Broadband	643.6	378.5	70.0
OBP (CSP/Portal)	3,360.5	1,727.9	94.5
Broadband access subscribers country	643.6	378.5	70.0
Spain	165.9	125.3	32.4
Latin America	477.7	253.2	88.7
Employees (units)	2,255	2,494	(9.6)

TERRA LYCOS GROUP
CONSOLIDATED INCOME STATEMENTS
Unaudited figures (euro millions)

	January - December			October - December		
	2003	2002	% Chg.	2003	2002	% Chg.
Operating revenues	545.1	600.0	(9.1)	155.0	134.5	15.3
Internal expend capitalized in fixed assets (1)	0.9	1.7	(45.0)	0.2	0.9	(74.6)
Operating expenses	(577.8)	(741.5)	(22.1)	(145.7)	(174.3)	(16.4)
Other net operating income (expense)	(7.7)	(1.8)	n.s.	(1.9)	13.6	c.s.
EBITDA	(39.5)	(141.7)	(72.1)	7.6	(25.4)	c.s.
Depreciation and amortization	(78.7)	(142.7)	(44.8)	(21.6)	(32.3)	(33.2)
Operation profit	(118.2)	(284.4)	(58.4)	(14.0)	(57.7)	(75.8)
Profit from associated companies	(34.7)	(148.9)	(76.7)	(19.7)	(88.7)	(77.8)
Financial net income (expense)	57.7	63.5	(9.1)	30.7	14.2	115.8
Amortization of goodwill	(82.3)	(252.6)	(67.4)	(19.9)	(61.5)	(67.6)
Extraordinary net income (expense)	4.5	(1,046.3)	c.s.	(12.9)	(1,047.2)	(98.8)
Income before taxes	(173.0)	(1,668.7)	(89.6)	(35.8)	(1,240.8)	(97.1)
Income taxes	(0.3)	(342.6)	(99.9)	(0.0)	(435.4)	n.s.
Net income before minority interests	(173.2)	(2,011.3)	(91.4)	(35.8)	(1,676.1)	(97.9)
Minority interests	0.5	2.4	(77.8)	0.1	(0.6)	c.s.
Net income	(172.7)	(2,008.9)	(91.4)	(35.7)	(1,676.7)	(97.9)

(1) Includes work in process.

ATENTO GROUP

Atento Group obtained operating revenues during 2003 of 493.0 million euros, 13.7% below that of the previous year. This variation was primarily caused by the negative impact of exchange rates (-2.4% in constant euros) and the liberalization of the telephone information service in Spain. During the fourth quarter of the year, revenues increased in current euros by 0.6%, mostly due to the higher volume of telesales campaigns, particularly in Spain.

Regarding 2003 revenues breakdown, the contribution of customers outside the Telefónica Group continued to increase, representing 37% of total revenues in comparison with the 35% of the previous year. It is important to note that this percentage rose to 38% during the fourth quarter of 2003, 2 percentage points higher than in the third quarter of 2003. Among the clients outside the Telefónica Group, it should be highlighted: Mexico with BBVA-Bancomer, Colombia with Technion and Microsoft, Chile with Seguros Interamericana and Venezuela with Movilnet. In the fourth quarter, the global agreement has been closed with BBVA, a contract with Post office in Spain for next the three years and the extension of services with existing clients (Technion in Colombia, AT&T in Puerto Rico, CANTV in Venezuela, etc.).

With respect to the evolution by countries, Spain and Brazil continue to be the highest contributors in revenues (71% of total), although this percentage has fallen by 3 percentage points over the last year due to the increased revenues contribution of Mexico, Chile, Colombia and Venezuela, as well as to the 4 percentage point drop in the revenues contribution of Spain (37% at end of 2003).

Operating expenses amounted to 429.0 million euros in 2003, 16.5% less than in the same period of 2002, due to the optimization of installed capacity, the centers adjustments, mostly in Spain, Brazil and Argentina, and the negative impact of the depreciation of the Latin American currencies (-7.3% excluding this effect). This evolution in expenses reflected the cost-cutting plan carries out by the company for second consecutive year.

As a result of the good behavior in terms of revenues and cost control, cumulative EBITDA for the year rose to 66.5 million euros, 22.4% higher than in 2002 (+46.7% excluding the currency effect). In quarterly terms, fourth quarter EBITDA 2003 obtained a year over year growth of 7.3%. The cumulative EBITDA margin in the year was 13.5%, 4.0 percentage points above that registered in 2002 and 2.0 percentage points above that of the first nine months of 2003. The 18.7% EBITDA margin reached during the fourth quarter in comparison with the 17.6% during the same period of the previous year must be underlined, confirming the Atento Group as one of the most profitable companies in the "Contact Center" sector.

The operating profit for 2003 recorded a positive result of 14.3 million euros against a loss of 21.1 million euros in 2002, mainly explained by the growth in EBITDA and the decrease in depreciation (-30.7% in current euros, -19.1% in constant euros) as a result of the higher degree of maturity achieved in operations and the decrease in CapEx.

For the first time ever, the net income for the quarter was positive (3.0 million euros against the net loss of 16.0 million euros in fourth quarter 2002), allowing for a reduction in the annual net loss to 16.2 million euros (-99.1 million euros in 2002).

At operating level, the Atento Group had 25,700 positions in place at December 31, 2003, 1,065 more than in September 2003 due to the higher volume of business in Brazil and to the extension of the contract with Technion in Colombia. As compared with 2002, a drop of 1,444 positions was produced due to the closure of centers in Spain and to the exit of Japan.

The average number of occupied positions during 2003 was 18,052 (20,696 in 2002), representing a level of occupation of 74%, a decrease of 4 percentage points from last year, largely as a result of the decline in traffic in Spain due to the liberalization of the telephone information service. The revenue per occupied position remained almost stable in relation to 2002 (2,292 euros).

Finally, CapEx during the year totaled 12.9 million euros, 29.8% less than in 2002, in line with the Group's policy of platform optimization in the centers.

ATENTO GROUP
CONSOLIDATED INCOME STATEMENT
Unaudited figures (euro millions)

	January - December		October - December		% Chg.	
	2003	2002	% Chg.	2003	2002	
Operating revenues	493.0	571.1	(13.7)	136.3	135.5	0.6
Operating expenses	(429.0)	(513.9)	(16.5)	(111.8)	(112.4)	(0.5)
Other net operating income	2.5	(2.9)	c.s.	1.0	0.7	42.1
EBITDA	66.5	54.3	22.4	25.5	23.8	7.3
Depreciation and amortization	(52.2)	(75.4)	(30.7)	(11.5)	(15.2)	(24.5)
Operation profit	14.3	(21.1)	c.s.	14.0	8.6	63.9
Financial net income (expense)	(30.3)	(85.6)	(64.6)	(6.2)	(18.0)	(65.4)
Amortization of goodwill	(6.9)	(8.3)	(17.0)	(1.6)	(1.9)	(16.0)
Extraordinary net income (expense)	2.9	(3.5)	c.s.	1.0	(2.5)	c.s.
Income before taxes	(20.0)	(118.5)	(83.1)	7.2	(13.9)	c.s.
Income taxes	4.6	18.3	(75.1)	(3.7)	(2.7)	37.0
Net income minority interests	(15.5)	(100.2)	(84.6)	3.4	(16.6)	c.s.
Minority interests	(0.8)	1.1	c.s.	(0.4)	0.5	c.s.
Net income	(16.2)	(99.1)	(83.6)	3.0	(16.1)	c.s.

CONTENT AND MEDIA BUSINESS

The Content and Media business obtained operating revenues of 1,378.5 million euros at 2003 year end, 28.1% more than in 2002. This performance was mainly due to the fact that Antena 3 and its subsidiary Onda Cero were consolidated by the full integration method during the first six months of 2003, whereas in 2002 both companies were consolidated using the equity method. The contribution made by the two companies to the consolidated revenues in 2003 amounted to 303.8 million euros.

The business's consolidated EBITDA amounted to 210.3 million euros, compared with 114.5 million euros in 2002. The positive evolution of EBITDA was due primarily to the contribution of 51 million euros from Antena 3 in the first half of the year, as well as to the positive performance at ATCO and Endemol vs 2002 and the savings achieved in the Content and Media holding's general expenses and those of other business units.

Antena 3 has been fully consolidated by Telefónica Group during the first half of 2003. After that it has been removed from Telefónica's consolidation perimeter.

ATCO

In a year in which the advertising market in Argentina registered year-on-year growth of approximately 72%, Telefé became the leading television channel with a market share of 34.3%, followed by Canal 13, its main competitor, with a share of 29.8%. The good performance in audience share made it possible to achieve an aggregate advertising market share of 41.2% (in the Capital and Gran Buenos Aires areas) at year end, 4.0 percentage points more than the company's main competitor, and 6.4 percentage points higher than in the same period of the previous year.

As a result of the significant improvement in the economic and competitive environment, ATCO obtained operating revenues of 239.3 million pesos in 2003, 47.2% more than in 2002. In turn, positive EBITDA of 16.3 million pesos was achieved, as compared with the loss of 38.1 million pesos recorded at the end of 2002.

TELEFÓNICA DE CONTENIDOS

Endemol

The cumulative revenues of the Endemol Group for 2003 amounted to 913.8 million euros, which was 5.2% more than in the previous year. Endemol obtained EBITDA of 164.6 million euros, up by 8.9% year on year, and achieved an EBITDA margin of 18%, which was 0.6 percentage points more than in 2002.

This positive progress in revenues occurred primarily in the United Kingdom and the USA, where there is strong competition in the field of audiovisual production, although the results in both cases were affected by the negative performance of exchange rates. Thus, in the United

Kingdom, Endemol strengthened its position as the leading independent television producer by launching numerous successful formats in the course of the year, leading to revenue growth of 27%. In the North American market Endemol obtained year-on-year revenue growth of 16%. As regards the Endemol Group's traditional markets, France continues to be the most important, with an increase in revenues of 11%, ahead of Italy and Gestmusic Endemol in Spain.

The Endemol Group continued to pursue its policy of revenue diversification both in relation to geographical markets and new formats. In 2003 operations began in Russia with a new fully owned company. Also, in the United States, Endemol purchased the True Entertainment company in order to strengthen the Group's drama production in the US market. At the same time, Endemol continued to invest significant resources in the development of formats by fully exploiting the scope of the multiplatform concept (merchandising, telephone calls, text messaging, content marketing through the Internet, etc.).

CONTENT AND MEDIA BUSINESS CONSOLIDATED INCOME STATEMENTS

Unaudited figures (euro millions)

	January - December		% Chg.	October - December	
	2003	2002		2003	2002
Operating revenues	1,378.5	1,076.2	28.1	341.8	352.0
Internal expend capitalized in fixed assets (1)	0.1	0.5	(73.6)	(0.0)	0.1
Operating expenses	(1,179.7)	(964.4)	22.3	(287.8)	(316.1)
Other net operating income (expense)	11.4	2.2	412.5	(4.5)	0.9
EBITDA	210.3	114.5	83.7	49.5	36.9
Depreciation and amortization	(49.9)	(49.6)	0.7	(10.5)	(9.8)
Operation profit	160.4	64.9	147.2	39.0	27.0
Profit from associated companies	(95.2)	(191.3)	(50.2)	(22.9)	(13.0)
Antena 3 TV (2)	—	(17.1)	n.d.	—	15.9
Vía Digital	(55.4)	(116.6)	(52.5)	—	(16.2)
Others	(39.9)	(57.7)	(30.9)	(22.9)	(12.7)
Financial net income (expense)	(61.5)	(133.5)	(53.9)	(14.4)	(19.6)
Amortization of goodwill	(102.5)	(94.5)	8.4	(32.1)	(25.1)
Extraordinary net income (expense)	327.9	(530.2)	c.s.	367.9	(361.8)
Income before taxes	229.0	(884.7)	c.s.	337.6	(392.5)
Income taxes	(105.1)	217.0	c.s.	(63.8)	97.3
Net income before minority interests	123.9	(667.7)	c.s.	273.8	(295.2)
Minority interests	(4.2)	(1.5)	192.2	0.0	0.3
Net income	119.7	(669.1)	c.s.	273.8	(295.0)

(1) Includes work in project.

(2) Antena 3, and its subsidiary Onda Cero, is consolidated by the full consolidation method in the first half of 2003, being de-consolidated from the financial statements afterwards.



06

Risk Management

TELEFÓNICA GROUP ACTIVELY MANAGES THE DIFFERENT RISKS TO WHICH IT IS EXPOSED, USING DERIVATIVE FINANCIAL INSTRUMENTS, MAINLY ON EXCHANGE RATES, INTEREST RATES AND SHARES



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.

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 carried on, 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).

3. Share price risk.

This is due to the variation in value of the stakes that are not consolidated globally or proportionally, of products derived from these, of own shares in portfolio, and of these derived from own shares, or those in other companies in which a stake is held.

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, dividends committed) and the sources of these (revenue, divestments, financing commitments with financial institutions, operations on capital markets).

Lastly, one must emphasise that the so-called "country risk" (mixed with market and liquidity risks) that 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, especially in Latin America.

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

- The cash flows, to facilitate financial planning and taking 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 excluding, 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).

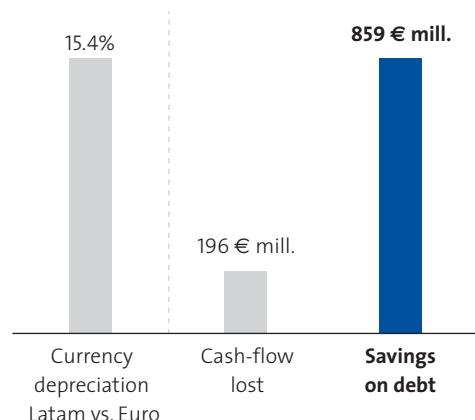
To that end, the aim has been set for the decrease in EUR value of the debt in currency to cover the flows lost over two years due to the lower value of the Latin American currency. Our estimates show that the loss in value of the Latin American currencies throughout 2002 and 2003 (in comparison to the levels of 2001 in relation to the euro) has detracted 3.22 tn Eur

from the flows generated by the Group in these two years. On the other hand, the effects of depreciation of currency on our debt has brought savings of nearly 3.86 tn Eur, to translate the debt in currency to euros. Thus, the accumulated loss of flows over the last two years has been comfortably covered (or to say the same, almost 2.4 times the average annual loss has been covered). When that effect is measured against 2003 (compared with the interest rates of 2002 in relation to the Euro), lost flows of 196 M Eur, are observed, more than compensated by savings of 859 M Eur in lesser value (when measured in euros) of the debt in currency.

The protection against future depreciations of Latin American currency in relation to the euro is based, firstly, on the debt in Latin American currency. Excluding Mexico (which is a net receiver of flows) on 31st December, the debt in Latin American currencies (other than the Mexican peso) was equivalent to 1.7 times the flows generated in Latin America. However, this debt is not uniformly distributed as a proportion of flows generated in each country, so their future effectiveness will depend on where the eventual depreciations may take place.

YEAR 2003

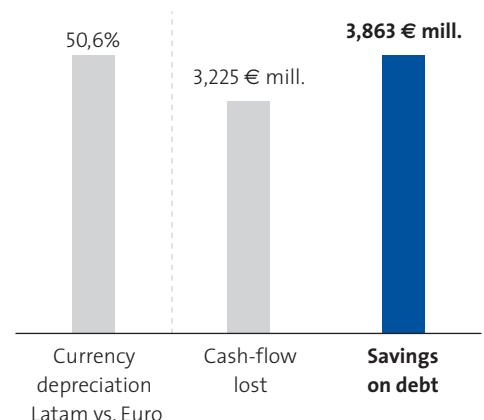
(Data in % and millions of euros)



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, that debt came to the equivalent of 1 billion euros. That net amount was less than that existing at the beginning of the year, after a change to euros (through derivative operations) the debt of nearly 4.8 billion dollars associated with the investment in Brazil. The reason for that operation was the decrease in effectiveness of the dollar as coverage for the Brazilian real, after the parity between both currencies in relation to the euro dropped over the second semester of 2002 (with a strong depreciation of the real) and the first semester of 2003 (with appreciation of the real and depreciation of the dollar). The operation materialised a positive results of 267.5 million euros, due to depreciation of the dollar from the beginning of the year until the moment of the operation to transfer the debt to euros. As a substitute for that debt, within a context of scarce correlation expected between the dollar and the Brazilian real, financial option structures traded with maturity distributed throughout 2004 for nearly 2.2 billion dollars, for protection against additional depreciation of

YEARS 2002-2003

(Data in % and millions of euros)



the dollar against the euro, without incurring the negative effect of an appreciation of the dollar on the value of the debt.

Another essential element of exchange management was to minimise the negative financial results due to variations in the exchange rates, notwithstanding being able to maintain open currency positions (under strict supervision of the risk). The difficulties to minimise the risk have arisen due to the practical impossibility to cover the external debt in dollars of the subsidiaries in Argentina through derivatives; this amounted to the equivalent to 815 million euros on 31st December 2003. However, this had a beneficial effect in 2003, as the appreciation of the Argentinean peso against the dollar provided a positive result equivalent to 134.4 million euros. That figure, along with the 267.5 million euros materialised due to cancellation of debt in dollars aforementioned, led to a positive financial result due to the exchange rate effects totalling 401.9 million euros.

In the future, adoption of international accounting principles may increase the volatility of the financial results due to oscillations of currency, as internal loans to the Group will

cease to be eliminated in the consolidation process, in order to calculate the exchange results.

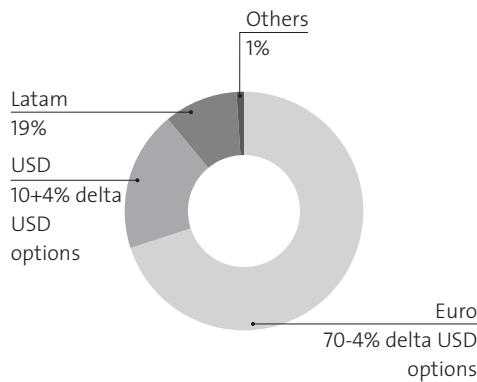
Interest Rate Risk

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 2003, 53% of the total debt (or 68.9 % of the long term debt), had its rate set for a period exceeding one year, an identical proportion to that on 31st December 2002 (that represented 65.3% of the long term debt).

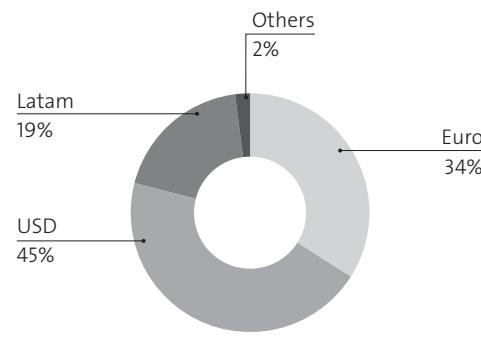
The financial costs in 2003 came to 1,462.6 million euros (excluding the positive exchange rates results of 401.9 million euros), 14% less than those in 2002. That figure of financial expenses in 2003 amounted to an average cost of 7.1% on the average net debt of the year. The strong increase in the Brazilian SELIC rate (with an average rate of 23.53% in 2003, against 19.25% in 2002) prevented a lesser global cost being obtained.

On 31st December 2003 maintenance of a high proportion of debt at variable rate in Euros (55%) and in Reais (100%) would allow the Group to

CURRENCY DEBT (December 2003)



CURRENCY DEBT (December 2002)



(1) *The equivalent delta may be defined approximately as the number of shares whose value varies equal to the value of the options, where there are very small movements in the price of the shares.*

take advantage in 2004 of drops in interest rates that had already been taking place, especially since the month of June 2003, as the official rate of the ECB (2%) as well as that of the Central Bank of Brazil (16.5%) was at the minimum levels of recent years. In fact, the effective average cost of the debt in the second semester of 2003 was 6.6%, 0.5 percentage points lower than the average for the complete year. On the other hand, the debt in dollars taken by the group (and not transformed to other currencies by exchange rate derivatives) is maintained at fixed rates practically throughout. Due to this, 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.

Telefónica actively manages its exposure to interest rates through derivatives. Faced with expected drops in interest rates in 2003, it did not perform any swap operations to fix interest rates in debt in Euros at variable rates; on the contrary, options were sold on a nominal of 1.1 billion euros in swaps which, if exercised by the counterpart, would have caused the interest rates to be fixed in some cases, paying lower levels to those in force at the time of sale of the option, while in other cases, it would have involved receiving higher rates to those in force at the time of sale of the option (in exchange for paying a variable rate). On 31st December, all the options on swaps taken in 2003 had expired, generating a profit of approximately 6 million euros.

On the other hand, after the rise in the dollar rates in the last four months of the year, the terms of coverages of debt in dollars were extended, receiving a fixed rate for that currency.

Share price risk

One of the variable yield risks Telefónica is exposed to is that due to the price of its own shares, due to the share repurchase scheme

announced in October, 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 2003, Telefónica S.A. held more than 40.5 million own shares which, if listed below their acquisition cost, would require provisions to be set aside against the Results Account.

If Telefónica is exposed to loss in the event of a drop in price of shares in portfolio, due to possible purchases of own shares, Telefónica has a contrary position: if the listed value rises, purchases become more expense and less shares may be acquired for the pre-set amount. To protect itself from that risk and in turn to avoid compromising cash flow not yet generated, in the last quarter of 2003, Telefónica acquired purchase options that granted the right (not the obligation) to purchase 33 million own shares at a preset exercise price, with maturities mainly in the central months of 2004. The maximum 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.

On the other hand, Telefónica also entered into operations for a lesser amount consisting of (i) sales of put options (that would oblige the holder to purchase own shares if the price of the share were to decrease significantly) and (ii) call bought-call sold option structures sold at different exercise prices. On 31st December, the delta equivalent¹ of these structures was 4.7 million shares.

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, which can make it necessary to evaluate them at market prices. The most significant case

during 2003 was the divestment from Antena 3, concluded with a profit of 392.3 million euros. In a contrary direction, the Pearson stake led to losses being recorded.

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 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 assigned 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 – 19,235 million euros- was 6 years. At the Investor Conference in October, the Telefónica Group announced that it expects to generate more than 27 billion euros in a 4 year period, assuming exchange rates are maintained at 2002 levels. In spite of the weakness of the Latin American currencies in relation to the euro (mostly due to the weakness of the dollar), the existing margin allows confidence that the first criteria was being fulfilled on 31st December.

Fulfilment of the second criteria was proven on checking the gross maturity of debt in 2004 (5,587.1 million euros), with the sum of (i) the liquid assets on 31st December (temporary financial investments in the amount of 3,199.6 million euros and cash and bank balances in the amount of 336.4 million euros) (ii) the annual cash generation (that amounted to 5,735.3 million

euros in 2003), and (iii) the lines of credit committed by banking firms with maturity exceeding one year, or extendable on option by Telefónica (6,368 million euros on 31st December). The existing margin allows accommodation of dividend payment of 40 cents per share (about 2 billion euros) and acquisition of the Latin American cell phone companies of Bell South, recently announced (for 5,850 million dollars). Fulfilment of these criteria as a consolidated Group is not reflected in the fulfilment reached by each individual company, although progress is being made in that direction.

In spite of 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 development of its business plans and strategy, and for management of its liabilities, and therefore, the legal or tax restrictions on such access can have a negative effect on it. 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 ratios. The following table shows these ratios and the variables involved in their calculation.

Operating figures in 2003		Millions of euros
I	EBITDA	12,602.1
II	Free cash flow	6,312.4
III	Capex	3,727.1
IV	Dividends of Telefónica S.A.	1,233.3
V=II+III-IV	Cash flow withheld (before the capex)	8,806.2

Liabilities at December 2003

A	Financial debt	19,235.3
B	Guarantees	683.5
C	Net commitments for staff reduction	3,189.6
D=A+B+C	Total debt + Commitments	23,108.4

Financial ratios

Financial debt / EBITDA	1.53
Total debt + Commitments/EBITDA	1.83
Cash flow withheld (before capex)	
Total debt + Commitments	38%

Country risk

In 2003, there has been a progressive return to stability in Latin America. Throughout the year, the perception of the sovereign risk in the majority of Latin American countries where Telefónica operates has descended. Thus, the margin of public debt of Brazil in U.S. Treasury bonds was reduced from nearly 13.7 per cent to 4.6, the margin of Peru from 5.5 to 3.1, and that of Mexico from 3.0 to 2.0 per cent (in all cases, according to the EMBI index by JP Morgan). Argentina, on the contrary, has maintained the situation of unpaid public debt, in spite of which it achieved a positive growth in GDP with moderate inflation.

The improved setting and positive expectations are no obstacle for Telefónica to continue with a strict monitoring of the risk of unforeseen loss of value of Latin American assets due to possible social, economic or political instability. Due to this, 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.

In this sense, to reduce the liquidity risk as an individual company without requiring support from Telefónica S.A., in 2003, Telefónica de Argentina restructured its debt maturity profile through a bond lengthening operation with a

face value of nearly one billion dollars, without reducing principal or interest, which was accepted overall by two thirds of the bond holders.

As to repatriation of funds, in 2003, 1,317.7 million euros were taken from Latin America, most in dividends or capital reductions (887.6 million) 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 483 million euros to launch the GSM network and had operational needs arising from a negative EBITDA of 108.7 million euros.

Derivative policy

On 31st December 2003, the nominal amount of derivatives exposure came to 30,915.3 million euros. That 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 a FRA. Even so, it is necessary to be extremely cautious in using derivatives 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 there are the results and revenue expected in currency other than the euro, that 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 effectiveness test established by the

different accounting regulations to be treated as such coverages; the decision to maintain them once the effective test is not passed and to record the results in the Profit and Loss Accounts. In this sense, due to their importance, it should be emphasized that, during part of 2003, financing was maintained for 4,769 million dollars associated with investments in Brazil up to the month of May, in spite of breakdown of the parity between the Brazilian real and the dollar against the euro; when the cancellation of the debt in dollars finally took place (mostly by disposing of currency swaps) a profit of 267.5 million euros was obtained.

ii. Adjustment between the underlying value and one of the sides of the derivative, with the greatest possible precision. That 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 there being historical imbalances between the characteristics of the coverages and the debts covered. It is the intention of the Telefónica Group to reduce those imbalances, as long as that 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 recorded 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.
The fundamental tool to evaluate and manage the risks of derivatives and of the debt is the Kondor+ system, licensed by Reuters, widely used among diverse financial entities.

iv. Sale of options only when there is an underlying exposure that counters the potential loss of exercising the option.

In 2003, Telefónica sold short term options on swaps at euro interest rates, that gave a 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 between the individual interests of the companies and those of the Group). The General Management of Corporate Finance may authorise deviations on this policy due to justified reasons, normally due to the narrowness of the markets or clearly limited, reduced risks. Likewise, the entry of companies in the group due to acquisitions or mergers, requires time to adapt.

07

Group Structure

MOST SIGNIFICANT STAKES OF THE TELEFÓNICA GROUP
AND ITS SUBSIDIARIES, BROKEN DOWN BY LINE OF BUSINESS

TELEFÓNICA, S.A.

TELEFÓNICA DE ESPAÑA
TELEFÓNICA MÓVILES
TELEFÓNICA EMPRESAS
TELEFÓNICA LATINOAMÉRICA
GRUPO TPI
GRUPO TERRA LYCOS
TELEFÓNICA DE CONTENIDOS
GRUPO ATENTO

FIXED TELEPHONY / BROAD BAND / INTERNET BUSINESS

TELEFÓNICA DE ESPAÑA GROUP	100.00%	TELEFÓNICA LATINOAMÉRICA GROUP	100.00%
TELYCO	100.00%	TELESP	87.49%
TELEFÓNICA TELECOMUNICACIONES PÚBLICAS	100.00%	TELEFÓNICA DEL PERÚ	97.21%
TELEFÓNICA SOLUCIONES SECTORIALES	100.00%	TELEFÓNICA DE ARGENTINA	98.03%
		TLD PUERTO RICO	98.00%
		CTC CHILE	43.64%
		CAN TELÉFONOS DE VENEZUELA (CANTV)	6.92%
GRUPO TERRA LYCOS	75.29%	TELEFÓNICA EMPRESAS GROUP	100.00%
LYCOS, INC	100.00%	TELEFÓNICA DATA ESPAÑA	100.00%
LYCOS EUROPE	32.01%	TELEFÓNICA SOLUCIONES	
TERRA NETWORKS PERÚ	99.99%	DE INFORMÁTICA Y COMUNICACIONES	100.00%
TERRA NETWORKS MÉXICO	99.99%	TELEFÓNICA DATA MÉXICO HOLDING	100.00%
TERRA NETWORKS USA	100.00%	TELEFÓNICA DATA COLOMBIA	65.00%
TERRA NETWORKS GUATEMALA	100.00%	TELEFÓNICA EMPRESAS BRASIL	100.00%
TERRA NETWORKS VENEZUELA	100.00%	TELEFÓNICA EMPRESAS PERÚ	97.07%
TERRA NETWORKS BRASIL	100.00%	TELEFÓNICA DATA ARGENTINA	97.92%
TERRA NETWORKS ARGENTINA	99.99%	TELEFÓNICA DATA USA	100.00%
TERRA NETWORKS ESPAÑA	100.00%	EMERGIA	100.00%
TERRA NETWORKS CHILE	100.00%	TELEFÓNICA INTERNATIONAL	
TERRA NETWORKS COLOMBIA	68.00%	WHOLESALE SERVICES	100.00%
IFIGENIA PLUS	100.00%	TELEFÓNICA MOBILE SOLUTIONS	100.00%
EDUCATERRA	100.00%	TELEFÓNICA DEUTSCHLAND	100.00%
R.U.M.B.O.	50.00%		
UNO-E BANK	33.00%		
ONE TRAVEL.COM	54.15%		

100.00%
92.44%
100.00%
100.00%
59.90%
75.29%
100.00%
91.35%

MOBILE TELEPHONY BUSINESS

TELEFÓNICA MÓVILES GROUP	92.44%
TELEFÓNICA MÓVILES ESPAÑA	100.00%
BRASILCEL ¹	50.00%
TCP ARGENTINA	97.93%
TEM PERÚ	97.97%
TELEFÓNICA MÓVILES MÉXICO	92.00%
TEM EL SALVADOR	90.30%
TEM GUATEMALA	100.00%
GROUP 3G ALEMANIA	57.20%
IPSE 2000 (ITALIA)	45.59%
3G MOBILE AG (SUIZA)	100.00%
MEDI TELECOM (MARRUECOS)	32.18%
TELEFÓNICA MÓVILES INTERACCIONA	100.00%
MOBIPAY ESPAÑA	13.33%
MOBIPAY INTERNACIONAL	36.05%
T.M. APIC. Y SOLUCIONES (CHILE)	100.00%

OTHER BUSINESSES

TELEFÓNICA PUBLICIDAD E INFORMACIÓN (TPI) GROUP	59.09%
PUBLIGUIAS (CHILE)	51.00%
TPI BRASIL	100.00%
TPI PERÚ	100.00%
11888 SERVICIOS	
CONSULTA TELEFÓNICA	100.00%
GOODMAN BUSINESS PRESS	100.00%
ATENTO GROUP	91.35%
ATENTO TELESERVICIOS ESPAÑA	100.00%
ATENTO BRASIL	100.00%
ATENTO ARGENTINA	100.00%
ATENTO DE GUATEMALA	100.00%
ATENTO MEXICANA	100.00%
ATENTO PERÚ	99.16%
ATENTO CHILE	82.77%
ATENTO MAROC	100.00%
ATENTO EL SALVADOR	100.00%

TELEFÓNICA DE CONTENIDOS GROUP	100.00%
TELEFÉ	100.00%
ENDEMOL	99.47%
LOLA FILMS	70.00%
SERVICIOS DE TELEDISTRIBUCIÓN	100.00%
SOGECALE	23.83%
TELEFÓNICA SERVICIOS AUDIOVISUALES	100.00%
PEARSON	4.85%
HISPASAT	13.23%
TORNEOS Y COMPETENCIAS	20.00%

(1) A Joint Venture that consolidates by the global integration method TeleSudeste Celular, CRT Celular and Telesp Celular Participações. The acquired stake in TeleCentro Oeste shall be incorporated into Telesp Celular Participações as from May 2003. The stakes in Brasitel and its subsidiaries are as follows: TeleSudeste Celular: 83.9%, Telesp Celular: 65.01%, Celular CRT: 49.6%, Teleste Celular: 27.7% and TeleCentro Oeste: 18.8%

08

Complementary Information





[**08_01 Chronology of events**](#)

08_01

Chronology of events



JANUARY

- The Brazilian joint venture formed by Grupo Telefónica subsidiary **Telefónica Móviles** and Portugal Telecom signs an agreement with the Brazilian firm of Fixcel (controlled by the Splice Group) to **acquire the control of Tele Centro Oeste (TCO)**. The transaction is accomplished through the subsidiary company Telesp Celular Participações.
- Telefónica de España** revises line subscription fees in order to make further progress in the **rate rebalancing** process demanded by the European Union at the beginning of the deregulation of Spain's telecommunications market in December 1998.
- Telefónica Móviles España** donates one million euros to Galicia as its contribution to the **recovery of the Galician coast** after the tragic oil spill caused by the breakup of the tanker *Prestige*.
- The Group inaugurates its **Corporate Volunteer Program**, in which all active or retired employees of the Grupo Telefónica are eligible to participate.
- Telefónica de São Paulo** obtains a **loan from the JBIC** (Japan Bank for International

Cooperation), in the amount of 29.76 billion yens, equivalent to 250 million dollars.

- Telefónica considered most-respected company**, according to the annual survey carried out by Pricewaterhouse Coopers and The Financial Times.

FEBRUARY

- TPI-Páginas Amarillas** (Telefónica Publicidad e Información – Yellow Pages) launches the **new information service telephone number 11888**. The new service represents a clear commitment to quality in the new framework of deregulation of telephone subscriber number information services.
- telefonica.es**, the Internet gateway to Telefónica, is selected by Spain's financial magazine **Dinero** as the **best website** of all the companies listed on Spanish stock exchange Ibex 35 index. The study leading to the selection was conducted in cooperation with Look & Enter, a company specializing in Internet marketing and communication.
- Telefónica's Board of Directors approves the **first report on the company's corporate governance**. The first document of its kind to be published by a major Spanish corporation,



the report analyzes the different measures taken by Telefónica to apply the new national and international principles aimed at improving accountability and quality in business management.

- **Telefónica Data** becomes the first service provider in Latin America to receive the **Service Provider Core Infrastructure Certified** designation. This important certification was awarded to the company by **Trusecure**, the world leader in security.
- **Telefónica de España** begins offering its new **Satellite Internet Access** service, aimed at clients who need a high speed Internet connection in areas lacking ADSL coverage.

MARCH

- Telefónica begins offering **national and international long distance service from any city in Brazil**. Telefónica's long distance service outside São Paulo State becomes Super 15 and is made available to Brazilian users nationwide.
- **Telefónica Móviles España** (TME) signs an agreement with the Japanese company **NEC** for the development and supply of a multimedia platform to enable TME clients to
- **access Internet services (i-mode)**. Furthermore, it also provides clients the option to use GPRS when in the United States, thanks to the roaming agreement reached with T-Mobile USA. TME thus becomes the first Spanish operator to open roaming with the United States. In addition, it launches the "**Europe in contact**" service that enables Telefónica MoviStar clients who are in **Europe** to receive calls without assuming the cost of the connection.
- Intel Corporation and **Telefónica de España** enter into an agreement to develop a new mobile telephony product called Centrino (wireless technology) over broadband in Spain. This technology **frees portable computers from reliance on wires**.
- **Telefónica Data Argentina** and the **3Com Corporation** sign an agreement to offer turnkey network solutions to companies throughout Argentina.
- **Telefónica I+D** receives one of two honorable mentions in the "**II Premios Internacionales ONCE I+D**" (the second international R&D awards organized by the organization for Spanish blind persons, ONCE), during a ceremony presided by Josep Piqué,

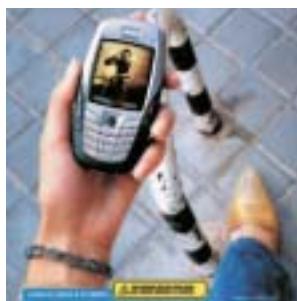


Minister for Science and Technology. Also attending at the event were the presidents of ONCE, the Real Academia de Ciencias Físicas (Royal Academy of Physical Sciences) and CSIC (Superior Council for Scientific Research), and the Ambassador of Sweden.

- Global Reporting Initiative (GRI) accepts Telefónica S.A. as a member of its **Stakeholder Council**. GRI is an independent institution whose main mission is the development of reporting guidelines governing the publication of reports by companies on corporate responsibility and sustainability. Since its founding in 1997, GRI has published diverse documents recommending the principles that may be applied voluntarily by numerous companies in reporting on the economic, environmental and social dimensions of their activities.
- Telefónica and its president, César Alierta, remain, for the second year running, ranked among the businesses and managers with the best corporate reputation, according to the MERCO index (Spanish Monitor of Corporate Reputation).

APRIL

- **Telefónica Móviles, T-Mobile International and TIM** (Telecom Italia Mobile) announce an agreement to forge a **strategic alliance**, with the aim of offering their clients in all countries in which they are present common high-quality products and services, thus reinforcing the partners' ability to compete in international markets.
- In Spain, 1003, the information number formerly used by Telefónica customers, ceases to be operative. To access the subscriber number **Information Service** provided by **Telefónica de España** as part of its Universal Service, users must dial the **new number: 11818**. By making this change, Telefónica is complying with Spain's Ministerial Order of March 26, 2002, and with Spain's Telecommunications Market Commission Resolution of November 7, 2002.
- **Telefónica Móviles and Portugal Telecom** announce that **Vivo is the unified brand of the joint venture** that brings together all their mobile telephony operations in **Brazil**. The announcement reflects the consolidation of Brazil's leading cellular telecommunications operator and the largest mobile telephony company in South America. In addition,



Brasilcel, the Brazilian joint venture, between Telefónica Móviles and Portugal Telecom which operates with the Vivo brand name throughout the country, finalizes the acquisition of 61.10% of the ordinary voting shares of Brazilian mobile telephony company Tele Centro Oeste Celular Participações, S.A.(TCO), having complied with the conditions to which the transaction was subject.

- **Telefónica Móviles** and the Finnish corporation **Nokia** announce the start-up of the **new GSM network** (Global System for Mobile Communication), with a GPRS (General Packet Radio System) platform, that will operate in **Chile** in the 1900 MHz frequency band.
- **Telefónica de España, BBVA, HP España, and Microsoft Ibérica** sign an agreement to create the **Information Society Support Office**.
- Telefónica devotes a section of its website to specific issues concerning Corporate Governance and Corporate Responsibility.
- The Human Resources and Corporate Reputation Commission requires Corporate Responsibility reports to be written in all

countries in which the Telefónica Group operates.

MAY

- The Board of Directors of Telefónica, S.A. approves the acceptance of the offer made by the Planeta Group for **25.1% of its stock in Antena 3 TV**. The transaction is part of the process of disinvestment in Antena 3 TV initiated by Telefónica to comply with Spain's legislation governing private television. The general meeting of Telefónica's shareholders voted to approve the distribution, as a paid-in-kind dividend, of a maximum of 30% of the Antena 3 TV shares among Telefónica's shareholders.
- **Telefónica de São Paulo (Brazil)** launches a sales campaign to offer **local telephone services outside São Paulo State**, the geographic area for which the company had the original concession to provide this service. This is the first step toward a progressive attainment of the goals established in the contract signed in May 2002 with Brazil's national telecommunications agency, Anatel.
- Spain's Ministry of Science and Technology, Interior Ministry, and Health and



Consumption Ministry, in cooperation with all the mobile telephony operators and terminal manufacturers, develop a series of technical solutions to **make the use of stolen cellular telephones impossible**. The objective of this action is to remove the incentive behind mobile phone theft, as the terminal would become devoid of value when blocked.

- **Spain's broadband market** reaches the figure of 1,500,000 accesses, of which 1,200,000 are ADSL lines and 300,000 are connections through cable modems, according to estimates made by **Telefónica de España**.
- **Telefónica Móviles España** launches its **Single European Rate**. With this new service, MoviStar customers can make calls from western European countries at one rate, regardless of the destination of the call, the time the call is initiated or the local operator used.
- Telefónica's Board of Directors approves the launching of a **public cash bid** for 100% of the shares of **Terra Lycos**. The Offer of 5.25 Euro per Terra Lycos share is subject to a **minimum level of acceptance of 75% of its**

capital base and would imply a maximum payment for Telefonica of 1,726 million Euros.

JUNE

- The management of **Telefónica de España** presents to labor union representatives a proposal for negotiating a **staff reduction plan** that will keep the company competitive. The objective of the plan, which is based on the principles of voluntary action, universality and non-discrimination against employees when arranging redundancies, is to ensure that the company will remain competitive in the new telecommunications market environment, which will, in turn, guarantee the development of the information society in Spain.
- **Telefónica de España** implements the **GEICO** (Spanish acronym for integrated fee collection management) project to cover the two **central collection management processes**: Accounts Receivable and Credit Management for all client segments of Telefónica de España, Telefónica Data and Telefónica Cable. **GEICO** is part of an ambitious systems renewal plan, and also gives coverage to **Telefónica Móviles España** and TPI's Official Client segments.



- **INVERTIA**, Terra Lycos' financial portal, wins the **Schroders Financial Journalism Prize** for its work on the effects of wars on the stock market. The study anticipated the effects of a possible armed conflict in Iraq, which ultimately broke out months after the publication of the study.

- **Telefónica Móviles España** publishes the **Sustainability Report** for its 2002 fiscal year. The document is an exhaustive report where the company presents the new practices and solutions adopted in order to contribute to a sustainable development. The report marks a starting point in the definition of a new management framework for Telefónica Móviles España which, based on responsibility and accountability, will include economic, social and environmental factors to generate greater value for society.

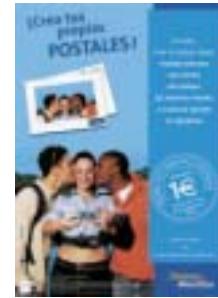
- The Chairman of the Board of Telefónica, **César Alierta**, conveys to Mexican President Vicente Fox the message that **Mexico is a strategic market for Grupo Telefónica's future**, and that the company intends to consolidate as the second national mobile telephony operator in the Mexican market through its subsidiary company, Telefónica Móviles.

- **Telefónica de Argentina** appoints **Mario E. Vázquez President** of the company. Vázquez takes over from Miguel Ángel Gutiérrez, who joins the Board of Directors of Telefónica Internacional, S.A. Mario E. Vázquez, an economist and auditor, is a member of the Board of Telefónica, S.A.

JULY

- Telefónica obtains a net profit of 1,425.6 million euros thanks to the positive development of the operational and financial results in the first six months of the year, a clear contrast with the net loss of 5,574.2 million euros incurred during the same period of the previous year, due mostly to the extraordinary provisions made within that timeframe. The mobile telephony business still contributes the greatest growth to the group's EBITDA.

- **The Board of Directors** decides to strengthen its commitment to its **shareholder reward** policy, initially adopted in 2002, by agreeing to propose to the General Shareholders Meeting for the 2003 fiscal year the payment of a dividend of 0.4 euros per share.



- Telefónica concludes the **public bid for shares of Terra Networks**, considering the resulting stake in this company to be sufficient to carry out the business project that was envisioned when the bid was launched.
- Telefónica presents the **Digital Home White Paper**, intended to serve as a benchmark in the process of developing the information and knowledge society in Spain, especially in Spanish homes.
- **Telefónica de España** obtains an **above-average quality of service rating** with respect to other fixed telephony operators, according to the report prepared by the Ministry of Science and Technology.
- **Electronic billing**, which Telefónica de España launched in July 2002, obtains a new digital certificate issued by Spain's national mint, which grants the company full tax validity with the recognition of the Tax Office.
- **The Fundación Telefónica** organizes the exhibition "Chillida en la Colección de Telefónica" (Chillida in the Telefónica Collection), at the Casa Museo Chillida-leku (the Chillida House museum), in Hernani. This

exhibition brings together works from one of the most significant, complete private collections of this artist's sculptures and drawings.

- Telefónica, S.A. informs the Comisión Nacional del Mercado de Valores (CNMV) of its intention to renounce the 75% minimum acceptance limit to which its bid for Terra Networks was subject, having concluded that the resulting participation in said company is sufficient to pursue the business plan motivating the bid.
- **Telefónica Móviles México** continues its process of **growth and consolidation of the MoviStar GSM network**, reaching a potential market of over 35 million people in 15 cities. Meanwhile, **Vivo, the brand** created by Telefónica Móviles and Portugal Telecom for their mobile telephony operators in Brazil, is the brand **most recognized** by the country's consumers only three months after its launching.

AUGUST

- The alliance formed by **Telefónica Móviles, Orange, Telecom Italia Mobile and T-Mobile** announces its first fruits: a range of products and services that offer greater variety,



flexibility and accountability to both corporate and individual users.

- **Telefónica de España** enriches its array of services with a new range of products designed to safeguard the **security** of computer equipment and software in businesses and homes.
- **The Real Academia Española** (Spanish Royal Academy), the Fundación Telefónica and Terra Lycos will work together to spread the Spanish language through the Internet. As a first step, Internet users can now access the Royal Academy's dictionary of the Spanish language through Educaterra, Terra Lycos' e-learning portal.

SEPTEMBER

- The Board of Directors approves a **new organizational model** in which Telefónica's lines of activity are simplified through the incorporation of corporate business (Telefónica Data) into the fixed telephony businesses in Spain and Latin America. The Chairman of the Board takes over direct responsibility for all executive functions, and the figure of the Managing Director disappears; Fernando Abril-Martorell is consequently relieved of his executive functions.
- **Telefónica Móvil (Chile)** tops **two million users** and strengthens its leadership. The company has expanded its client base by 14% and is growing profitably, as is borne out by the 15% income growth it recorded in the first half of 2003.
- All **TTP phone booths** (TTP is *Telefónica Telecomunicaciones Públicas*, Telefónica's public payphone subsidiary) now allow users to send **text messages, electronic mail and faxes**. **Mundo ADSL** adds **music downloads** to its line of services; the new music feature enables users to store on their computers and to record in CD or MP3 format, an ample catalog of recordings from the top record labels. In addition, **Telefónica de España** begins to change its **903-906 prefixes to 800 numbers** that will enable users to distinguish the type of information requested.
- **The Board of Directors** executes the resolution adopted by the General Shareholders Meeting on **distribution to the company's shareholders** of an extraordinary paid-in-kind dividend using part of the share issue premium reserves, by allotting **shares of Antena 3** representing 30% of that company's share capital.
- The Chairman of Telefónica de España, Julio Linares, states the company's investment in



broadband development during the period 2000-2003 was of 2 billion euros. In addition to the important investments in broadband, Linares mentioned innovations made in connectivity, incorporating Wi-Fi solutions.

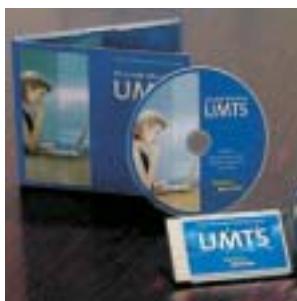
- To its array of multimedia messaging products **Telefónica Móviles España** adds a **postcard** sending service.
- Telefónica renews its participation in the FTSE4GOOD, one of the so-called “ethical”, sustainable or socially responsible stock market indexes which include companies that stand out for demonstrating a positive social and environmental behavior, and serve as a point of reference for a large percentage of ethical investments.
- Telefónica presents its model of Corporate Reputation and Responsibility to the European Union at the Multistakeholder Forum.

OCTOBER

- The **Board of Directors** advances in the **development of a new organizational model** intended to give greater emphasis to sales. The objective is to strengthen the **major accounts segment** as much as

possible. Inside Telefónica de España, the General Companies Management office now reports to Telefónica Empresas España, which also includes Telefónica Data España, Telefónica Soluciones España and Telefónica Soluciones Sectoriales. Heading this new General Management is José Rocillo.

- Telefónica holds its **III Shareholders Conference**, and announces that the company expects to generate a **free cash flow** in excess of **27 billion euros** during the three-year span from 2003 to 2006. The funds yielded by this flow will be allocated to dividend payments over the coming three years, to liability containment and to other financial commitments.
- Telefónica's Chairman, **César Alierta**, expects that in 2006, 41% of Telefónica de España's personnel and 38% of the Latin American staff will be involved in **sales work**. Mr. Alierta advocates a more flexible business model, with an organization more closely focused on its key businesses. He believes the implementation of this new model will make the Group lighter in both assets and costs. The three priority growth areas are broadband, mobile telephony and fixed telephony in Latin America.



- **Telefónica Móviles España** presents the pre-commercial launch of 'Oficin@ MoviStar UMTS,' the **first UMTS service** to be offered by an operator in Spain. This new UMTS portable office service is the company's way of ratifying the pledge it made to the Spanish government.
- **Terra España** adds the new **Wi-Fi technology** to its catalog of high-speed products.
- TPI launches the **new PaginasAmarillas.es** (yellow pages on the Internet). The new design gains in clarity and simplicity while allowing users to navigate more quickly. Also remodeled are the other two reference websites: PaginasBlancas.es (white pages) and El Callejero (street map).
- The Corporate Reputation Forum, which to date was composed of the Agbar Group, BBVA, Repsol YPF and Telefónica, has expanded its membership to include Aventis, Ferrovial, Gas Natural, Iberdrola, Iberia, Inditex and Renfe.
- **NOVEMBER**
 - The number of **ADSL lines** installed in Spain tops 1.5 million. Since 2000, the company has invested some 2,000 million euros in the creation of infrastructures, services and content.
- **Terra España** conducts a study intended to measure the effectiveness of **Internet advertising** in combination with other media. This initiative is the first of its kind in Spain.
- Telefónica's Chairman, **César Alierta**, announces to Argentine President **Néstor Kirchner** investments amounting to **610 million euros** over the coming four years, allocated in part to the installation of fixed lines with broadband access.
- The **Fundación Telefónica** makes grants to **519 Spanish non-profit organizations**. These entities, which have a service at their disposal to improve the effectiveness with which they attend to their public by telephone, have benefited from this support for the installation of 705 ADSL lines and the development of 68 projects.
- Telefónica presents ***Las Telecomunicaciones Multimedia (Multimedia Telecommunications)***, a book which explains in layman's terms, the multimedia applications and services that will be available in the near future, regardless of the type of network used.



- The Group's **company-pension schemes**, managed by Fonditel, are **awarded a prize** as the best company-pension schemes in Spain.

DECEMBER

- Telefónica culminates its organization**, which is focused on three essential businesses: Telefónica Móviles, Telefónica de España and Telefónica Latinoamérica. A new Subsidiaries business unit includes the TPI, Endemol and Contenidos (content) businesses.
- Telefónica Móviles Perú** launches the cellular telecommunications network with the fastest transmission speed in the Peruvian market, and consolidates its **leadership** in the country's mobile telephony market. **Telefónica Móviles España** participates in the first multimedia **advertising campaign** via cell phones ever undertaken in Spain. **Vivo**, the Brazilian operating company and Telefónica Móviles subsidiary, reaches **20 million clients**, a milestone that makes it the first Brazilian enterprise with the country's largest client base.
- Telefónica de España** installs its **millionth ADSL line** in the offices of Prosegur, a major Spanish security services company. Telefónica extends its **broadband coverage to the entire Spanish territory** by expanding its satellite Internet access offering.
- Telefónica Móviles signs an agreement with Mobilkom Austria** for the sale of 3G Mobile Telecommunications, the Group's mobile telephony subsidiary in the Austrian market. This is the **first UMTS spectrum sale** in Europe, and may, therefore, open the door to future agreements between operating companies.
- Telefónica, once again a leader**, has been considered, together with MRW and Iberia, the Spanish company best perceived for its social action, according to the ranking by the Fundación Empresa y Sociedad (Business and Society Foundation).

08_02 Glossary

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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.

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.

B2B (Business to Business). Electronic commerce between companies.

B2C (Business to Consumer). Electronic commerce between companies and end consumers.

Backbone. Main ‘artery’ or network referring to transport traffic networks.

Bandwidth. Technical term to describe the difference in Hertz (Hz) between the highest and lowest frequency of a transmission channel. However, the term is often used to refer to the amount of data that may be sent in a specific time period via a communication circuit.

Banner. Advert contained within a web page.

Bit/s (bits per second). Measurement of the transmission capabilities of a telecommunications line.

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.

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.

CAPEX (Capital Expenditures). Investment in tangible and intangible assets.

CAPEX (Capital Expenditures). Physical and non-physical intangible investments.

CDMA (Code Division Multiple Access). Multiple access by code division. This is a wireless digital technology that enables operators to provide advanced, new generation services such as wireless Internet access. By using digital coding and wide spectrum radio frequency (RF) techniques, CDMA establishes mobile communications in compliance with US standard IS 95 in the radio frequency range between 800 and 1900 MHz.

CDMA (Code Division Multiple Access). A type of modulation mainly used in mobile telephone systems.

Chat. Simultaneous communication between two or more users over the Internet, using short written messages.

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.

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.

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.

DataWarehouse. Platform or information system oriented to business decision-making which, by giving integrated storage to important business information, enables its users to make complex queries with rapid response times.

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.

E-Commerce. Commercial exchange of goods and services using Information Technologies and Communication networks.

Electronic Money. electronic payment method based on pre-paid credit cards or specific types of software to exchange goods and money over the Internet. It is hoped that in the future it will be one of the driving forces behind the revitalisation of electronic commerce.

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-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.

Europe. Initiative by the European Commission to introduce the Information Society to all European citizens.

e-learning. Human resources training system using Internet technology.

e-mail. Electronic mail.

e-SIF. Global collection system of financial and management information for Grupo Telefónica.

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.

Financial Assets. The products, promissory notes, bonds, shares, etc., that the issuer uses to finance itself.

Firewall. System installed between a local network and the Internet.

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.

Free Cash Flow. Number of shares of a company that are outstanding and available to be traded by the general public.

Free Float. Number of shares available for the share capital of a company which are in circulation and freely available for public purchase.

Generic Domain. Multi-national domains identified by a series of letters: ".com", ".org", ".edu", ".gov", ".biz", ".info", ".name", ".pro", ".aero", ".museum", or ".coop".

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.

Gateway. Internet access point to a wide range of resources and services, including search engines, chat forums, commercial sites, etc.

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. In the strictest sense of the term, hackers do not seek any type of profit or to cause harm to others; this is the realm of the so-called 'crackers' or 'phreakers'.

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.

Host. In Internet terms, 'host' initially referred to any computer with access to other computers in the network. Each host has its own IP address that gives it a definitive identity. However, since

the appearance of 'virtual hosts', this is no longer the case.

Internet Address. IP address that definitively identifies a connection point in an Internet network.

IP Address. Address defined by Internet Protocol. Usually represented by a series of numbers separated by decimal points, for example 193.127.88.345

IGS. Issue for General Subscription to shares. Unlike a POS, an IGS may or may not be freely subscribed to.

Incumbent. Dominant entity within a given market.

i-mode. Packet transmission service which allows Internet connection via mobile telephones.

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.

Internet. Digital network with packet switching, based on TCP/IP protocols.

Intranet. Internet-type network for private use.

Input. Internal consumption.

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, e-mail services, etc.

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.

Knowledge Bases. Basically databases or facilities used to store information and optimise its use, considered as an asset within an organisation.

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.

Local Loop. Final section of a network (pair cable) which connects customer's homes to a local telephone exchange. Most local loops measure less than three kilometres.

Marketplace. Internet websites designed for electronic commerce, acting as a meeting point between offer and demand within a virtual marketplace Internet.

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).

MMS. Multi-Media Messages via mobile telephone incorporating voice messages, images, video and audio.

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.

Online. Connected to a network.

O.B.P ("Open, Basic, Premium"). Commercial offer by Terra based on a combination of access and open services for all users, together with other services for which it receives payment, via quotas and "pay per view" or "pay per use" services.

POS. Public Offer for Sale of shares aimed at the general public.

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.

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.

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.

Palmtop. Small hand-held computer, usually identified with PDA agendas (Personal Digital Assistant).

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.

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.

Premium. Special service (TV channel, web page, package of available channels etc,) with particularly attractive contents, offered at a specific price to customers who already receive the basic package from a platform.

Price-Cap. New system of maximum annual prices established by the relevant authority.

R+D. Research and Development.

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.

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'.

SMS. Short Message Service offering GSM mobile telephone users the opportunity to send messages of up to 180 characters using a signalling channel.

SRC (Subscriber Retention Cost). Monthly cost of maintaining mobile telephone customers.

Search Engine. 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.

SSC (Shared Services Centre). An outsourcing support services provider for different companies.

Synergies. The convergence and sharing of resources between different areas or departments within the same system or organisation.

Spam or Spamming. The receipt of unsolicited e-mail sent en masse by companies or individuals.

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.

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.

3G or Third Generation. Third generation mobile telephones. (See **UMTS**)

Take-over Bid. Stock exchange operation whereby a company attempts to acquire a substantial part of the share capital of another company with shares 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.

TIC. Spanish acronym for Communications and Information Technologies (CIT).

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. Examples of URL's are <http://www.anaya.es> or <ftp://ftp.ati.esusuario>.

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.

WAP (Wireless Application Protocol). Protocol giving mobile telephone users interactive Internet access, viewing information on the telephone's screen.

Web. Internet information server. Also used to define web space as a whole.

Website. Group of web pages accessed using a single URL address.

WML (Wireless Markup Language). Shortened version of HTML mark-up language for wireless telephone communications.

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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08_03

Tables and graphs index

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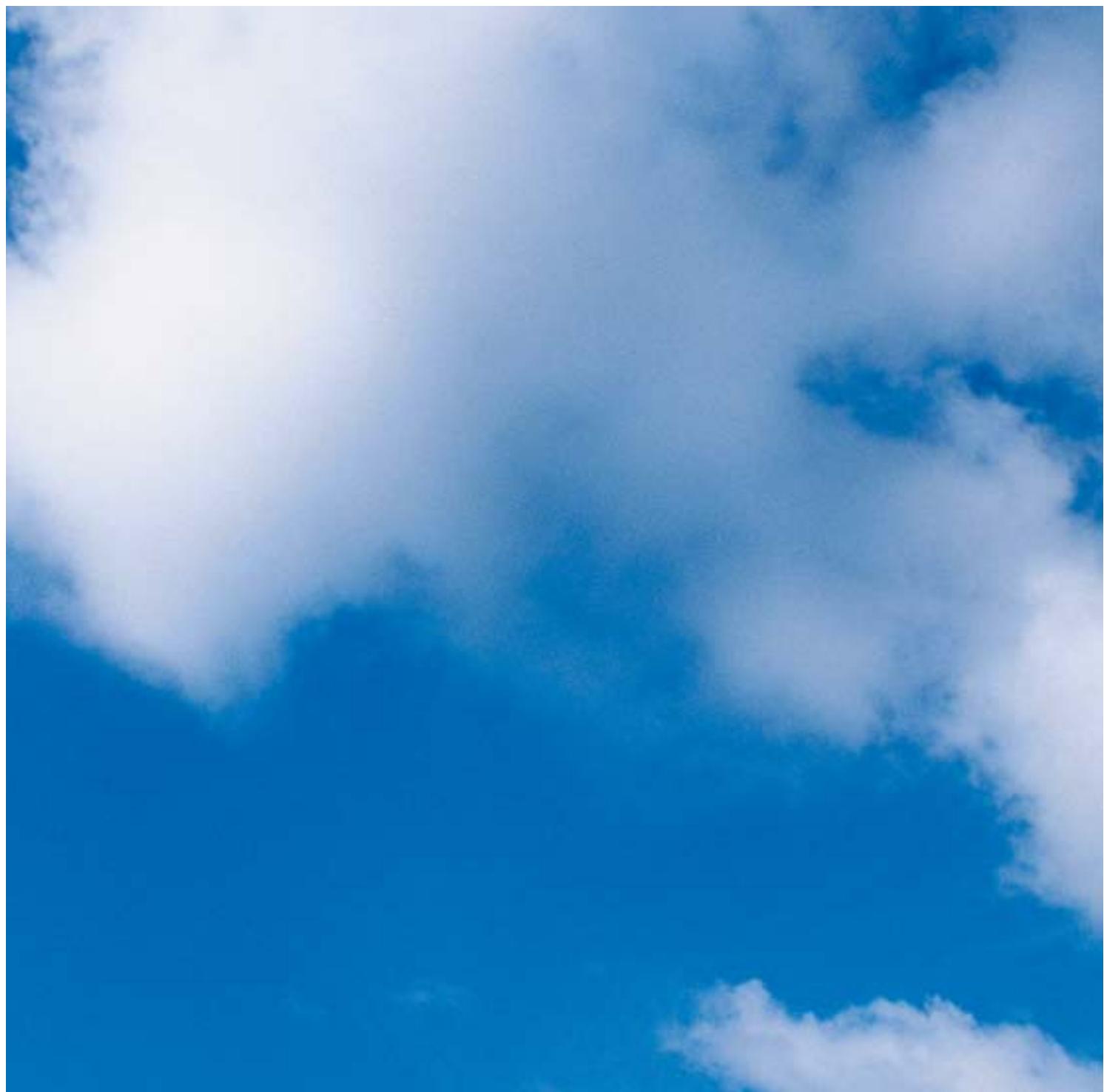
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09

Financial Information

CONSOLIDATED ANNUAL FINANCIAL STATEMENT AND MANAGEMENT REPORT
ANNUAL FINANCIAL STATEMENT AND MANAGEMENT REPORT OF TELEFÓNICA, S.A.





09 _ 01

Consolidated annual financial statement and management report

FOR FISCAL YEAR 2003. TELEFÓNICA, S.A. AND SUBSIDIARIES



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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, 2003, and the related consolidated statement of operations 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 2003 figures for each item in the consolidated balance sheet and consolidated statements of operations and of changes in financial position, the figures for 2002. Our opinion refers only to the 2003 financial statements. Our auditors' report dated February 26, 2003, on the 2002 consolidated financial statements contained an opinion qualified for an uncertainty concerning the Telefónica Group's net investment in Argentina.

In 2003 both Telefónica de Argentina, S.A. and Telefónica Móviles Argentina, S.A. contributed net income to the Telefónica Group's consolidated statement of operations, and exchange gains to the consolidated "Stockholders' Equity - Translation Differences in Consolidation" caption. Net of these effects, the Telefónica Group's net investment in Argentina as of December 31, 2003, amounted to €1,095 million, an amount which the Group's directors consider will be recovered, based on the results in the latest business plans prepared by them (see Note 4-a).

3. In our opinion, the consolidated financial statements for 2003 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, 2003, 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 applied on a basis consistent with that of the preceding year.
4. The accompanying consolidated management report for 2003 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 2003. 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 from the accounting records of the consolidated companies.

DELOITTE & TOUCHE ESPAÑA, S.L.
Registered in ROAC under no. S0692

Javier Ares San Miguel
February 26, 2004

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	2003	2002
A) DUE FROM STOCKHOLDERS FOR UNCALLED CAPITAL	—	292.49
B) FIXED AND OTHER NONCURRENT ASSETS	45,003.93	50,008.83
I. Start-up expenses	543.59	496.48
II. Intangible assets (Note 6)	7,673.16	7,629.57
Research and development expenses	1,189.92	1,179.15
Administrative concessions	6,603.09	6,350.20
Rights on leased assets	92.77	84.40
Other intangible assets	4,306.95	4,321.83
Accumulated amortization and allowances	(4,519.57)	(4,306.01)
III. Property, plant and equipment (Note 7)	24,315.78	27,099.65
Land and structures	6,071.16	6,159.15
Plant and machinery	2,385.42	3,739.81
Telephone installations	55,885.32	53,758.90
Furniture, tools, etc.	2,831.18	3,132.06
Construction in progress	1,074.00	986.15
Advances on property, plant and equipment	7.21	66.15
Installation materials	185.66	162.63
Accumulated depreciation and allowances	(44,124.17)	(40,905.20)
IV. Long-term investments (Note 8)	12,471.40	14,783.13
Investments in associated companies	1,507.40	2,081.19
Other investments	492.37	932.03
Other loans	1,212.53	2,225.26
Long-term deposits and guarantees given	582.39	160.77
Taxes receivable (Note 18)	9,029.48	9,679.42
Allowances	(352.77)	(295.54)
C) CONSOLIDATION GOODWILL (Note 5)	6,053.87	6,364.02
D) DEFERRED CHARGES (Note 9)	535.04	802.28
E) CURRENT ASSETS	10,482.36	10,573.67
I. Inventories	400.97	449.83
Inventories	451.17	498.64
Advances	1.38	14.81
Allowances	(51.58)	(63.62)
II. Accounts receivable	6,218.26	6,029.15
Trade receivables (Note 10)	6,266.17	5,922.88
Receivable from associated companies	80.37	148.59
Sundry accounts receivable	393.67	657.05
Employee receivables	48.90	58.08
Taxes receivable (Note 18)	1,122.84	1,055.37
Allowances for bad debts (Note 10)	(1,685.75)	(1,663.56)
Allowances for sundry accounts receivable	(7.94)	(149.26)
III. Short-term investments (Note 8)	3,199.64	3,031.67
Loans to associated companies	316.14	303.53
Short-term investment securities	2,205.05	1,963.87
Other loans	692.18	770.05
Allowances	(13.73)	(5.78)
IV. Short-term treasury stock (Note 11)	133.46	334.56
V. Cash	336.42	543.91
VI. Accrual accounts	193.61	184.55
TOTAL ASSETS (A+B+C+D+E)	62,075.20	68,041.29

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

STOCKHOLDERS' EQUITY AND LIABILITIES (<i>Millions of euros</i>)	2003	2002
A) STOCKHOLDERS' EQUITY (Note 11)	16,756.56	16,996.00
I. Capital stock	4,955.89	4,860.66
II. Additional paid-in capital	7,987.14	11,670.02
III. Revaluation reserves	1,357.86	2,870.90
IV. Other reserves of the Parent Company	9,204.69	5,808.90
Unrestricted reserves	8,413.26	4,816.37
Restricted reserves	791.43	992.53
V. Reserves at fully or proportionally consolidated companies	(1,956.68)	4,402.65
VI. Reserves at companies accounted for by the equity method	(599.93)	(532.51)
VII. Translation differences in consolidation	(6,395.99)	(6,507.82)
VIII. Income (Loss) for the year	2,203.58	(5,576.80)
Income (Loss) of the Parent Company and subsidiaries	2,449.07	(11,372.41)
(Income) Loss attributable to minority interests (Note 12)	(245.49)	5,795.61
B) MINORITY INTERESTS (Note 12)	4,426.22	5,612.93
C) NEGATIVE CONSOLIDATION GOODWILL	11.42	11.36
D) DEFERRED REVENUES (Note 13)	657.97	880.46
E) PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 14)	7,688.23	8,014.91
F) LONG-TERM DEBT	18,495.42	21,726.15
I. Debentures, bonds and other marketable debt securities (Note 15)	12,408.71	12,969.22
Nonconvertible debentures and bonds	12,408.71	12,351.50
Other marketable debt securities	—	617.72
II. Payable to credit institutions (Note 16)	4,932.56	6,912.94
III. Other payables	346.57	206.68
Other payables	225.80	179.05
Notes payable	120.77	27.63
IV. Taxes payable (Note 18)	801.63	1,629.46
V. Uncalled capital payments payable	5.95	7.85
G) CURRENT LIABILITIES	13,848.86	14,681.74
I. Debentures, bonds and other marketable debt securities (Note 15)	3,242.54	2,625.63
Debentures	1,652.51	1,056.20
Other marketable debt securities	1,275.39	1,280.48
Interest on debentures and other securities	314.64	288.95
II. Payable to credit institutions	2,721.06	4,193.27
Loans and other accounts payable (Note 16)	2,659.20	4,072.67
Accrued interest payable	61.86	120.60
III. Payable to associated companies (Note 8)	41.47	22.90
IV. Trade accounts payable	5,308.60	5,113.15
Advances received on orders	53.86	73.43
Accounts payable for purchases and services	5,235.06	5,014.13
Notes payable	19.68	25.59
V. Other nontrade payables	2,117.02	2,289.37
Taxes payable (Note 18)	1,181.09	1,048.52
Other nontrade payables (Note 19)	935.93	1,240.85
VI. Accrual accounts	418.17	437.42
H) SHORT-TERM PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 14)	190.52	117.74
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES (A+B+C+D+E+F+G+H)	62,075.20	68,041.29

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 OPERATIONS FOR THE YEARS ENDED DECEMBER 31
(Millions of euros)

DEBIT	2003	2002
A) EXPENSES		
Decrease in inventories	136.29	49.22
Procurements and other external expenses	6,276.61	6,953.59
Purchases	2,482.46	2,978.44
Work performed by other companies	3,794.15	3,975.15
Personnel expenses (Note 20)	4,641.32	4,793.77
Depreciation and amortization expense	6,274.22	6,692.42
Property plant and equipment (Note 7)	4,941.97	5,370.07
Intangible assets (Note 6)	1,205.41	1,132.25
Deferred charges	126.84	190.10
Variation in operating allowances	420.60	645.58
Variation in allowances for inventories	(1.01)	37.46
Variation in allowances for bad debts (Note 10)	380.82	555.64
Variation in other allowances	40.79	52.48
Other operating expenses	5,142.96	5,070.37
Outside services	4,558.45	4,564.61
Taxes other than income tax	524.23	412.10
Other operating expenses	60.28	93.66
I. OPERATING INCOME	6,327.90	5,031.75
Interest on payables to associated companies	0.01	0.10
Interest on accounts payable and similar expenses (Note 20)	1,946.50	1,784.14
Amortization of deferred interest expenses	41.70	43.23
Variation in investment valuation allowances	(47.99)	99.63
Exchange losses (Note 20)	339.74	2,245.17
II. FINANCIAL INCOME	—	—
Share in losses of companies accounted for by the equity method	246.98	536.88
Amortization of consolidation goodwill (Note 5)	444.11	667.49
III. INCOME FROM ORDINARY ACTIVITIES	4,612.16	1,616.82
Variation in fixed asset and investment valuation allowances (Notes 7 and 8)	100.29	136.48
Losses on fixed assets (Note 20)	55.27	9,614.55
Losses on disposal of investments in consolidated companies (Note 8)	39.66	206.44
Extraordinary expenses and losses (Note 20)	2,221.60	6,735.04
IV. EXTRAORDINARY INCOME	—	—
V. CONSOLIDATED INCOME BEFORE TAXES	3,362.50	—
Corporate income tax (Note 18)	(2.07)	(3,340.59)
Foreign taxes (Note 18)	915.50	111.94
VI. CONSOLIDATED INCOME FOR THE YEAR	2,449.07	—
Income attributed to minority interests (Note 12)	420.25	182.39
VII. INCOME FOR THE YEAR ATTRIBUTED TO THE PARENT COMPANY	2,203.58	—
The accompanying Notes 1 to 25 and Exhibits I to VI are an integral part of these consolidated statements of operations.		

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 OPERATIONS FOR THE YEARS ENDED DECEMBER 31
(Millions of euros)

CREDIT	2003	2002
B) REVENUES		
Net sales and services (Note 20)	28,399.84	28,411.30
Variation in work-in-process	0.80	31.12
Capitalized expenses of Group work on fixed assets	530.32	496.71
Other operating revenues	288.94	297.57
Non-core and other current operating revenues	192.21	230.21
Subsidies	12.93	14.71
Overprovision for contingencies and expenses	83.80	52.65
I. OPERATING LOSS	—	—
Revenues from equity investments	14.58	17.43
Other companies	14.58	17.43
Other financial revenues (Note 20)	369.77	320.37
Associated companies	33.00	31.07
Other companies	336.77	289.30
Exchange gains (Note 20)	834.91	1,612.85
II. FINANCIAL LOSS	1,060.70	2,221.62
Share in the income of companies accounted for by the equity method	34.40	9.00
Reversal of negative consolidation differences	1.65	2.06
III. LOSS ON ORDINARY ACTIVITIES	—	—
Gains on fixed asset disposals (Note 20)	224.22	55.56
Gains on disposals of investments in consolidated companies (Note 8)	407.96	99.32
Capital subsidies transferred to income for the year (Note 13)	53.78	63.79
Extraordinary revenues and income (Note 20)	481.20	255.96
IV. EXTRAORDINARY LOSS	1,249.66	16,217.88
V. CONSOLIDATED LOSS BEFORE TAXES	—	14,601.06
VI. CONSOLIDATED LOSS FOR THE YEAR	—	11,372.41
Loss attributed to minority interests (Note 12)	174.76	5,978.00
VII. LOSS FOR THE YEAR ATTRIBUTED TO THE PARENT COMPANY	—	5,576.80

The accompanying Notes 1 to 25 and Exhibits I to VI are an integral part of these consolidated statements of operations.

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, 2003

(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 method by which they were consolidated.

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 shareholdings 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.
- Telefónica Empresas is the line of business which includes Telefónica Data, Telefónica Soluciones and Telefónica International Wholesale Services and is responsible for

satisfying the corporate segment's communications needs on an integral basis.

- Other businesses in the Telefónica Group are those headed up by Telefónica Publicidad e Información-TPI (the directories business), Terra Networks (provider of services, content and portals for Internet access), Atento (call center services) and Telefónica Contenidos (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.

The Group company Telefónica de España, S.A.U., which carries on its business activities in a new regulatory and legislative framework as a result of the deregulation of the telecommunications industry in Spain initiated in 1987, is a special case.

The 1988 General Telecommunications Law established as a general principle that operators could freely set their rates with the exception of Telefónica de España, S.A.U., for which a specific transitional rate regime was established. EU regulations had established the need to adopt regulations in the market deregulation processes in order to eliminate the imbalance in the rates currently in force and the need to rectify these rates, as well as the possibility, as the case may be, of compensating the dominant operator for the access deficit that might arise for it as a result of this imbalance.

Following an investigation procedure, the European Commission filed a complaint against the Spanish State with the European Court of Justice for its failure to comply with EU legislation on the rate rebalancing problem prior to the opening up of the market to free competition. The judgment of the European Court of Justice of January 7, 2004, stated solely that the Kingdom of Spain had failed to comply with its obligations under the related Community Directives since it had not adopted at the appropriate time the statutory, regulatory and administrative provisions required to correct the rate imbalance which occurred with deregulation.

In November 1999 Telefónica, S.A. and Telefónica de España, S.A.U. filed a claim with the Council of Ministers and the Ministry for Development (now the Ministry of Science and Technology) requesting economic compensation for the losses derived from the breakdown of the financial equilibrium under the 1991 License Contract or, alternatively, for the Government's failure to fulfill the rate rebalancing obligation. The claim was finally rejected by the Council of Ministers on March 7, 2003, following the interpretation in the Opinion of the Council of State of October 31, 2002, which included a negative report on the claim and recommended that it be rejected.

The specific circumstances of Telefónica Argentina, S.A. are also worthy of mention. Under the Public Emergency Law of January 2002, the indexing clauses for rate systems in

contracts entered into with the public authorities, including public service contracts, were rendered null and void.

The contract documents and transfer agreement governing the rate system of Telefónica Argentina, S.A. envisage the possibility of adjusting the rates applied by Telefónica Argentina, S.A. to its customers if extraordinary events arise that were not initially foreseen. Accordingly, in view of the trend in Argentina's economy, Telefónica Argentina, S.A. presented a proposal to the Argentine government in recent months to reestablish the rate system by indexing rates to the monthly variation in Argentina's CPI or using another type of formula should there be a significant variance between the trend in the price of the U.S. dollar and the aforementioned variation in the CPI. Nevertheless, no definitive decision regarding the claims made by the Company's proposal has yet been taken by the Argentine government.

(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 2003.

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 when selecting the consolidation method.

All material accounts and transactions between the consolidated companies were eliminated in consolidation. The margins included in the invoices issued by subsidiaries to other Telefónica Group companies for capitalizable goods or services 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 operations 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 operations with respect to those presented in the previous year. Also, there were no changes in accounting principles with respect to 2002 with a significant effect.

Changes in the scope of consolidation

The main variations in the scope of consolidation in 2003 were as follows (the full detail of all the variations in 2003 and 2002 is included in Exhibit II):

Telefónica

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%. In December the Telefónica Group's effective holding in the Terra Group was increased to 75.29%, as described below. The company continues to be fully consolidated in the Telefónica Group.

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, 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 accounted for by the equity method in 2002, was fully consolidated in the first six months of 2003 and was subsequently excluded from the scope of consolidation.

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 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 the 91.35% it currently holds. Atento N.V. continues to be fully consolidated in the Telefónica Group and Procesos Operativos, S.A. was fully consolidated in the Telefónica Group for the first time.

Telefónica Móviles Group

On April 25, 2003, Telesp Celular Participações, S.A. (TCP), which is 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 means 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 represent 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 is consolidated in the consolidated financial statements of Brasilcel, which, in turn, is 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.

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

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.U. 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.U. 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 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. is accounted for by the equity method in the Telefónica Group.

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.

T.P.I. Group

In January 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 the Brazilian company Telefónica Publicidade e Informação, Ltda., an investee of Telefónica Publicidad e Información, S.A. and Telefónica Internacional, S.A., simultaneously decreased 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 continues to be fully consolidated in the Telefónica Group.

Telefónica DataCorp Group

In October Telefónica DataCorp, S.A. disposed in full of its 34% holding in Atlanet for €24.79 million, giving rise to a loss of €25.78 million on the sale (see Note 8). The company which had been accounted for by the equity method in 2002 was excluded from the scope of consolidation.

Terra Group

In December 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. continues to guarantee the coverage of the employee stock option plan with the shares now 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 continues to be fully consolidated in the Telefónica Group.

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 consolidation.

Telefónica Internacional Group

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.

(3) PROPOSED DISTRIBUTION OF INCOME OF THE CONTROLLING COMPANY

Telefónica, S.A. obtained income of €1,373.71 million in 2003.

The proposed distribution of 2003 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 (€137.37 million) to the legal reserve; b) to pay a fixed dividend of €0.20 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>
Distribution to:	1,373.71
Legal reserve	137.37
Dividend (maximum distributable amount of €0.20/share for all the shares into which the Company's capital stock is divided (4,955,891,361 shares))	991.18
Voluntary reserve (minimum)	245.16
Total	1,373.71

(4) VALUATION STANDARDS

The main valuation methods used in preparing the 2003 consolidated financial statements were as follows:

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.

The amortization periods are those for which the estimated 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, the amortization period is 20 years (see Exhibit III).

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.

Investments in Argentina

The exposure of the Telefónica Group's investments in companies in Argentina as of December 31, 2003 and 2002, amounted to €1,095.30 million and €968.12 million, respectively, including the related goodwill, intercompany financing and the asset value assignable to those investments. The most significant exposure in 2003 related to Telefónica de Argentina, S.A., amounting to €823.95 million and Telefónica Móviles Argentina, S.A., amounting to €107.42 million.

In accordance with the pronouncements of the Spanish Accounting and Audit Institute, the above-mentioned

amounts do not include the effect arising from the application of the adjustment for inflation which, temporarily, was made under local accounting legislation in Argentina in 2002 and in the first quarter of 2003 and, accordingly, as of December 31, 2003, the net carrying value of the intangible assets and property, plant and equipment was €1,122.39 million lower than the amount recorded by investees in Argentina. In 2003 the main parameters of the Argentine economy improved, which had a favorable effect on the performance and earnings of the Telefónica Group's businesses in Argentina (which enabled these companies to contribute income in 2003, after the uniformity adjustments discussed above that led their results to be higher than those obtained locally had been taken into account — see Exhibit I) and on the expectations of being able to recover the investments in these companies, which were recorded in accordance with the valuation methods described in this paragraph.

In 2003 the consolidated statement of operations and the "Stockholders' Equity — Translation Differences in Consolidation" caption included a positive impact of €83.97 million and €420.34 million, respectively, caused mainly by the trend in the Argentine peso exchange rates (negative impact of €354.68 million and €1,147.09 million, respectively, in 2002).

In these circumstances and based on the results in the business plans prepared by the Telefónica Group and the latest estimates, which take into account, *inter alia*, price and demand assumptions, that permit the positive evolution of the businesses and the Telefónica Group to maintain at long term its investment in Argentina, the investees will foreseeably report sufficient income to make it possible to recover the above-mentioned net investment. These business plans and estimates are based on assumptions and future expectations and, consequently, variances may arise. Therefore, they are updated periodically, at least every year, in order to monitor the results obtained and to record such value adjustments as might be required.

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:

1. Capital stock and reserves, which were translated at historical exchange rates.
2. Income statement accounts, which were translated at the average exchange rates for the year.

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 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.

Except as indicated in section a) above in connection with the investments in Argentina, the companies using accounting methods that include inflation adjustments apply the accounting standards in force in their respective countries, which consist of valuing monetary assets and liabilities at face value and adjusting the historical cost of nonmonetary

assets and liabilities by the inflation from the date of inclusion of the asset or liability in the company's balance sheet to year-end. 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.

c) Start-up expenses

Start-up expenses, which comprise mainly incorporation, capital increase and preopening expenses and expenses relating to initial public offerings, are recorded at cost and are amortized on a straight-line basis over five years.

d) Intangible assets

This caption in the accompanying consolidated balance sheets relates mainly to the following items:

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 operations for the year in which this circumstance becomes known.

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 acquired by the Telefónica Group.

Amortization starts to be taken when commercial operation of these licenses commences and continues to be taken over the term thereof based on the estimated capacity to generate revenues in each period, which normally coincides with the number of lines installed or the average revenues per customer, depending on the type of services provided under the license.

Rights on leased assets

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 are 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 generally amortized on a straight-line basis 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 is 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 is 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 a revenue under the "Capitalized Expenses of Group Work on Fixed Assets" caption.

The interest and other financial expenses incurred during the construction of property, plant and equipment in connection with 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.

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 must be recorded for lasting decline in value that is deemed to be reversible. This allowance will be deducted in the valuation of the asset in question; in this case the lower value will not be maintained if the causes which prompted the value adjustment have ceased to exist.

When 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 is 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 reviewed 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 and Royal Decree 1588/1999 approving the rules for the instrumentation of employers' pension commitments to employees and beneficiaries (see Notes 9 and 14).

Debt arrangement expenses

These relate to long-term debt arrangement expenses and issuance premiums corresponding to debentures and bonds and preferred shares 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 enacting 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 were recorded in this connection in 2003 under the "Extraordinary Expenses and Losses" caption (see Note 20) in the consolidated statement of operations.

h) Inventories

Warehouse materials for installation in investment projects and consumables and replacement parts are valued at the lower of weighted average cost, adjusted by 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 operations 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 net positive 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 operations 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 operations. 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 consolidated statements of operations include all the debits and credits arising from Spanish corporate income tax 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.

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.

The difference between the accrued tax expense and the tax paid is due to the above-mentioned deferral, to capitalized 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).

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 telephony and other services are recognized on an accrual basis. 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.

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 amount 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 as a revenue since the customers had not consumed the total amount of traffic relating to their cards. Also, in the directories line of business, the revenues related to billings for advertising in unpublished guides are recorded under this account, whereas the associated costs are recorded as "Inventories" until the guides are published.

As for the business activities performed by Group subsidiaries in order to operate in the on-line travel agency industry, the full amount billed is recognized as a revenue when the end customer is billed for the total amount of the ticket, including taxes, assuming the credit risk or risk of nonpayment by the end customer, and by 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 sales thus recorded in 2003 amounted to €31.19 million.

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 2003 and 2002 were as follows:

	<i>Millions of euros</i>
Balance at 12/31/01	9,128.94
Additions	1,121.54
Amortization	(667.49)
Write-offs	(2,259.81)
Net retirements	(277.64)
Net transfers	(236.94)
Translation differences	(444.58)
Balance at 12/31/02	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 12/31/03	6,053.87

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 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 2002 the existing estimates and projections were reviewed, and €2,259.81 million of goodwill was written off in accordance with the accounting principle of prudence in valuation, based on the analyses made both in-house and by third parties of the projected cash flows for the following years (see Note 20). The goodwill written off in 2002 included most notably €856.66 million relating to the investment in the Terra Lycos Group, €530.00 million relating to the investment in Telefónica Deutschland, GmbH, €154.47 million relating to the investment in I.O. Box, €173.38 million relating to the investment in Pearson Plc., €59.14 million relating to the investment in Atlanet, S.p.A. and €49.65 million relating to the investment in Emergia Holding, N.V.

The goodwill written off by the Terra Group in 2002 also included the retirement of €256.67 million under the agreement entered into on May 16, 2000, by Lycos Inc., Terra Networks, S.A., Telefónica, S.A. and Bertelsmann, AG, which was subsequently modified on the basis of a new contract whereby Telefónica, S.A. replaced Bertelsman AG in the commitment to create value for the Terra Group within the context of the Telefónica Group.

There were no material writeoffs in 2003.

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 (Note 14)	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 goodwill as a result of the divestment of Antena 3 de Televisión, S.A. amounting to €217.59 million (see Note 2-c). 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 Note 2 c).

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).

2002

The main additions to consolidation goodwill in 2002 related to the following companies:

	<i>Millions of euros</i>
Telefónica Móviles México Group	598.44
Grupo Brasilcel, N.V.	268.69
Endemol Group	89.98
Telefónica Centroamérica Guatemala	41.40
Emergia Holding, N.V.	49.65
Other companies	73.38
Total	1,121.54

In 2002 there were no significant retirements of goodwill due to sales of holdings. However, due to changes in the consolidation method (see Exhibit II) there was a 50% reduction (€243.65 million) in the goodwill relating to the wireless operators in Brazil following the joint venture agreement with Portugal Telecom, S.G.P.S., S.A. leading to the formation of Brasilcel, which was proportionally consolidated at 2002 year-end.

(6) INTANGIBLE ASSETS

The detail of the balances of the intangible asset accounts and of the variations therein in 2003 and 2002 is as follows:

Millions of euros

	Balance at 12/31/02	Additions	Reti- rements	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	—	(110.59)	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

Millions of euros

	Balance at 12/31/01	Additions	Reti- rements	Inclusion of Companies	Exclusion of Companies	Translation Differences	Transfers	Balance at 12/31/02
Cost:								
Research and development expenses	1,049.59	94.42	(0.08)	—	—	(0.64)	35.86	1,179.15
Administrative concessions	15,011.19	177.72	(9,423.12)	1,053.78	(443.57)	(246.47)	220.67	6,350.20
Rights on leased assets	137.69	10.40	(3.76)	—	—	(20.96)	(38.97)	84.40
Software licenses and developments	2,309.13	423.40	(61.84)	127.24	(49.20)	(175.38)	557.84	3,131.19
Other intangible assets	1,778.44	400.64	(119.32)	9.02	(1.49)	(145.40)	(731.25)	1,190.64
Total intangible assets, gross	20,286.04	1,106.58	(9,608.12)	1,190.04	(494.26)	(588.85)	44.15	11,935.58
Accumulated amortization:								
Research and development expenses	862.72	146.01	(0.08)	—	—	(0.64)	(2.06)	1,005.95
Administrative concessions	745.22	240.03	(3.49)	97.85	(31.20)	(30.56)	(23.88)	993.97
Rights on leased assets	61.00	20.88	(4.92)	—	—	(5.27)	(41.77)	29.92
Software licenses and developments	1,133.94	603.45	(47.06)	53.43	(16.00)	(65.94)	105.32	1,767.14
Other intangible assets	504.37	123.71	(44.24)	0.43	(0.14)	(61.76)	(53.67)	468.70
Total accumulated amortization	3,307.25	1,134.08	(99.79)	151.71	(47.34)	(164.17)	(16.06)	4,265.68
Allowances for decline in value	19.65	27.56	(4.78)	2.68	—	(6.60)	1.82	40.33
Intangible assets, net	16,959.14	(55.06)	(9,503.55)	1,035.65	(446.92)	(418.08)	58.39	7,629.57

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 inclusions and exclusions of companies in 2002 include the effect of proportionally consolidating the joint venture Brasilcel, N.V. at year-end (see Exhibit II), which affected the net additions and retirements by €754.48 million and €446.90 million, respectively. Also, the inclusion of Pegaso gave rise to net additions of €274.13 million.

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 system 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. The term of these licenses is 27 years.
- 25-year 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 to the "Consolidation Goodwill" caption. The 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 the Personal Communications Service in Argentina, which are being amortized over 20 years.
- As of December 31, 2001, they also included the licenses for the provision of UMTS services in Spain, Germany, Austria and Switzerland. In 2002, as a result of the analyses made, they included the licenses of Germany, Austria and Switzerland on the basis of the estimated realizable value of these businesses, and €9,445.01 million of value adjustments were made to the various intangible asset accounts, which are included in the "Retirements" column.

The projections that the directors have 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 2003 and 2002 are as follows:

Millions of euros

	Balance at 12/31/02	Additions	Reti- rements	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, etc.	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, etc.	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

Millions of euros

	Balance at 12/31/01	Additions	Reti- rements	Inclusion of Companies	Exclusion of Companies	Translation Differences	Transfers	Balance at 12/31/02
Cost:								
Land and structures	7,097.90	33.19	(82.23)	43.13	(19.11)	(1,073.88)	160.15	6,159.15
Plant and machinery	3,365.73	51.51	(76.38)	49.84	(25.28)	(644.61)	1,019.00	3,739.81
Telephone installations	62,975.46	298.60	(1,015.08)	1,371.18	(512.54)	(11,355.68)	1,996.96	53,758.90
Furniture, tools, etc.	3,851.74	162.99	(304.73)	146.12	(48.63)	(700.23)	24.80	3,132.06
Total property, plant and equipment in service	77,290.83	546.29	(1,478.42)	1,610.27	(605.56)	(13,774.40)	3,200.91	66,789.92
Construction in progress	3,034.89	2,159.47	(57.83)	43.52	(39.42)	(777.66)	(3,376.82)	986.15
Advances on property, plant and equipment	53.20	22.30	(2.78)	2.96	(0.17)	(7.70)	(1.66)	66.15
Installation materials	154.12	91.59	(16.42)	—	—	(47.52)	(19.14)	162.63
Property, plant and equipment, gross	80,533.04	2,819.65	(1,555.45)	1,656.75	(645.15)	(14,607.28)	(196.71)	68,004.85
Accumulated depreciation:								
Structures	2,332.44	214.76	(28.94)	8.32	(2.34)	(296.93)	(107.18)	2,120.13
Plant and machinery	1,196.20	524.78	(87.54)	10.98	(12.51)	(240.74)	149.70	1,540.87
Telephone installations	37,976.28	4,176.61	(921.32)	447.30	(267.26)	(6,469.24)	275.15	35,217.52
Furniture, tools, etc.	2,327.03	453.67	(251.41)	58.88	(22.20)	(393.01)	(231.65)	1,941.31
Total accumulated depreciation	43,831.95	5,369.82	(1,289.21)	525.48	(304.31)	(7,399.92)	86.02	40,819.83
Allowances for decline in value	95.00	51.94	(52.60)	0.53	—	(8.63)	(0.87)	85.37
Property, plant and equipment, net	36,606.09	(2,602.11)	(213.64)	1,130.74	(340.84)	(7,198.73)	(281.86)	27,099.65

The investments include most notably in the case of Telefónica de España additions in 2003 of €1,084.26 million focused mainly on the deployment of the RIMA network (high performance IP network) and the launch of ADSL, in which a cumulative investment of €1,380.63 million has been made since the beginning of 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 inclusions and exclusions of companies in 2002 include the effect of proportionally consolidating the joint venture Brasilcel, N.V. (see Exhibit II), which affected the net additions and retirements by €492.80 million and €340.75 million, respectively. Also, the inclusion of Pegaso gave rise to net additions of €625.50 million.

The "Retirements" column relating to the various captions includes basically the dismantling of telephony plant of Telefónica de España (see Note 20) with a gross cost of €1,134.64 million in 2003 (€1,010.54 million in 2002).

Noteworthy in 2002 were the investments made by Group companies, mainly in wireline telephony both in Spain and Latin America and in wireless telephony, which represent most of the additions to and related subsequent transfers from the "Construction in Progress" caption.

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, 2002 and 2003, the following items had been fully depreciated:

<i>Millions of euros</i>	12/31/03	12/31/02
Buildings and structures	251.94	162.65
Plant, machinery and tools	991.97	728.09
Telephone installations	19,068.16	15,198.67
Other tangible fixed assets	989.75	996.47
Total	21,301.82	17,085.88

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 operations are not material.

The detail, as of December 31, 2003, of the property, plant and equipment owned by consolidated Group companies located abroad is as follows:

	<i>Millions of euros</i>
Cost	27,051.00
Accumulated depreciation	(14,958.67)
Total	12,092.33

(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, 2003 and 2002, and of the variations therein in the years then ended, is as follows:

Millions of euros

	Investments in Associated Companies	Other Investments	Other Loans	Guarantees and Deposits	Taxes Receivable (Note 18)	Allowances	Total
Balance at 12/31/01	3,099.14	870.78	2,038.12	232.98	3,757.78	(318.73)	9,680.07
Additions	169.84	2.36	687.81	136.77	6,919.83	(75.29)	7,841.32
Sale of companies	(10.38)	(18.09)	(292.45)	(227.24)	(978.06)	17.63	(1,508.59)
Inclusion of companies	0.40	—	236.18	2.29	17.21	—	256.08
Exclusion of companies	(4.72)	—	(48.11)	(1.45)	(34.90)	0.45	(88.73)
Translation differences	(295.91)	(30.32)	27.75	(10.34)	(265.65)	13.12	(561.35)
Losses	(527.88)	—	—	—	—	—	(527.88)
Dividends	(58.16)	—	—	—	—	—	(58.16)
Transfers	(291.14)	107.30	(424.04)	27.76	263.21	67.28	(249.63)
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

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, 2003 and 2002, 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 €676.93 million and €823.44 million as of December 31, 2003 and 2002, respectively, which earned average returns in 2003 of between 5.15% and 6.24%. The “Short-Term Investments - Short-Term Investment Securities” caption in the consolidated balance sheet as of December 31, 2003, includes €559.10 million (€405.90 million in 2002) 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 on 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, 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. Consequently, the “Long-term Investments - Other Loans” and “Short-term Investments — Loans to Associated Companies” captions include €222.49 million and €9.27 million, respectively, of

loans to this company. The long-term account receivable of €64.65 million from Médi Telecom is also worthy of mention.

The “Receivable from Associated Companies” and “Payable to Associated Companies” captions include most notably €48.18 million and €26.74 million, respectively, relating to Brasilcel Group companies. €9.33 million of the “Receivable from Associated Companies” caption and €4.21 million of the “Payable to Associated Companies” relate to Médi Telecom.

As of December 31, 2002, the Telefónica Group had granted long-term loans totaling €811.76 million to the associated company DTS Distribuidora de Televisión Digital, S.A. (Vía Digital), and this amount is recorded under the “Other Loans” caption and was converted into capital in 2003 before it was contributed to Sogecable, S.A. Also, the short-term “Accounts Receivable - Receivable from Associated Companies” caption included balances receivable totaling €45.50 million relating to loans and trade accounts receivable.

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 “Taxes Receivable” caption includes the long-term deferred 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 2003 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:		
Antena 3 Televisión, S.A. (Note 2-c)	59.24%	392.29
3G Mobile Telecommunications, GmbH	100.00%	13.57
Atlanet, S.p.a. (Note 2-c)	34.00%	(25.78)
Sonda, S.A.	35.00%	(11.14)
Other		(0.64)
Net gain		368.30

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)
- 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.
- Pearson P.L.C.
- Infonet Services Corporation.
- Telefónica Móviles El Salvador, S.A. de C.V.
- Telefónica Data Brasil Holding, S.A.
- Compañía de Teléfonos de Chile - Transmisiones Regionales, 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.

Short-term investments

This caption in the accompanying consolidated balance sheet as of December 31, 2003, includes basically the following items:

- The investment in short-term assets of cash surpluses arising at Telefónica, which amounted to €1.287,03 million (€1,274.37 million in 2002), and the investments made with the net level premium reserves of the Group’s insurance companies, which amounted to €559.10 million, as indicated above (€448.90 million in 2002).
- The short-term investments of the Terra Lycos Group recorded under the “Short-Term Investment Securities” caption, which amounted to €224.20 million (€367.79 million in 2002).
- The investments relating to the Telefónica Móviles Group recorded under the “Other Loans” caption, which amounted to €300.34 million.

(9) DEFERRED CHARGES

THE BREAKDOWN of the balance of this caption and the amortization schedule are as follows:

Millions of euros

	Maturity							
	2004	2005	2006	2007	2008	Subsequent Years	Balance at 31-12-03	Balance at 31-12-02
Supplementary pension payments to retired employees (shortfall)								
(Notes 4-g and 14)	67.74	67.44	67.44	36.34	5.49	18.62	263.07	280.92
Debt arrangement expenses	22.52	15.63	6.72	6.00	3.81	10.01	64.69	220.27
Executive loyalty-building program	0.46	0.46	—	—	—	—	0.92	15.55
Interest on long-term promissory notes	7.13	7.00	7.05	7.13	7.27	16.02	51.60	58.79
Interest on financial lease contracts	0.67	0.46	0.40	0.32	0.31	4.25	6.41	12.90
Externalization of commitments (Note 4-g)	11.76	10.44	8.91	7.47	5.96	12.68	57.22	69.82
69.82								
Other deferred charges	31.61	15.79	9.14	3.95	3.62	27.02	91.13	144.03
Total	141.89	117.22	99.66	61.21	26.46	88.60	535.04	802.28

(10) TRADE RECEIVABLES

The detail of the balances of this caption as of December 31, 2003 and 2002, is as follows:

Millions of euros

	Balance at 12/31/03	Balance at 12/31/02
Trade receivables billed	4,547.42	4,381.34
Other receivables	65.63	45.73
Services billed	4,613.05	4,427.07
Unbilled services	1,653.12	1,495.81
Trade receivables	6,266.17	5,922.88
Allowance for bad debts	(1,685.75)	(1,663.56)
Net total	4,580.42	4,259.32

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 €387.85 million as of December 31, 2003 (€352.86 million as of December 31, 2002).

In 2003 the variation in the allowance for bad debts amounted to €380.82 million. €358.63 million were used for the purpose for which they had been recorded (€555.64 million in 2002).

(11) STOCKHOLDERS' EQUITY

The detail of the balances of equity accounts and of the variations therein in 2003 and 2002 is as follows:

Millions of euros

	Balance at 12/31/01	Distribution of 2001 Income	Other Variations	Capital Increase	Balance at 12/31/02	Allocation of 2002 Loss	Other Variations	Distribution of Dividends	Variations in Capital Stock	Balance at 12/31/03
Capital stock	4,671.92	—	—	188.74	4,860.66	—	—	—	95.23	4,955.89
Additional paid-in capital	11,670.02	—	—	—	11,670.02	(1,516.22)	(247.74)	(1,653.15)	(265.77)	7,987.14
Revaluation reserves	3,059.64	—	—	(188.74)	2,870.90	(1,316.67)	—	—	(196.37)	1,357.86
Unrestricted reserves	3,379.98	329.65	1,106.74	—	4,816.37	2,621.05	975.84	—	—	8,413.26
Reserve for treasury stock	260.70	—	73.86	—	334.56	—	(201.10)	—	—	133.46
Other restricted reserves	657.97	—	—	—	657.97	—	—	—	—	657.97
Consolidation reserves	3,332.87	1,777.16	(1,239.89)	—	3,870.14	(5,364.96)	(1,061.79)	—	—	(2,556.61)
Translation differences										
in consolidation	(3,278.29)	—	(3,229.53)	—	(6,507.82)	—	111.83	—	—	(6,395.99)
Income (Loss)										
for the year	2,106.81	(2,106.81)	(5,576.80)	—	(5,576.80)	5,576.80	2,203.58	—	—	2,203.58
Total	25,861.62	—	(8,865.62)	—	16,996.00	—	1,780.62	(1,653.15)	(366.91)	16,756.56

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 2003 it includes in relation to 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 includes in 2003 €80.45 million arising as a result of the capital reduction carried on 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, 2003, 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 €2,274,677,655, 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, 2003, 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 will 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, the aforementioned 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 will 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 2002, 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 total maximum amount of the issue or issues of fixed-income securities that the Board can resolve to make pursuant to the aforementioned powers, together with that of the Company's other issues outstanding on the date on which these powers are exercised, cannot exceed the maximum limit of the amount of paid-in capital stock plus the reserves recorded in the latest available approved balance sheet and the asset revaluation accounts accepted by the authorities, pursuant to Article 282.1 of the Spanish Corporations Law. 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, 2003, the Board of Directors had not exercised these powers, except in relation to the approval of a program to issue corporate promissory notes for 2004.

Also, the aforementioned Stockholders' Meeting on April 12, 2002, resolved to increase capital by €2,180,809 through the issuance of new common shares with additional paid-in capital of €11.61 per share to cater for the needs derived from the establishment of a stock option plan for the employees of the Endemol Group. It also granted the Board of Directors the necessary powers to implement the capital increase resolution, including the express power to refrain from implementing the resolution. In a resolution dated December 18, 2002, the Board of Directors expressly decided not to implement the aforementioned resolution to increase capital, and opted to cover the stock option plan referred to above by a means other than through a capital increase with the issuance of new shares (i.e., through the prior acquisition of Telefónica S.A. shares on the stock market).

Also on April 11, 2003, the Stockholders' Meeting authorized the Board of Directors to derivatively acquire treasury stock, for 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, 2003 and 2002, 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 12/31/03	40,532,869	10.39	10.85	439.66	0.81787
Treasury stock at 12/31/02	91,631,076	11.65	8.53	781.61	1.88516

(*) 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 2003 the Company acquired for consideration 50,792,028 shares of treasury stock and 3,918,983 shares were assigned to it in the capital increases at no charge to stockholders. Also 101,140,640 shares were used to retire a portion of the capital stock as indicated earlier, and 6,000,000 shares were sold for a gain of €7.12 million (see Note 20). Lastly, as a result of the completion of the process of purchasing the holding in Telefónica Holding Argentina, S.A. in 2003, the settlement relating to the Company amounted to the equivalent of 1,331,422 share of treasury stock, which gave rise to an extraordinary gain of €12.63 million. The average acquisition cost of the shares of treasury stock as of December 31, 2003 and 2002, was €10.39 and €11.65 per share, respectively.

The consolidated balance sheets as of December 31, 2003 and 2002, include the acquisition cost of the shares of treasury stock (€421.26 million and €1,067.94 million, respectively) net of allowances of €287.80 million and €733.38 million, respectively, the provisions to which were recorded, in accordance with current accounting regulations (see Note 4-i), with a cumulative charge to the consolidated statement of operations in respect of the market value of these shares (€286.33 million in 2002) and with a cumulative charge to unrestricted reserves in respect of the amount by which the market value or cost in 2003 exceeds the underlying book value (€287.80 million and €447.05 million in 2003 and 2002, respectively). 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 (the provision recorded in 2002 amounted to €288.09 million) (see Note 20).

The Company has recorded the related restricted reserve for the amount of these shares of treasury stock. Also, in 2003 and 2002 it recorded provisions of €448.84 million and €59.29 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 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)
Monetary dividend	Jul.-Oct. 2003	—	—	(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 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, that the Spanish National Securities Market Commission (CNMV) approved the admission to listing of the shares of the aforementioned company (see Note 2-c).

Variations in capital stock and additional paid-in capital in 2002

The variations in 2002 in the "Capital Stock" and "Additional Paid-in Capital" captions were as follows:

					<i>Millions of euros</i>
	Date of Share Issue	Number of Shares	Capital Stock	Additional Paid-in Capital	
Balance at December 31, 2001					
Capital increase at no cost to stockholders	02/13/02	4,671,915,885	4,671.92	11,670.02	
Capital increase at no cost to stockholders	04/12/02	93,438,317	93.44	—	
Balance at December 31, 2002		95,307,084	95.30	—	
		4,860,661,286	4,860.66	4,860.66	11,670.02

The capital increases carried out and formalized in 2002 were as follows:

- On February 13, 2002, 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 €93,438,317, 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 26, 2002.

- On April 12, 2002, the notarial deed of formalization and execution of another capital increase at Telefónica, S.A. was executed. This capital increase, for a par value of €95,307,084, 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 April 30, 2002.

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, 2003 and 2002, of the balances of the revaluation reserves, which amounted to €1,357.86 million and €2,870.90 million, respectively, and of the variations therein in 2003 and 2002 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)
Balance at 12/31/00	3,235.66
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	1,357.86

d) Consolidation reserves

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)

The detail of the consolidation reserves as of December 31, 2002, and of the variations therein in 2002 is as follows:

Millions of euros

	Balance at 12/31/01	Increase	Decrease	Balance at 12/31/02
Fully consolidated companies	3,773.35	3,217.16	(2,587.86)	4,402.65
Companies accounted for by the equity method	(440.48)	69.26	(161.29)	(532.51)
Total	3,332.87	3,286.42	(2,749.15)	3,870.14

The variations shown in the foregoing tables relate mainly to prior years' retained earnings (increases) and to dividends paid and losses incurred by the companies (decreases).

The detail of the contribution made by the Group companies to the consolidated reserves is shown in Exhibit I.

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.

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 made establishes 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 charging 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 charging 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.

(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 2003 and 2002 in the balances of this caption in the consolidated balance sheets were as follows:

	<i>Millions of euros</i>
Balance at 12/31/01	7,433.55
Capital contributions and inclusion of companies	3,325.65
Preferred share issue	2,000.00
Loss for the year	(5,795.61)
Variation in translation differences	(990.51)
Capital reduction and exclusion of companies	(108.33)
Dividend paid	(109.12)
Other variations	(142.70)
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

The detail of the balances of this caption and of the variations relating to the main Group companies is shown in Exhibit IV.

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 Note 2-c). Also worthy of mention in relation to "Capital Contributions and Inclusion of Companies" are the €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 Note 2-c). As

indicated in Note 2-c, 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.

2002

The capital contributions and inclusions of companies in 2002 relate mainly to the conversion of debt into capital at Group 3G UMTS Holding GmbH, which gave rise to an increase of €3,051.36 million in the liability relating to minority interests.

The balance of the "Preferred Share Issue" account relates to the share issue launched by the Telefónica subsidiary Telefonica Finance USA, LLC for €2,000 million in December 2002. The shares were still outstanding as of December 31, 2003.

The features of this share issue were as follows:

- Dividend: variable and non-cumulative:
 - Through December 30, 2012, the dividend will be 3-month Euribor with a maximum of 7% APR and a minimum of 4.25% APR;
 - From that date onwards, 3-month Euribor plus a spread of 4% APR.
- Dividend payment:
 - Dividends will be paid quarterly in arrears.
 - Payment of dividends is conditional upon the Telefónica Group having reported consolidated net income.
- Term: perpetual, with the option for the issuer of total or partial early redemption, from December 30, 2012, and at face value, of the shares issued.
- Remuneration: preferred, non-cumulative dividends, conditional upon the obtainment of consolidated income or upon the payment of dividends on common shares.
- Guarantee: irrevocable joint and several Telefónica, S.A. guarantee.
- Voting rights: none.

The balance of the "Loss for the Year" account in 2002 includes most notably the losses amounting to €874.38 million and €4,580.32 million incurred in the year by the Terra Lycos Group and the Telefónica Móviles Group, respectively, attributed to the minority stockholders of these Groups.

(13) DEFERRED REVENUES

The detail of the balances of this caption in the accompanying consolidated balance sheets and of the variations therein in 2003 and 2002 is as follows:

Millions of euros

	Capital Subsidies	Exchange Gains	Accrual of Investment Tax Credit (Note 18)	Other	Total
Balance at 12/31/01	301.11	1.55	101.92	741.17	1,145.75
Additions	0.96	36.51	91.88	99.73	229.08
Transfers and other variations	(0.21)	4.71	(0.65)	(201.50)	(197.65)
Allocation to income	(63.79)	(39.31)	(36.09)	(157.53)	(296.72)
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

The "Other" caption includes €64.70 million and €143.80 million as of December 31, 2003 and 2002, respectively, 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.

The "Other" caption in the foregoing table also includes €99.24 million and €186.41 million as of December 31, 2003 and 2002, respectively, as a result of the negotiations between certain Brazilian subsidiaries and their employees, which disclosed the possibility of allocating to income over the remaining years of working life of the employees covered by the new pension plan the amounts provisioned in previous years under the terms and conditions then prevailing. Due to the changes in 2003 in the employment situation of these Brazilian companies, the liabilities for pension plans and similar commitments have decreased significantly, giving rise to an extraordinary revenue of €74.34 million, and this amount was credited to the consolidated statement of operations (see Note 20).

This caption also includes €103.20 million as of December 31, 2003, 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	12/31/03	12/31/02
Official agencies, autonomous community governments, provincial and municipal governments, etc.	33.99	49.58
EU-STAR Programme	1.99	4.19
ERDF Programme	3.58	6.57
IRTA Programme	—	0.70
ERDF 94/95 Operating Programme	141.48	169.99
Other	5.40	7.04
Total	186.44	238.07

(14) PROVISIONS FOR CONTINGENCIES AND EXPENSES

The detail of the balances of the provisions for contingencies and expenses and of the variations therein in 2003 and 2002 is as follows:

Millions of euros

	Balance at 12/31/01	Provisions	Amounts Used	Incl. of Companies	Other	Balance at 12/31/02	Provisions	Amounts Used	Incl. of Companies	Transfers and Other	Balance at 12/31/03
Provision for supplementary pension payments to retired employees (Note 9)	297.54	15.89	(0.43)	—	(313.00)	—	—	—	—	—	—
Group insurance	111.08	12.04	(1.40)	—	(112.68)	9.04	0.73	(0.85)	—	2.50	11.42
Provision for preretirement, social security expenses and voluntary severance	3,489.32	222.41	(428.76)	—	(2,148.95)	1,134.02	1,436.78	(300.72)	—	24.96	2,295.04
Technical reserves (Note 4-m)	953.67	17.24	(258.34)	—	2,574.68	3,287.25	13.30	(449.94)	(0.16)	—	2,850.45
Provision for pension funds of other companies	181.87	22.54	(28.33)	—	(53.98)	122.10	43.37	(96.90)	—	1.35	69.92
UMTS provision	—	2,371.46	(72.49)	—	—	2,298.97	8.84	(101.89)	—	(968.81)	1,237.11
Other provisions	829.22	348.93	(73.78)	60.46	(1.30)	1,163.53	497.07	(429.38)	18.43	(25.36)	1,224.29
Total	5,862.70	3,010.51	(863.53)	60.46	(55.23)	8,014.91	2,000.09	(1,379.68)	18.27	(965.36)	7,688.23

The main provisions and commitments to employees recorded under this caption in the accompanying consolidated balance sheets are as follows.

Supplementary pension payments to employees who retired before June 30, 1992

On July 8, 1992, Telefónica 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 (€707.21 million) was recorded under the "Deferred Charges" caption and has been allocated to income since that date by the straight-line method over 15 years, the estimated average remaining life of the retired employees (1992-2007) (see Note 9).

In accordance with Private Insurance Law 30/1995, on November 1, 1997, these commitments were externalized, and adapted accordingly, through changes to the clauses of the contract and payment of a single premium, to the Group company Seguros de Vida y Pensiones Antares, S.A., on November 1, 2002, pursuant to Private Insurance Law 30/1995, Law 50/1998 on Tax, Administrative, Labor and Social Security Measures and Royal Decree 1588/1999 enacting the regulations on the instrumentation of employers' pension commitments to employees and beneficiaries), entailing the payment of a single premium of €313.00 million.

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 severances 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.

Against this backdrop, as a result of the agreements reached individually with the Telefónica de España employees, a total of 11,273 and 6,062 employees left the company in 1999 and 2000, respectively.

In November 2002 the Company's preretirement and early retirement commitments to employees under labor force reduction plans were externalized through a policy taken out with Seguros de Vida y Pensiones Antares, S.A. This caption continues to include the liabilities relating to severances of Telefónica de España employees and to the Special Social Security Agreement.

The remaining balance of the provision as of December 31, 2003, relates basically to the Special Social Security Agreement, amounting to €537.25 million, and to the income commitments to employees who have taken voluntary severance, amounting to €388.91 million.

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 2003 the Company approved a total of 5,489 requests for voluntary severance, for which provisions amounting to €1,372.29 million were recorded with a charge to the "Extraordinary Expenses and Losses" caption in the consolidated statement of operations, of a total recorded at consolidated level by the various Group companies of €1,593.41 million (see Note 20). The outstanding balance as of December 31, 2003, was €1,334.45 million.

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, various of Telefónica de España's commitments to its employees were externalized to the Group company Seguros de Vida y Pensiones Antares, S.A. The "Transfers" column in the

"Provisions for Contingencies and Expenses" table shown above included in 2002 the effect of transferring these Telefónica de España commitments and obligations to the insurance company. As of December 31, 2003, the main items and amounts included under the "Technical Reserves" caption were as follows:

<i>Millions of euros</i>
Supplementary pension payments
for retired personnel
547.98
Group life insurance
125.43
Preretirements and early retirements
1,966.01
Other technical reserves
211.03
Total
2,850.45

The companies that still have these commitments calculated the amounts to be provisioned at 2003 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) has had various pension plan and medical insurance commitments to its employees since 2000, the year in which these commitments were negotiated and converted into defined-contribution plans. Substantially all of this company's serving employees availed themselves of these plans. In 2003, mainly as a consequence of the severances at this company and of the update of the actuarial calculations, a reduction in the existing commitments to cover the future payments to be made was disclosed, which led to the extraordinary release of €70.34 million, which was credited to the consolidated statement of operations (see Note 20). As of December 31, 2003, the provision recorded in this connection amounted to €22.58 million (€74.12 million in 2002). Also worthy of note in this connection as of December 31, 2003, are the commitments acquired by Telefónica de Argentina and CTC Chile amounting to €17.52 million and €22.64 million, respectively.

The variations in the "Other" column in 2003 and 2002 relate mainly to translation differences.

UMTS provisions

As indicated in Notes 4-d and 6 in relation to the value adjustments performed on UMTS licenses, 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 and 2003, was €1,237.11 million.

The transfers in this provision relate to the deduction of the amount for accounting for the investment in Ipse 2000 by the equity method, after the company had recorded these effects in its net worth.

Other provisions

The balance of this caption as of December 31, 2003, includes various provisions recorded by the Telefónica Group companies, including most notably €65.00 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 (€120.01 million as of December 31, 2002), and €158.12 million at Telefónica de España relating to the accrued amount of long-service bonuses paid to personnel after 25 years of service (€158.40 million in 2002).

Also, certain Group companies, mainly those forming part of the Endemol Group, when investing in other companies make payment of part of the price agreed on 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 to evaluate the possible liabilities inherent to these transactions. The increases in 2003 include most notably those relating to the investment in Endemol France amounting to €112.10 million (see Note 5). As of December 31, 2003, the amounts provisioned in this connection, €282.45 million and €70.44 million, were recorded under the long-term "Provisions for Contingencies and Expenses" and "Short-Term Provisions for Contingencies and Expenses" captions, respectively (€202.48 million and €38.59 million, respectively, as of December 31, 2002).

As of December 31, 2002 and 2003 this caption included €382.44 million relating to the debit balance generated with the minority stockholder of Group 3G UMTS Holding GmbH.

Lastly, the "Other Provisions" caption in 2003 and 2002 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, 2003 and 2002, 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 Commercial Paper	Total
Balance at 12/31/01	6,012.89	9,312.09	1,680.27	17,005.25
New issues	230.00	53.98	3,777.64	4,061.62
Redemptions, conversions and exchanges	(152.24)	(807.54)	(4,014.59)	(4,974.37)
Inclusion of companies	—	—	637.81	637.81
Adjustments and other variations	70.85	(1,312.33)	(182.93)	(1,424.41)
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
Maturity:				
Long term	7,207.65	5,201.06	—	12,408.71
Short term	1,394.54	257.97	1,275.39	2,927.90
Unmatured accrued interest	314.64			314.64

Debentures and bonds

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 main issues in 2002 were as follows:

	Date	Face Value (Millions)	Currency	Maturity	Interest Rate
Note	04/11/02	100	Euros	2003	4.08% (discount)
Note	04/19/02	50	Euros	2005	(a)
FRN	06/18/02	80	Euros	2004	Floating EONIA + 0.30%

(a) Structured issue with a final interest rate of 3-month EURIBOR + 0.40%.

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, 2003, were as follows:

Millions of euros

Limit Outstanding	Addressed to:	Face Value (Euros)	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, 2003, 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	US\$ 500,000 €500,000	Specific transactions Specific transactions
		¥100,000,000	Specific transactions
		£100,000	Specific transactions

The average interest rate on the outstanding position as of December 31, 2003, was 2.24%.

Also, as of December 31, 2003, 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\$ 107.3 million had not been used, and the remaining US\$ 72.7 million had been drawn down in specific transactions at an interest rate as of December 31, 2003, of 3.17%.

(16) PAYABLE TO CREDIT INSTITUTIONS

The detail of the accounts payable to credit institutions is as follows:

Millions of euros

	Balance at 12/31/03			Balance at 12/31/02		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Corporate promissory notes	6.92	99.65	106.57	7.09	106.56	113.65
Loans and credits	988.76	2,815.97	3,804.73	2,198.44	3,569.39	5,767.83
Foreign currency loans	1,663.52	2,016.94	3,680.46	1,867.14	3,236.99	5,104.13
Total	2,659.20	4,932.56	7,591.76	4,072.67	6,912.94	10,985.61

As of December 31, 2003, the average interest rates on the corporate promissory notes, loans and credits and foreign currency loans were 13.52%, 3.29% and 4.10%, respectively. These percentages do not include the effect of the hedging arranged by the Group.

The most significant financial transactions in 2003 and 2002 were as follows:

	Amount (Millions)	Currency	Date	Maturity
JBIC (Telesp) loan	29,762.50	Yen	01/23/03	07/23/09
BBK loan	100.00	Euro	03/26/02	03/26/04
Drawdown against Citibank syndicated loan (Tranche B)	1,500.00	Euro	08/27/02	08/27/03

On April 9, 2003, Compañía de Telecomunicaciones de Chile (CTC) completed the renegotiation of the syndicated loan granted on February 7, 1996, amounting to US\$ 225 million of which the outstanding amount as of December 31, 2003, was US\$ 150 million. The renegotiations will mainly enable the maturity to be extended from December 2003 through April 2008. The repayments will be made in three installments: US\$ 30 million on April 9, 2006, US\$ 60 million on April 9, 2007 and US\$ 60 million on April 9, 2008, and the interest rate will be Libor plus a margin based on the current risk classification.

The main repayments made in 2003 and 2002 were as follows:

	Amount (Millions)	Currency	Date
Early repayment of Citibank 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
Drawdown against Citibank syndicated loan (Tranche A)	1,915.43	Euro	08/27/02
Qualcomm loan	433.96	USD	11/10/02
BBVA loan	103.44	USD	11/21/02

(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 Méjico. 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 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, 2003, were as follows:

<i>Millions of euros</i>	2004	2005	2006	2007	2008	Subsequent Years	Total
Corporate promissory notes	6.92	6.74	6.57	6.37	6.14	73.83	106.57
Loans and credits	988.76	980.21	783.36	232.97	96.74	722.69	3,804.73
Foreign currency loans	1,663.52	747.50	267.37	268.59	581.43	152.05	3,680.46
Total	2,659.20	1,734.45	1,057.30	507.93	684.31	948.57	7,591.76

As of December 31, 2003, the Telefónica Group had financing sources of various types exceeding €7,000 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, 2003 and 2002, is as follows:

Outstanding Balance (in Millions)

Currency	Foreign Currency		Euros	
	12/31/03	12/31/02	12/31/03	12/31/02
U.S. dollars	3,711	4,657	2,806.09	4,441.36
Brazilian reais	1,061	512	290.86	138.15
Swiss francs	—	11	—	7.35
Argentine pesos	52	54	14.21	15.34
Bolivares	—	10,684	—	7.34
Yen	47,083	40,644	348.63	326.75
UF	842	206	112.36	27.35
New soles	219	315	50.19	85.45
Pounds sterling	20	25	29.46	38.34
Mexican pesos	269	—	18.96	—
Other currencies	—	—	9.70	16.70
Total for the Group			3,680.46	5,104.13

(17) DERIVATIVES

In 2003 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, 2003, the total outstanding balance of derivatives transactions was €30,915.29 million (€36,909.02 million as of December 31, 2002), of which €13,342.11 million related to interest rate risk and €16,535.60 million to exchange risk (€18,431.37 million and €18,100.61 million as of December 31, 2002, 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 expense incurred in 2003 in relation to these transactions amounted to €322.18 million (net financial expense of €141.50 million in 2002).

(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 2003.

Deferred tax assets and liabilities

The detail as of December 31, 2003 and 2002, of the Telefónica Group's deferred tax assets and liabilities, and of the variations therein in 2003 and 2002, 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, 2001	275.27	3,757.78	240.17	1,482.45	58.63
Reversal	(213.86)	(995.88)	(189.00)	(150.80)	(1.67)
Arising in the year	238.43	6,576.84	90.87	367.55	8.05
Net international variations	15.03	(120.89)	—	(186.48)	—
Inclusion/Exclusion of companies and other	(4.77)	118.58	(10.48)	71.35	(19.62)
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

The balance of the "Long-Term Investments - Taxes Receivable" caption, which amounts to €9,029.48 million (see Note 8), includes, in addition to the deferred and other tax assets shown in the foregoing table, an amount of €204.38 million (€342.99 million as of December 31, 2002) relating to tax credits recorded as indicated below.

The "Long-Term Debt — Taxes Payable" caption amounting to €801.63 million includes the deferred tax liabilities shown in the foregoing table, together with €83.66 million relating to other 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 taxes receivable

The detail of the "Other Nontrade Payables - Taxes Payable" and "Accounts Receivable - Taxes Receivable" captions as of December 31, 2003 and 2002, is as follows:

Millions of euros

	Balance at 12/31/03	Balance at 12/31/02
Taxes payable:		
Tax withholdings	101.95	106.77
Indirect taxes payable	485.37	241.73
Corporate income tax	109.43	38.98
Accrued social security taxes	172.13	177.28
Deferred tax liabilities	162.67	131.56
Other	149.54	352.20
Total	1,181.09	1,048.52

Millions of euros

	Balance at 12/31/03	Balance at 12/31/02
Taxes receivable:		
Tax withholdings and installment payments	198.40	313.80
Income tax refunds receivable	10.48	109.50
Taxes, surcharges and other payments recoverable	15.63	31.69
Deferred tax assets and other short-term tax assets	518.51	310.10
Indirect taxes refundable	370.01	160.25
Other	9.81	130.03
Total	1,122.84	1,055.37

Reconciliation of the income/loss per books to the tax base for corporate income tax purposes and determination of the tax expense/revenue

The reconciliation of the income/loss per books to the tax base for corporate income tax purposes as of December 31, 2003 and 2002, and the determination of the corporate income tax expense/revenue and the net tax payable/refundable for the two years are as follows.

Millions of euros

	2003	2002
Income (Loss) per books	3,362.50	(14,601.06)
Permanent differences	(422.15)	(1,880.14)
Timing differences	(634.03)	2,169.86
Offset of tax losses	(358.74)	—
Tax base	1,947.58	(14,311.34)
Gross tax payable	465.68	(5,008.97)
Tax credits and tax relief	(457.29)	(409.41)
Unrecorded tax assets	222.62	485.82
Corporate income tax payable (receivable)	231.01	(4,932.56)
Tax effect of timing differences and deferred revenues	112.20	(705.70)
Other items	570.22	2,409.61
Total income tax	913.43	(3,228.65)

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 operations, 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 "Other Items" account includes in 2003, *inter alia*, the tax credits of €462.67 million taken in the year and that had been recorded in the consolidated balance sheet in prior years.

In 2002, because the tax Group incurred a tax loss, no tax credits were taken, although an asset of €342.99 million was recorded in relation to the application of the provisions of the ICAC resolution dated March 15, 2002 (see Note 4-p). The tax credits taken in 2002 by the companies not forming part of the tax Group were scantily material.

The Telefónica tax Group has €449.27 million (€599.78 million in 2002) of unused tax credits relating to 1999 through 2003. This amount includes €204.38 million recorded under the "Long-Term Investments — Taxes Receivable" caption in connection with the matter indicated in the preceding paragraph and which relate basically to the reinvestment of extraordinary income and research and development expenses (€342.99 million as of December 31, 2002).

The tax losses available for carryforward in Spain at the main Group companies total €20,083.14 million, of which €17,288.34 million, €1,128.38 million and €1,267.02 million were incurred in 2002, 2001 and 2000, respectively, and can be offset within 15 years. €14,794.35 million of these tax losses were capitalized, giving rise to a tax asset of €5,178.02 million, which was recorded under the "Long-Term Investments - Taxes Receivable" caption.

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, 2003, the Terra Networks Group had unrecognized tax losses amounting to €2,841.08 million.

Based on an analysis of future earnings expectations, in 2002 Terra Networks wrote off a portion of the tax assets recorded for prior years. The effect on the 2002 consolidated statement of operations, an expense of €272.59 million, was recorded under the "Corporate Income Tax" caption. This amount was calculated taking into account the reversal of deferred tax liabilities recorded in prior years that was performed to avoid the duplication of tax assets and, accordingly, once the effect of the losses attributed to minority interests was taken into

account, this expense did not have any effect on the Telefónica Group's consolidated net loss for 2002.

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). The tax audits of the years open for review are not expected to give rise to the need to record significant liabilities in the accompanying consolidated financial statements.

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 review 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 1999 and 1998, 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 variations in the accrual of the investment tax credits are shown in Note 13.

(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, 2003 and 2002, is as follows:

	<i>Millions of euros</i>		<i>Balance at 12/31/03</i>	<i>Balance at 12/31/02</i>
Accrued expenses payable	58.56		101.75	
Group company dividends payable	137.54		54.09	
Short-term payables to fixed asset suppliers	66.80		51.10	
Guarantees and deposits	66.78		159.25	
Compensation payable	330.70		322.79	
Other nonfinancial nontrade payables	275.55		551.87	
Total	935.93		1,240.85	

(20) REVENUES AND EXPENSES

Sales and services

The detail, by business line, of net sales and services is as follows:

	<i>Millions of euros</i>	<i>12/31/03</i>	<i>12/31/02</i>
Wireline telephony business in Spain	10,217.43	10,272.11	
Móviles business	10,428.28	9,449.34	
Wireline telephony business in Latin America	6,377.05	6,954.14	
Companies business (T. Data and Emergia)	1,782.04	1,758.49	
Telefónica Contenidos business	1,378.48	1,076.16	
Directorios business	589.30	550.46	
Terra Networks business	545.09	599.95	
Atento business	492.96	571.09	
Instrumentality companies and other	585.73	609.22	
Group revenues before the elimination of intercompany sales	32,396.36	31,840.96	
Intercompany sales	(3,996.52)	(3,429.66)	
Total revenues from Group operations	28,399.84	28,411.30	

Personnel expenses

The detail of the personnel expenses is as follows:

	<i>Millions of euros</i>	<i>12/31/03</i>	<i>12/31/02</i>
Compensation	3,368.59	3,561.57	
Provisions to the pension allowance and other commitments to employees	115.45	121.26	
Accrual for the cost of the loyalty-building programs tied to share market price	14.63	16.97	
Employee welfare expenses and other	1,142.65	1,093.97	
Total	4,641.32	4,793.77	

The "Personnel Expenses" caption includes the severance paid to two senior managers who left the Company in 2003, the amount of which had been established in their respective senior management contracts.

In general, senior management contracts relating to members of the Executive Committee include indemnity clauses consisting of three years' salary plus another year's salary depending on the years of service at the Company, for cases of unilateral termination by the Company. The one-year's salary payment consists of the last year's fixed compensation and the arithmetic mean of the sum of the last two variable compensation payments received per the related contract.

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. €27.16 million were recorded in this connection in 2003 (€27.23 million in 2002).

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, 2003, 44,697 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 2003 amounted to €105.72 million (€97.68 million in 2002).

Number of employees

Following is a detail of the Telefónica Group's average number of employees in 2003 and 2002, 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.

	12/31/03	12/31/02		
	Average	Year-End	Average	Year-End
Telefónica, S.A.	791	767	769	799
Telefónica de España Group	40,696	36,586	42,356	42,162
Telefónica Móviles Group	13,240	13,093	14,153	13,694
Telefónica Internacional Group	24,501	23,141	28,715	25,673
Telefónica Empresas Group (T. Data and Emergia)	4,922	5,003	4,965	4,664
Directorios Group	2,778	2,787	2,839	2,752
Telefónica de Contenidos Group	6,487	4,638	5,712	5,574
Atento Group	48,171	54,394	49,496	49,432
Terra Networks Group	2,273	2,229	2,762	2,455
Other	5,606	5,650	5,737	5,640
Total	149,465	148,288	157,504	152,845

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 healthcare services provided in the years from 1999 to 2002 (inclusive). The claim for 2003 will be initiated once the accounts of the related entity cooperating with the Spanish National Social Security Institute have been closed. The company has recorded an account receivable of €92.25 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 2003 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 was aimed at the company's executives (including the Executive Director) and employees and 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 after 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.

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 stock or stock option plan.

The aim of the TIES Program is identical to those achieved by other similar programs implemented in the past by Telefónica, S.A. or its subsidiaries and is broadly similar to programs which have been introduced in several European countries and in the U.S. Its main purpose is to introduce a system of global incentives and to reward the past and future services of all the employees of Telefónica, S.A. and its subsidiaries in the coming years. The TIES Program will basically motivate all its beneficiaries by giving them access to Telefónica, S.A. shares under highly favorable terms and conditions.

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, 2003, 73,171 persons were participating in the TIES program, who held a total of 30,113,539 purchase options on Telefónica, S.A. 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 envisages 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 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 through December 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 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 since the date on which the options were granted (January 2, 2002). The first exercise period commenced on January 2, 2003.
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) through cash differences.

The first phase of the Program commenced on January 2, 2002. The second phase of the plan, which included the Telefónica Móviles Group 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 is currently 8,434. Of these beneficiaries, one is an executive director of Telefónica Móviles, S.A. and eight are general managers or similar executives.

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 Stockholders' Meeting on October 26, 2000, through the issuance of 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 this Telefónica Móviles, S.A. stock option plan (the MOS Program) and the capital increase at Telefónica Móviles, S.A. 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.

As a result of the early settlement of options granted to beneficiaries, in 2003 2,473 beneficiaries holding a total of 1,944,196 options left the Program. The amount paid to these beneficiaries in 2004 to settle these options early was €1.16 million.

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 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 may 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 ends on February 28, 2004), and the options may 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.

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 a portion of the options could be 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, and that options could be assigned from that date onwards to 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.

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, 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 purchase 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 cover 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 had been committed at an 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.

e) Telefónica, S.A. stock option plan aimed at executives 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, 2003 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, in the form of shares or cash.

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. approved a capital increase at Telefónica, S.A. of €2,180,809 euros, through the issuance of an equal number of 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 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.

Lastly, 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. The cost of this program recorded in the 2003 consolidated statement of operations amounted to €0.92 million.

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:

<i>Millions of euros</i>	12/31/03	12/31/02
Debentures, bonds and other marketable debt securities	946.95	1,060.64
Loans and credits	907.67	659.66
Other	91.88	63.84
Total financial expenses	1,946.50	1,784.14
Associated companies	33.00	31.07
Other companies	336.77	289.30
Total other financial revenues	369.77	320.37

Exchange differences

The detail of the exchange gains and losses allocated to the consolidated statements of operations is as follows:

<i>Millions of euros</i>	12/31/03	12/31/02
Exchange losses	(339.74)	(2,245.17)
Exchange gains	834.91	1,612.85
Exchange differences	495.17	(632.32)

Of these total exchange differences, the most significant amount relates to the variation in the debt denominated in foreign currency at the Argentine companies, as a result of the drop in value 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 €528.87 million in 2002 (see Note 4-b).

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:

<i>Millions of euros</i>	12/31/03	12/31/02
Prior years' revenues	—	15.66
Indemnity payments for breach of contract	27.45	31.76
Adjustment of pension commitments (Note 14)	70.34	—
Insurance settlement consortium	2.83	0.87
Corporate restructuring of the wireless business in Brazil	14.68	49.10
Sale of treasury stock (Note 11)	7.12	—
Provisions for treasury stock (Note 11)	159.95	—
Allocation of deferred revenues to income (Note 13)	74.34	—
Other extraordinary revenues earned in the year	124.49	158.57
	481.20	255.96

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

<i>Millions of euros</i>	12/31/03	12/31/02
Provision for contingencies	79.83	31.29
Extraordinary provisions for preretirements (Note 14)	1,593.41	395.01
Write-off of goodwill (Note 5)	6.48	2,259.81
Provisions for treasury stock (Note 11)	—	288.09
Fraud suffered and court claims	45.93	4.51
Fines, penalties and litigation	103.31	107.01
Write-off of start-up expenses	—	56.62
UMTS license value adjustments (Note 14)	—	2,753.90
Externalization of commitments (Note 4-g)	12.60	2.12
Other extraordinary expenses	380.04	836.68
	2,221.60	6,735.04

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 €202.95 million relating to the gain obtained from the disposal of real estate, performed mainly by Telefónica de España and Inmobiliaria Telefónica.

The "Losses on Fixed Assets" caption includes the losses recorded in 2002 relating to UMTS license value adjustments, amounting to €9,526.19 million (see Note 6).

This caption also includes net amounts of €19.15 million and €15.49 million as of December 31, 2003 and 2002, 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 the directors of Telefónica, S.A. consists of a fixed monthly payment and of attendance fees for attending the Board of Directors advisory committee meetings. Also, the executive directors receive compensation for the executive duties discharged by them.

The directors' compensation is governed by Article 28 of the bylaws, which indicates that the amount of the compensation to be paid by the Company to its directors is set by the Stockholders' Meeting, and the Board of Directors distributes it among the directors. In this connection, on April 11, 2003, the Stockholders' Meeting set a maximum gross annual amount to be paid to the Board of Directors of €6 million, which includes a fixed payment and attendance fees for attending the Board of Directors advisory committee or control committee meetings. It should be noted that, in line with the best practices in this field, directors' compensation is not tied to results.

In 2003 the members of the Board of Directors of Telefónica, S.A. earned €10,900,943.98 (€3,339,958.34 fixed monthly payment, including the compensation earned as members of the Boards of Directors of other Telefónica Group companies; €120,247.86 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); €7,275,864.86 of salaries and variable compensation of the executive directors; €114,872.92 of compensation in kind paid to the executive directors, which include life insurance premiums; and €50,000 of contributions paid by the Company, as promoter and for executive directors, under pension plans).

The breakdown of the compensation and benefits received by the directors in 2003 is as follows:

Board of Directors: annual amount of the fixed payment received by each director (in euros):

Position	2003
Chairman	90,151.92
Deputy Chairmen	150,253.02
Directors (1):	
Executive directors	90,151.92
Nominee directors	90,151.92
Independent directors	90,151.92

(1) Additionally, one director, who is not resident in Spain, receives an additional annual payment of €60,101.21 because his experience and work in relation to Latin America is of special interest to the Company.

Standing Committee: annual amount of the fixed payment received by each director (in euros):

Position	2003
Chairman	60,101.19
Deputy Chairman	60,101.19
Directors	60,101.19

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: total annual amounts paid in 2003 for attending meetings of the advisory and control committees of the Board of Directors, received by the directors taken as a whole:

Committees	2003
Audit and Control	Attendance fee per meeting: €858.61 Number of meetings paid: 9 Total received: €26,616.91
Appointments and Compensation and Best Practice Corporate Governance	Attendance fee per meeting: €858.61 Number of meetings paid: 6 Total received: €24,899.69
Human Resources and Corporate Reputation	Attendance fee per meeting: €858.61 Number of meetings paid: 6 Total received: €20,606.64
Regulation	Attendance fee per meeting: €858.61 Number of meetings paid: 5 Total received: €12,879.15
Service Quality and Commercial Service	Attendance fee per meeting: €858.61 Number of meetings paid: 4 Total received: €8,586.1
International Matters	Attendance fee per meeting: €858.61 Number of meetings paid: 2 Total received: €7,727.49

Executive directors: total amounts received by the executive directors taken as a whole for the items indicated below (in euros):

	2003
Salaries	3,811,030.07
Variable compensation	3,464,834.79
Compensation in kind	114,872.92
Contributions to pension plans	50,000

The executive directors César Alierta Izuel, Fernando Abril-Martorell Hernández (who resigned from his post as the Company's Chief Executive Officer on September 24, 2003), Antonio J. Alonso Ureba and Luis Lada Díaz, in their capacity as directors of the Telefónica Group, were beneficiaries of the compensation plan linked to the share market price of the shares of Telefónica, S.A. targeted at the Telefónica Group's executives (the "TOP Plan") which came to an end in 2003. The options on Telefónica shares forming the subject matter of the Plan were not exercised and, accordingly, expired. The cost

for Telefónica of the aforementioned compensation plan, in relation to the executive directors participating in the Plan, amounted to €1.02 million in 2003.

Additionally, it should be noted that the nonexecutive directors do not receive and did not receive in 2003 any compensation in the form of pensions or life insurance, and they do not participate in the compensation plans linked to share market price.

Lastly, the Company does not grant and did not grant in 2003 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.

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 (1)	Functions
Isidro Fainé Casas	Terra Networks, S.A.	Telecommunications	< 0.01%	—
Maximino Carpio García	Telefónica Móviles, S.A.	Telecommunications	< 0.01%	Director
Miguel Horta e Costa	Portugal Telecom SGPS, S.A.	Telecommunications	< 0.01%	Executive Chairman
Luis Lada Díaz	Telefónica Móviles S.A. Sogecable S.A.	Telecommunications Television, telecommunications and audiovisual production services	< 0.01%	Director
Antonio Massanell Lavilla	Telefónica Móviles S.A.	Telecommunications	< 0.01%	Director
Enrique Used Aznar	Amper, S.A.	Telecommunications	< 0.01%	Director
Antonio Viana Baptista	Portugal Telecom SGPS, S.A. Telecom Italia Hellenic Telecom PT Multimedia-Serviços de Telecomunicações e Multimédia, SGPS, S.A. Telefónica Móviles, S.A.	Telecommunications Telecommunications Telecommunications Internet Telecommunications	0.39% < 0.01% < 0.01% < 0.01% < 0.01% < 0.01%	Chairman Director — — — Executive Chairman

(1) If the holding is less than 0.01% of the capital stock, "< 0.01%" will be 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 the same as, 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 (2)	Positions Held or Functions Performed at the Company (2)
José Antonio Fernández Rivero	Internet and e-commerce	For account of others	Adquira España, S.A.	Chairman
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
Maximino Carpio García	Telecommunications equipment provider	For own account		Advisory Director of Abengoa, S.A.
	Mobile telecommunications	For account of others	Telefónica Móviles, S.A.	Director
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
Miguel Horta Costa	Telecommunications	For account of others	Portugal Telecom, SGPS S.A.	Executive Chairman
	Telecommunications	For account of others	PT Comunicações, S.A.	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, SGPS, S.A.	Chairman
	Telecommunications	For account of others	TMN-Telecomunicações Móveis Nacionais, S.A.	Chairman
	Telecommunications	For account of others	PT Ventures, SGPS, 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
Luis Lada Díaz	Telecommunications	For account of others	Telefónica Móviles, S.A.	Chairman
	Television, telecommunications and audiovisual production services			Director
Antonio Massanell Lavilla	Telecommunications	For account of others	Sogecable, S.A.	Director
Enrique Used Aznar	Telecommunications	For account of others	Telefónica Móviles, S.A.	Director
	equipment provider	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
Mario Eduardo Vázquez	Telecommunications	For account of others	Telefónica de Argentina, S.A.	Chairman
	Telecommunications	For account of others	Telefónica Holding de Argentina, S.A.	Deputy Chairman
	Telecommunications	For account of others	Compañía Internacional de Telecomunicaciones, S.A.	Deputy Chairman
	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	Atento Argentina, 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.	Owner/Manager
	Telecommunications	For account of others	Katalyx Cataloguing Argentina, S.R.L.	Owner/Manager
	Telecommunications	For account of others	Katalyx Construction Argentina, S.R.L.	Owner/Manager
	Telecommunications	For account of others	Katalyx Transportation Argentina, S.R.L.	Owner/Manager
	Telecommunications	For account of others	Altocity.com, S.A.	Deputy Chairman
	Telecommunications	For account of others	E-Commerce Latina, S.A.	Deputy Chairman
	Internet and e-commerce	For account of others	Adquira Argentina, S.A.	Chairman
	Information Technology	For account of others	Indra SI, S.A.	Director
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	Compañía de Telecomunicaciones de Chile, 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

(2) Only shown if the activity is carried on for the account of others 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 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 10, 2003, Telefónica, S.A. filed a reply brief contesting the appeal.

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 and it states that the complaint filed did not in any way signify holding in abeyance the implementation of the corporate resolutions approved by the Stockholders' Meeting and contested in that court proceeding.

- 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 also be wholly satisfactory for the Company.

Also, it should be noted that the complaint filed against the aforementioned resolutions adopted by the Stockholders' Meeting on June 15, 2001, did not in any way signify holding in abeyance the implementation of those resolutions.

- 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 issuance 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.

In May 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.

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 which are currently before the Court.

The defendants have filed an answer and, in turn, Terra Networks S.A. has filed a counterclaim.

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.

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 €22,867,892, which represents the total amount paid for Sintel, since they consider null and void as a matter of law the involvement of Sintel in the contract dated December 30, 1998, in which a debt of €21,347,528 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 is currently the subject of an appeal to a superior court.

Based on the opinion of its legal counsel, the Company considers that the Order approving the arrangement is correct and that the appeal filed at the Madrid Provincial Appellate Court should not succeed.

Notwithstanding the foregoing, the liquidation process has commenced, for which purpose the Liquidation Committee was formed on July 20, 2003, and the Control body on October 15, 2003.

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, although no decision on the petition for dismissal of the proceeding has been rendered.

5) Complaint filed by Bidland Systems, Inc. against Katalyx Inc. and Telefónica, S.A.

In December 2000, Bidland Systems, Inc. ("Bidland") filed a complaint at a California State Court against Telefónica B2B, Inc, now called Katalyx Inc., and Telefónica, S.A. based mainly on a monetary claim by virtue of purported contractual obligations based on a joint venture project that had not been formalized. Bidland alleges that it suffered loss and damage quantified at US\$ 150 million.

The discovery phase in the proceeding took place during 2002 and 2003, and included the taking of witness statements and the adducing of independent experts' reports for appraising the damage alleged by Bidland.

At the end of this phase, Telefónica and Katalyx filed at court on August 21, 2003, applications for summary judgment against all Bidland's claims contested by the latter. In October 2003, the case file was transferred to a new District Judge who has not yet set down a date for trial.

Based on the opinion of its legal counsel, the Company considers that it has reasonable legal arguments and that, although there are uncertainties in the outcome of any litigation, it should not be adverse for Telefónica, but that if it were, its economic and financial impact should not be material.

6) 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, in the alternative, 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.

7) Appeal for judicial review no. 6461/03 filed at the National Appellate Court by the World Association of Stockholders of

<p>Terra Networks, S.A. (ACCTER) against the administrative decision made by the Spanish National Securities Market Commission to authorize the tender offer by Telefónica, S.A. for Terra Networks, S.A.</p>	<p>segments, for the Telefónica Group companies' connectivity and ISP services.</p>
<p>ACCTER filed an appeal for judicial review against the decision of the Spanish National Securities Market Commission to authorize the tender offer made to Terra stockholders on June 19, 2003.</p>	<p>Preferential provider of consulting, management and maintenance services for the country portals of the Telefónica Group companies.</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 Spanish National Securities Market Commission.</p>	<p>Exclusive provider of Telefónica Group employee on-line training services.</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>Preferential provider of on-line integral marketing services with the Telefónica Group companies.</p>
<p>At present, a brief has already been filed by the Government Legal Service in reply to the application filed by ACCTER for judicial review.</p>	<p>2. Guaranteed minimum volume of acquisitions of Terra Lycos Group on-line advertising space by Telefónica Group companies.</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>3. Exclusive acquisition of connectivity and wholesale Internet access services by Terra Lycos Group companies from Telefónica Group companies under the legally permitted most-favored-customer conditions.</p>
<p>b) Commitments</p>	<p>4. Outsourcing by Terra Lycos 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>Strategic alliance between Telefónica and Terra</p>	<p>5. Exclusive acquisition by Terra Lycos 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>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>The Framework Strategic Alliance Agreement guarantees the generation for the Terra Lycos Group of a minimum annual value 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 value was generated for the Terra Lycos Group in 2003.</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>Agreements with Portugal Telecom (Brazil)</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>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 the 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 main features of this Framework Strategic Alliance Agreement are summarized as follows:</p>	<p>1. Strengthening of the Terra Lycos Group as:</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</p>	

On October 17, 2002, Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Móveis 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 of Portugal Telecom'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 Telecomunicaciones, 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 February 4, 1999, Telefónica Larga Distancia de Puerto Rico (TLD) and ClearCom, L.P. entered into a joint venture agreement to carry on the cellular telephony business in Puerto Rico through a new company (Newcomm Wireless Services, Inc.). Under these agreements between the parties, TLD was granted an option to acquire a 50.1% holding in Newcomm Wireless Services, Inc. by converting promissory notes into shares representing 49.9% of the latter's capital stock and entering into a share purchase agreement for shares representing the remaining 0.2%.

In line with the process of reorganization by line of business carried out by the Telefónica Group, in September 2003 TLD transferred to Telefónica Móviles, S.A. the convertible promissory notes (for US\$ 60.95 million) and the right to acquire the additional 0.2% of the capital stock. The actual conversion of the aforementioned promissory notes and the exercise of the option right have not yet received the required approval of the U.S. Federal Communications Commission (FCC).

On September 29, 2003, Telefónica Móviles, S.A. arranged a counter-guarantee with 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 which matures on December 31, 2004.

On December 23, 2003, Telefónica Móviles, S.A. arranged a counter-guarantee with 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 December 31, 2004.

Médi Telecom (Morocco)

Telefónica Móviles España S.A. (Sole-Stockholder Company), as a stockholder of Médi 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 Médi Telecom in the event of noncompliance with financial clauses or a shortfall in funds at Médi Telecom that would prevent it from meeting its debt servicing obligations. If Médi Telecom obtains a specific level of operating income before depreciation and amortization within 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 the capital increase 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, 2003.

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 a holding indirectly through Telefónica Móviles, S.A. and Telefónica DataCorp, S.A. (Sole-Stockholder Company), guarantees securing financial transactions, mainly to secure its financing commitments relating to the accounts payable to the Italian State due to the acquisition of the license amounting to €555.22 million.

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 consists of the initial contribution by Telefónica S.A. of all its contact center business (now carried on by Atento Holding Inc.) 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 had not yet been made as of that date.

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 execution 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. (Sole-Stockholder Company) and Sogecable, S.A., relating to the merger of Via Digital with 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 shortfall 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 shortfalls 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 acquired a commitment, up to a maximum of €80 million, to either 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 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.

Other commitments acquired by Telefónica de Contenidos as a result of the aforementioned agreements entered into by Telefónica, Telefónica de Contenidos and Sogecable, such as the grant of a participating loan of €50 million, the grant of €172.49 million to guarantee the subscription in full of a subordinated loan of €175 million and the acquisition from Vía Digital of the rights for the 2006 Soccer World Cup, were met in full by Telefónica de Contenidos in the second half of 2003.

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.

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 Banco Bilbao Vizcaya Argentaria, S.A. 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'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 an 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 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'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 PER of BBVA, multiplied by the percentage of the ownership interest 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 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 de España, S.A. (Sole-Stockholder Company), a subsidiary of Telefónica, S.A., has provided counter-guarantees for 43 guarantees provided by Banco Santander Central Hispano and by the insurance company Zurich totaling approximately €100 million, relating to definitive guarantees provided by Telefónica Cable, S.A. (Sole-Stockholder Company), a subsidiary of Telefónica de España, S.A. (Sole-Stockholder Company), in relation to 43 concession contracts with the Spanish State for the provision of cable telecommunications services in 43 franchise areas.

These guarantees ensure performance by the concession-holder company of the obligations assumed under the concession contracts, in particular in relation to coverage of the services and the timetable for their implementation. The aforementioned guarantees were maintained after the concession deeds were converted into 19 individual B1-type licenses and 43 concession contracts for the provision of broadcasting services.

Through a Telecommunications Market Commission Resolution dated January 7, 2003, it was decided to propose to the Ministry of Science and Technology that 90% of the amount of the final guarantees provided by Telefónica Cable, S.A. for the formalization of the aforementioned 43 contracts be reimbursed. The Secretary of State for Telecommunications and for the Information Society issued a Resolution dated June 17, 2003, rejecting the proposed reimbursement of guarantees, and an appeal for judicial review was filed against the resolution.

On December 1, 2003, on the basis of the new legal framework created by the General Telecommunications Law of November 3, 2003, Telefónica applied to the Ministry of Science and Technology for the cancellation of all the guarantees provided, and on January 28, 2004, the Ministry issued a report proposing the cancellation of 90% of the guarantees relating to B1-type licenses and rejecting the cancellation of the remaining 10% of the guarantees relating to the provision of broadcasting services.

2. Telefónica Móviles, S.A., a subsidiary of Telefónica Móviles, S.A., in turn a subsidiary of Telefónica, S.A., has provided certain financial guarantees to the Spanish State amounting to €1,100 million, in relation to the grant to Telefónica Móviles España, S.A. 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. 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 31, 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., 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 October 2003, Telefónica Móviles España, S.A. cancelled the released guarantees at the respective banks.

3. 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

4. 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 is expected to complete the verification of the PCS network coverage obligations in the aforementioned cities and in area II in 2004.

Telefónica, S.A. and its subsidiaries, which, in turn, 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 equity 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, 2003, were prepared, and the provisions recorded with respect to the commitments taken as a whole are not representative.

c) 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 2003 it incurred expenses and made investments for scantily material amounts which were recorded in the consolidated statement of operations and the consolidated balance sheet, respectively.

As regards the current systems implemented by the Group to reduce the environmental impact of its plant, several projects were initiated the cost of which was included in the cost of the plant 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.

d) Fees paid to auditors

The fees paid in 2003 to the various member firms of the Deloitte & Touche international organization, to which Deloitte & Touche España, S.L., the auditors of the Telefónica Group in 2003 and 2002, belongs, amounted to €14.82 million and €15.92 million, respectively.

The detail of the foregoing amount is as follows:

Millions of euros

	2003	2002
Audit of financial statements	7.48	6.94
Other audit services	2.90	2.90
Work additional to or other than audit services	4.44	6.08
Total	14.82	15.92

The fees paid to other auditors in 2003 and 2002 amounted to €7.78 million and €12.51 million, respectively, the detail being as follows:

Millions of euros

	2003	2002
Audit of financial statements	2.10	1.95
Other audit services	2.05	0.42
Work additional to or other than audit services	3.63	10.14
Total	7.78	12.51

These fees include the amounts paid in connection with the fully and proportionally consolidated Spanish and foreign Telefónica Group companies. In this connection, in 2003 €0.95 million relating to 50% of the fees for the proportionally consolidated companies (Deloitte Touche Tohmatsu, €0.70 million; other auditors, €0.25 million) were included.

(23) SUBSEQUENT EVENTS

In the period from December 31, 2003, through the date of preparation of these consolidated financial statements no events worthy of mention took place at the Telefónica Group.

(24) CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Application of funds	12/31/03	12/31/02	Source of funds	12/31/03	12/31/02
Funds applied in operations	—	—	Funds obtained from operations	10,635.10	8,719.49
Start-up and debt arrangement expenses	144.99	468.96	Stockholder contributions		
Fixed asset additions			a) Capital increase	—	—
a) Intangible assets	809.88	1,106.58	b) Additional paid-in capital	—	—
b) Property, plant and equipment	2,973.30	2,819.65	c) Minority interests	301.99	5,294.95
c) Long-term investments	4,322.56	2,176.48	Deferred tax assets	818.90	—
Deferred tax assets	—	92.04	Deferred revenues	1.81	229.09
Deferred tax liabilities	—	—	Long-term deferred tax liabilities	—	436.61
Dividends	2,070.18	108.63	Long-term debt	3,783.76	1,762.92
Repayment or transfer to short term of long-term debt	5,792.81	6,746.65	Fixed asset disposals		
Provisions	1,897.95	863.53	a) Intangible assets	108.86	39.21
Other funds applied	213.48	—	b) Property, plant and equipment	535.50	296.34
Decrease in working capital due to disposal of equity investments	—	1,060.54	c) Long-term investments	1,944.42	784.16
Decrease in working capital due to inclusion of subsidiaries	—	—	Transfer to short term of long-term loans	1,783.38	403.05
Variation in working capital due to translation differences	581.25	714.95	Increase in working capital due to disposal of equity investments	100.39	—
Total funds applied	18,806.40	16,158.01	Increase in working capital due to inclusion of subsidiaries	46.10	495.50
Funds obtained in excess of funds applied (Increase in working capital)	1,253.81	2,303.31	Variation in working capital due to translation differences	—	—
	20,060.21	18,461.32		20,060.21	18,461.32

Variations in working capital

Increase in working capital	12/31/03	12/31/02	Decrease in working capital	12/31/03	12/31/02
Due from stockholders for capital calls	—	—	Due from stockholders for capital calls	—	2.25
Inventories	—	—	Inventories	48.86	304.26
Accounts receivable	189.12	—	Accounts receivable	—	1,974.86
Accounts payable	693.06	3,663.88	Accounts payable	—	—
Short-term investments	622.67	1,146.39	Short-term investments	—	—
Cash	—	—	Cash	207.49	77.97
Accrual accounts	5.31	—	Accrual accounts	—	147.62
Total	1,510.16	4,810.27	Total	256.35	2,506.96
Variation in working capital	—	—	Variation in working capital	1,253.81	2,303.31
	1,510.16	4,810.27		1,510.16	4,810.27

The reconciliation of the balances of the consolidated statements of operations to the funds obtained from operations is as follows:

<i>Millions of euros</i>	12/31/03	12/31/02
Income (Loss)	2,203.58	(5,576,80)
Income (Loss) attributable to minority interests	245.49	(5,795,61)
Income of associated companies	212.58	527,88
	2,661.65	(10,844,53)
Add:		
Dividends of companies accounted for by the equity method	—	58,16
Depreciation and amortization expense	6,283.70	6,692,42
Provisions for property, plant and equipment	35.69	37,88
Amortization of debt arrangement expenses	41.70	43,23
Amortization of consolidation goodwill	442.46	665,43
Amortization of other deferred charges	140.45	240,98
Write-down of consolidation goodwill	6.48	2,259,81
Investment valuation provisions	—	117,63
Exchange differences	—	(316,72)
Undepreciated plant dismantled	38.68	33,85
Provisions for inventory adjustment	1.81	23,32
Period provisions	1,986.78	3,281,40
Provisions to technical reserves of insurance companies	13.30	17,24
Deferred interest	26.55	5,10
Deferred tax liabilities and other	787.05	—
Property, plant and equipment and intangible assets	16.52	9,597,77
Financial provision and supplementary pension payments to retired employees	5.17	61,62
Losses on disposal of consolidated companies	39.74	209,25
Less:		
Gain on disposal of property, plant and equipment and intangible assets	221.83	16,28
Capital subsidies	12.93	63,79
Exchange differences	882.97	—
Long-term deferred tax assets and liabilities	—	3,228,65
Gain on disposal of consolidated companies	407.96	101,78
Fixed asset allowances used	0.07	36,83
Other allowances used	356.53	17,02
Results on financial investments	10.34	—
Funds obtained from operations	10,635.10	8,719,49

(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, 2003 and 2002, was as follows:

Millions of euros

Companies	12/31/03		12/31/02	
	To Reserves	To Translation Differences	To Reserves	To Translation Differences
Fonditel	(0.94)	—	26.22	—
Atento Group	(263.76)	(36.17)	(229.62)	(7.42)
Casiopea Group	48.79	—	62.53	—
Comet Group	(6.41)	—	(6.58)	—
Telefónica DataCorp Group	(1,051.05)	(207.00)	(527.68)	(221.41)
Telefónica de España Group	276.41	(0.03)	295.80	(0.02)
Telefónica Internacional Group	1,566.68	(3,646.80)	1,537.61	(4,315.82)
Telefónica Contenidos Group	(1,966.32)	(162.82)	(1,262.99)	(248.38)
Telefónica Publicidad e Información Group	126.39	(1.69)	74.28	(44.73)
Telefónica Móviles Group	159.22	(1,100.36)	4,612.68	(985.06)
Terra Networks Group	(1,408.77)	(167.59)	(559.65)	(129.29)
Venturini Group	(0.30)	—	(0.62)	—
Inmobiliaria Telefónica	9.22	—	(0.76)	—
Playa de Madrid	—	—	0.74	—
Taetel	10.40	—	11.23	—
Telefónica Europe B.V.	4.74	—	5.38	—
Telfisa	(1.85)	—	3.44	—
Tidsa	48.90	—	33.94	—
Urbana Ibérica	—	—	0.56	—
Katalyx Group	(141.84)	(35.49)	(99.72)	(5.98)
Emergia Group	(11.07)	(121.52)	(127.18)	(41.49)
Telefónica and instrumentality companies	18,640.81	(916.52)	20,306.04	(508.22)
Total Telefónica Group	16,039.25	(6,395.99)	24,155.65	(6,507.82)
Intercompany fixed asset transactions	(46.17)	—	64.31	—
Total contribution	15,993.08	(6,395.99)	24,219.96	(6,507.82)

DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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. (SPAIN) (*) (**) (1) (6) <i>Organization and operation of activities and businesses relating to multimedia services</i> <i>Paseo de la Castellana, 141 - 28046 Madrid</i>	100.00%		100.00%	3,024.82	(2,612.77)	—	93.44	2,241.88	F.C.	—
Telefónica Media Argentina, S.A. (ARGENTINA) (1) <i>Holdings in businesses in areas related to the media</i> <i>Tucumán, 1 Pta. 17º - Buenos Aires</i>	100.00%	100.00%	257.60	(736.20)	—	—	532.02	F.C.	—	
Atlántida Comunicaciones, S.A. (ARGENTINA) (1) (6) <i>Free-to-air television and radio</i> <i>Tucumán, 1 Pta. 20 - Buenos Aires</i>	100.00%	100.00%	492.27	(966.88)	—	28.96	—	F.C.	—	
Other holdings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/D	E.M.	0.16
Fieldy, B.V. (NETHERLANDS) (6) <i>Record label, audiovisual distribution and organization of events</i> <i>Locatelliakade, 11076 A-Z - Amsterdam</i>	51.00%	51.00%	0.03	(5.57)	—	—	42.44	E.M.	(2.77)	
Líderes Entertainment Group, Inc.(USA) <i>Management and marketing of artists' rights</i> <i>3191 Coral Way - Miami</i>	49.00%	49.00%	0.01	(3.83)	—	—	19.96	E.M.	(1.91)	
Telefónica Media Internacional y de Contenidos, S.A. (SPAIN) (*) (**) (1) <i>Operation of media services in Latin America</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	100.00%	0.60	(3.50)	—	1.25	16.02	F.C.	—	
Torneos y Competencias, S.A. (ARGENTINA) (3) (6) <i>Television producer and advertising agency</i> <i>Balcarce 510 - Buenos Aires</i>	20.00%	20.00%	15.68	(6.81)	—	—	81.81	E.M.	—	
Telefónica Servicios Audiovisuales, S.A. (SPAIN) (*) (**) (1) <i>Provision of all manner of audiovisual telecommunications services</i> <i>Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*)</i> <i>28223 Madrid</i>	100.00%	100.00%	6.01	23.40	—	(5.30)	8.37	F.C.	—	
Andalucía Digital Multimedia, S.A. (SPAIN) <i>Development of the audiovisual industry in Andalucía</i> <i>Edificio Azul, Parque Tecnológico de Andalucía - Málaga</i>	24.00%	24.00%	2.69	(0.20)	—	(0.62)	0.60	E.M.	0.45	
Telefónica Medios de Comunicación, S.A. (SPAIN) (*) (**) (1) <i>Holding of shares of companies in the media industry</i> <i>Paseo de la Castellana, 141- 28046 Madrid</i>	100.00%	100.00%	21.20	(18.90)	—	(8.18)	100.37	F.C.	—	
Telefónica Sport, S.A. (SPAIN) (*) (**) (1) <i>Management and exploitation of audiovisual rights in any medium</i> <i>Paseo de la Castellana, 141 - 28046 Madrid</i>	100.00%	100.00%	1.00	(0.74)	—	(0.61)	2.33	F.C.	—	
Gestora de Medios Audiovisuales de Fútbol, S.L. (SPAIN) (*) (**) (1) <i>Exploitation of rights to broadcast soccer matches</i> <i>Paseo de la Castellana, 141 - 28046 Madrid</i>	100.00%	100.00%	50.33	(25.68)	—	(6.91)	278.43	F.C.	—	
Hispasat, S.A. (SPAIN) (2) <i>Operation of a satellite telecommunications system</i> <i>Gobelás, 41 - 28023 Madrid</i>	13.23%	13.23%	121.95	149.14	—	5.81	17.59	E.M.	36.64	

(*) Companies filing consolidated corporate income tax returns in 2002.

(**) Companies filing consolidated corporate income tax returns in 2003.

DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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)				
Servicios de Teledistribución, S.A. (S.T.HILO) (SPAIN) (*) (**) (4) <i>Provision of services in the teledistribution industry</i> Luchana, 23, 1º - 28010 Madrid		100.00%	100.00%	1.26	2.67	—	0.85	1.79	F.C.	—	
Sogecable, S.A. (SPAIN) (1) (6) <i>Indirect management of public T.V. service</i> Gran Vía, 32 - 3ª Pta. - 28013 Madrid	1.60%	22.23%	23.83%	252.01	492.93	—	(329.54)	1,054.47	E.M.	98.99	
Producciones Multitemáticas, S.A. (SPAIN) (*) (**) (4) <i>Production, distribution, sale, purchase and operation of television and film productions</i>	100.00%	100.00%		12.02	(4.40)	—	(4.20)	22.38	F.C.	—	
Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid											
Lola Films, S.A. (SPAIN) (1) (6) <i>Film production</i> Velázquez, 12 - Madrid	70.00%	70.00%		40.57	(10.21)	—	(5.02)	39.63	F.C.	—	
Other holdings (1)	N/A	N/A	N/A			N/A	N/A	11.30	I	11.33	
Patagonik Film Group, S.A. (ARGENTINA) (2) <i>Production of audiovisual content</i> Godoy Curz, 1540 - 1414 Buenos Aires	30.00%	30.00%		1.20	0.23	—	0.27	8.58	E.M.	0.51	
Media Park, S.A. (SPAIN) (2) (6) <i>Production of audiovisual content</i> Pol.Ind., nº 1c/Bullidor S/N - 08960 Sant Just Desvern - Barcelona	7.40%	7.40%		45.24	(0.10)	—	31.94	63.11	I	10.13	
Pearson Plc. (U.K.) (2) (6) <i>Publishing</i> 3 Burlington Gardens, London W1X 1LE	4.85%	4.85%		283.77	4,305.26	—	(227.01)	757.10	E.M.	211.40	
Corporación Admira Media, S.A. (SPAIN) (*) (**) (1) <i>Organization and operation of activities and businesses relating to media</i> Jorge Manrique 12, Madrid	100.00%		100.00%	6.01	(1.19)	—	9.23	6.06	F.C.	—	
Endemol Entertainment Holding, N.V. (NETHERLANDS) (3) (6) <i>Production of audiovisual content</i> Bonairelaan, 4 - 1213 Vh Hilversum - Netherlands	99.49%		99.49%	0.69	101.35	—	61.50	840.34	F.C.	—	
Other holdings (3)	N/A	N/A	N/A		N/A	N/A	N/A	N/A	E.M.	6.96	
Telefónica Datacorp, S.A.U. (SPAIN) (*) (**) (1) (6) <i>Provision and exploitation of telecommunications services</i> Gran Vía, 28 - 28013 Madrid	100.00%		100.00%	1,226.24	(468.62)	—	15.01	1,335.29	F.C.	—	
Telefónica International Wholesale Services, S.L. (SPAIN) (*) (1) <i>Provision of international services</i> Gran Vía, 28 - 28013 Madrid	100.00%	100.00%		17	—	—	6	17	F.C.	—	
Telefónica Data Mexico, S.A. de C.V. (MEXICO) (1)	49.00%										
Telefónica Data Mexico Holding (MEXICO) (1) <i>Global telecommunication services</i> Mexico	100.00%	100.00%		37.50	(15.14)	—	(5.56)	40.45	F.C.	—	
Telefónica Data Mexico, S.A. de C.V. (MEXICO) (1) <i>Global telecommunication services</i> Sierra Santa Rosa, 61 - Lomas de Chapultepec 11.650 Mexico City	51.00%	100.00%		65.61	(43.86)	—	(9.24)	53.23	F.C.	—	
Telefónica Data Colombia, S.A. (COLOMBIA) (1) <i>Global telecommunication services</i> Santa Fe de Bogotá	65.00%	65.00%		5.78	4.65	—	(4.73)	23.60	F.C.	—	
Other holdings	N/A	N/A	N/D	N/D	N/D	N/D	N/D	0.03	I	0.03	

(*) Companies filing consolidated corporate income tax returns in 2002.

(**) Companies filing consolidated corporate income tax returns in 2003.

DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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 Data do Brasil, Ltda. (BRAZIL) (1) <i>Telecommunication services</i> Rua da Consolação, 247 - 6 - São Paulo		100.00%	100.00%	249.87	(122.31)	—	(9.63)	249.62	F.C.	—
Telefónica Data Brasil Holding (BRAZIL) (1) <i>Ownership of companies providing network and telecommunication services</i> Avda. Brig. Faria Lima, 1188 plta. 7º andar-parté - São Paulo	53.66%	53.66%	345.67	(180.58)	—	(13.80)	135.03	F.C.	—	
Telefónica Empresas (BRAZIL) (1) <i>Provision and operation of telecommunication services</i> Avda. Tamboré, 341/371 - Barueri - São Paulo	100.00%	53.66%	4.70	3.01	—	(0.53)	83.91	F.C.	—	
Telefónica Datos de Venezuela, S.A. (VENEZUELA) <i>Telecommunications services</i> Avda. Las Palmas, 3º - 1050 Caracas	100.00%	100.00%	0.02	0.25	—	(0.00)	0.02	F.C.	—	
Telefónica Data Canadá, Inc. (CANADA) <i>Telecommunications services</i> 44 Chipman Hill, 10th Floor - P.O. Box 7289 New Brunswick ESL 4S6	100.00%	100.00%	0.01	—	—	—	—	I	—	
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	22.33	—	(18.00)	80.36	F.C.	—	
Telefónica Data Caribe (*) (**) (SPAIN) (1) <i>Global telecommunication services</i> Beatriz de Bobadilla, 14 - 28040 Madrid	90.00%	100.00%	0.06	(1,997.05)	—	(0.02)	0.06	F.C.	—	
Telefónica Data Cuba (CUBA) <i>Provision and operation of telecommunications services</i> Ave, 47 s/n entre 18º y 20 - Miramar Playa - La Habana	50.00%	50.00%	N/D	N/D	—	N/D	7.63	I	7.63	
Ipse - 2000 (ITALY) (1) <i>Exploitation of a UMTS license</i> Piazza dei Caprettari, 70 - 00186 Roma	4.08%	4.08%	2,150.00	303.87	—	(2,280.13)	8.81	E.M.	0.97	
Telefónica Empresas Perú, S.A.A. (PERU) (1) <i>Provision and operation of telecommunications services</i> Jorge Basadre, 592 7º - San Isidro - Lima	97.07%	97.07%	29.00	(5.33)	(1.41)	4.02	18.16	F.C.	—	
Telefónica Servicios Financieros, S.A.C. (PERU) (1) <i>Information systems advisory and consulting services</i> Los Sauces, 374, Torre Roja, oficina 1002 - San Isidro - Lima	99.90%	96.97%	2.97	0.61	—	0.59	4.17	F.C.	—	
Telefónica Data Argentina, S.A. (ARGENTINA) (1) (9) <i>Provision and operation of telecommunications services</i> Tucumán, 1 plta. 18º - 1049 Buenos Aires	97.92%	97.92%	108.79	(94.52)	—	15.04	97.49	F.C.	—	
Intelsat Telefónica Soluciones de Informática y Comunicaciones, S.L. (SPAIN) (*) (**) <i>Granting of loans, guarantees and financial assistance to the Telefónica Group</i> Alcalde Mandillo Tejero, 8 - Edificio Simón Bolívar - Santa Cruz de Tenerife	0.09%	0.09%	N/D	N/D	N/D	N/D	1.52	I	1.52	
	100.00%	100.00%	16.60	(0.28)	—	(33.91)	16.60	F.C.	—	

(*) Companies filing consolidated corporate income tax returns in 2002.

(**) Companies filing consolidated corporate income tax returns in 2003.

DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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 Soluciones de Informática y Comunicaciones de España, S.A. (SPAIN) (*) (**) (3) <i>Systems engineering, networks and telecommunications infrastructure</i> <i>Sor Angela de la Cruz, 3 - Pl. 9º - 28020 Madrid</i>	100.00%	100.00%		8.43	(3.37)	—	(21.78)	15.85	F.C.	—	
Telefónica Sistemas El Salvador, S.A. de C.V. (EL SALVADOR) <i>Provision of engineering and systems services</i> <i>San Salvador</i>	100.00%	100.00%		0.04	(0.05)	—	(0.20)	0.03	F.C.	—	
Telefónica Sistemas Ingeniería de Productos Guatemala, S.A. (GUATEMALA) <i>Telecommunications systems and equipment engineering</i> <i>Guatemala</i>	100.00%	100.00%		—	(0.19)	—	(0.03)	—	F.C.	—	
Telefónica Ingeniería de Comunicaciones, S.A. (SPAIN) (*) (**) (3) <i>Management and marketing of networks</i> <i>Goya, 4 - 28001 Madrid</i>	100.00%	100.00%		1.00	(0.20)	—	(0.10)	0.56	F.C.	—	
Telefónica Mobile Solutions, S.A.U. (SPAIN) (*) (**) (3) <i>Systems engineering, networks and telecommunications infrastructure</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	100.00%		7.06	(3.83)	—	(0.47)	1.13	F.C.	—	
Telefónica Mobile Solutions Chile, S.A.C. (CHILE) (1) <i>Engineering activities relating to hardware and systems</i> <i>Avda. Seminario, 15 - Providencia - Santiago de Chile</i>	N/D	N/D		0.19	(0.96)	—	(0.40)	0.19	F.C.	—	
Telefónica Mobile Solutions Perú, S.A.C. (PERU) (1) <i>Advisory and other services relating to communications</i> <i>Avda. Camino Real, 155 4º - San Isidro - Lima</i>	N/D	N/D		—	0.22	—	(0.10)	—	F.C.	—	
Telefónica Mobile Solutions Brasil, Ltda. (BRAZIL) (1) <i>Engineering activities relating to hardware and systems</i> <i>Na de Botafogo, 501 2º andar, sales 202 y 203 - Rio de Janeiro</i>	N/D	N/D		0.01	(0.94)	—	0.10	0.01	F.C.	—	
Telefónica Mobile Solutions Argentina, S.A. (ARGENTINA) (1) <i>Engineering activities relating to hardware and systems</i> <i>Carlos Pellegrini, 1149 10º - Buenos Aires</i>	N/D	N/D		0.01	(0.26)	—	0.07	0.01	F.C.	—	
Soluciones Tecnológicas para la Alimentación, S.L. (SPAIN) <i>E-commerce</i> <i>C/Roselló, 515.08025-Barcelona</i>	49.00%	49.00%		4.73	4.01	—	(3.44)	2.47	E.M.	0.50	
Telefónica Data España, S.A.U. (SPAIN) (*) (**) (1) <i>Data transmission</i> <i>Beatriz de Bobadilla, 18 - 28040 Madrid</i>	100.00%	100.00%		39.27	8.93	(100.00)	116.80	130.81	F.C.	—	
Agencia de Certificación Electrónica, S.A. (SPAIN) (**)(2) <i>Development of "electronic notary" business using SET technology</i> <i>Sor Angela de la Cruz, 3 - 28020 Madrid</i>	100.00%	100.00%		0.94	(3.74)	—	(0.54)	—	F.C.	—	
Segurvirtual MVS, S.A. (SPAIN) (3) <i>Virtual insurance market research</i> <i>Plaza de la Lealtad, 4 - 28014 Madrid</i>	49.00%	49.00%		3.49	(6.82)	—	(0.05)	1.59	E.M.	—	
Euroinfomarket, S.A. (SPAIN) (1) Servicios On Line Para Usuarios Múltiples, S.A. (SPAIN)	5.00%	5.00%		2.05	0.27	—	(1.66)	0.24	I	0.24	
	33.33%	33.33%		0.60	1.16	—	0.18	0.70	E.M.	0.64	

(*) Companies filing consolidated corporate income tax returns in 2002.

(**) Companies filing consolidated corporate income tax returns in 2003.

DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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)			
Telefonica Deutschland, GMBH (GERMANY) (1) <i>Internet and telecommunications services</i> Landshuter Allee, 8 - 80637 Munich		100.00%	100.00%	2.60	546.65	—	(43.89)	638.54	F.C.	—
Telefónica U.K. (U.K.) (1) <i>Provision of IP services in the b2b market</i> 2nd Floor, 33-34 Alfred Place - WC1E 7DP London		100.00%	100.00%	—	(3.66)	—	(2.72)	—	F.C.	—
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	I	0.02	
Katalyx, Inc. (USA) (1) <i>Administrative management services</i> 1221 Brickell Avenue - Miami, Florida	100.00%	100.00%	143.43	(151.44)	—	—	17.45	5.18	F.C.	—
Katalyx Argentina, S.A. (ARGENTINA) (1) <i>Administrative management services</i> Bouchard, 680 - Buenos Aires	100.00%	100.00%	0.01	(4.47)	—	—	0.60	0.01	F.C.	—
Katalyx Mexico, S.A. de C.V. (MEXICO) (1) <i>Administrative management services</i> Boulevard Avila Camacho, 24 - Mexico City	100.00%	100.00%	0.53	(2.57)	—	—	(2.65)	0.01	F.C.	—
Katalyx Brasil, Ltd. (BRAZIL) (1) <i>Administrative management services</i> Rua Joaquim Floriano, 1052 - Sao Paulo	100.00%	100.00%	0.44	(1.63)	—	—	0.08	0.44	F.C.	—
Adquira Mexico, Ltd. (MEXICO) (1) <i>E-commerce</i> Boulevard Avila Camacho, 24 - Mexico City	50.00%	50.00%	9.84	(5.75)	—	—	(1.56)	5.42	E.M.	1.27
Adquira, Inc. (USA) (1) <i>E-commerce</i> 1221 Brickell Avenue - Miami, Florida	100.00%	100.00%	—	(17.90)	—	—	(0.95)	—	F.C.	—
Adquira Argentina, S.L. (ARGENTINA) (1) <i>E-commerce</i> Bouchard, 680 - Buenos Aires	100.00%	100.00%	0.91	(2.86)	—	—	0.33	0.91	F.C.	—
Adquira Brasil, Ltd. (BRAZIL) (1) <i>E-commerce</i> Rua Joaquim Floriano, 1052 - Sao Paulo	100.00%	100.00%	2.64	(2.43)	—	—	(0.56)	2.34	F.C.	—
Katalyx Food Service Argentina, S.R.L. (ARGENTINA) (1) <i>E-commerce</i> Bouchard, 680 - Buenos Aires	100.00%	100.00%	—	(0.61)	—	—	(0.03)	—	F.C.	—
Katalyx Food Service Mexico, S.R.L. de C.V. (MEXICO) (1) <i>E-commerce</i> Boulevard Avila Camacho, 24 - Mexico City	100.00%	100.00%	—	(1.51)	—	—	(0.10)	—	F.C.	—
Katalyx Transportation, Llc. (USA) (1) <i>E-commerce</i> 1221 Brickell Avenue - Miami, Florida	100.00%	100.00%	—	(2.95)	—	—	(1.34)	—	F.C.	—
Katalyx Transportation Argentina, S.R.L. (ARGENTINA) (1) <i>E-commerce</i> Bouchard, 680 - Buenos Aires	100.00%	100.00%	—	(0.01)	—	—	—	—	F.C.	—
Katalyx Transportation Mexico, Llc. (MEXICO) (1) <i>E-commerce</i> Boulevard Avila Camacho, 24 - Mexico City	100.00%	100.00%	—	(2.42)	—	—	0.16	—	F.C.	—

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(**) Companies filing consolidated corporate income tax returns in 2003.

DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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)				
Katalyx Transportation Brasil, Ltd. (BRAZIL) (1) <i>E-commerce</i> Rua Joaquim Floriano, 1052 - São Paulo		100.00%	100.00%	—	(1.20)	—	(0.19)	—	F.C.	—	
Katalyx Cataloguing Argentina, S.R.L. (ARGENTINA) (1) <i>E-commerce and cataloging</i> Bouchard, 680 - Buenos Aires		100.00%	100.00%	—	(0.13)	—	(0.01)	—	F.C.	—	
Katalyx Cataloguing Mexico, S.R.L. de C.V. (MEXICO) (1) <i>E-commerce and cataloging</i> Boulevard Avila Camacho, 24 - Mexico City		100.00%	100.00%	—	(0.08)	—	(0.00)	—	F.C.	—	
Katalyx Cataloguing Brasil, Ltd. (BRAZIL) (1) <i>E-commerce and cataloging</i> Rua Joaquim Floriano, 1052 - São Paulo		100.00%	100.00%	—	(0.18)	—	(0.07)	—	F.C.	—	
Katalyx Construction Argentina (ARGENTINA) (1) <i>E-commerce</i> Bouchard, 680 - Buenos Aires		100.00%	100.00%	—	(0.01)	—	(0.01)	—	F.C.	—	
Mercador, S.A. (BRAZIL) (1) <i>E-commerce</i> Rua Joaquim Floriano, 1052 - São Paulo	54.00%	54.00%	19.17	(15.95)	—	(0.91)	19.48	E.M.	1.25		
Hotelnet b2b, S.A. (1) <i>E-commerce</i>	12.25%	12.25%	12.35	(2.35)	—	(0.52)	1.19	I	1.19		
Telefónica de España, S.A.U. (SPAIN) (*) (**) (1) (6) <i>Provision of telecommunications services in Spain</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%	100.00%	1,023.68	2,272.21	—	178.08	3,033.86	F.C.	—		
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	(3.67)	—	0.10	10.72	F.C.	—		
Interdomain, S.A. (SPAIN) (*) (**) (4) <i>Operation of Internet resources</i> Fernando El Santo, 15 - 28010 Madrid	100.00%	100.00%	0.30	0.48	—	0.04	0.78	F.C.	—		
SODETEL, Comercial de Servicios de Telecomunicaciones, S.A. (SPAIN) <i>Provision of consulting services, installation and the provision of telecommunications services</i> Parque industrial y de servicios de Mairena del Aljarafe - Sevilla	50.00%	50.00%	0.12	0.03	—	(0.04)	0.07	E.M.	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	0.66	—	0.09	1.35	E.M.	1.55		
Instituto de Comunicaciones 7 (17) (SPAIN) <i>Provider of multimedia services</i> Cebrián, 3 - 35003 Las Palmas de Gran Canaria	40.00%	40.00%	0.08	0.02	—	—	0.03	E.M.	0.04		
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	—	0.29	0.69	E.M.	0.73		

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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)			
Tecnología e Ingeniería de Sist. y Servicios Avanzados de Telec., S.A. (TISSAT) (SPAIN) (2) <i>Systems engineering and marketing of advanced services</i>		30.77%	30.77%	0.78	2.30	—	0.01	0.17	E.M.	0.95
Correos, 1 - 46002 Valencia										
SEMCA (SPAIN) <i>Emergency telephone service in the Autonomous Community of Cantabria</i>	16.00%	16.00%	0.75	(0.10)	—	(0.03)	0.12	I	0.12	
Casimiro Sainz, 4 - Santander										
ATENET (SPAIN) <i>Teaching via computer systems</i>	8.68%	8.68%	0.33	(0.23)	—	—	0.12	I	0.12	
C/ Jorge Juan, 32 - Madrid										
Barcelona Emprend, S.A. (SPAIN) <i>Promotion of non-financial companies</i>	6.92%	6.92%	6.50	(0.21)	—	(0.04)	0.45	I	0.45	
C/ Llacuna, 162 - Barcelona										
Foment Ciutat Vella, S.A. (SPAIN) <i>Performance of urban projects</i>	5.00%	5.00%	6.01	0.30	—	—	0.30	I	0.30	
C/ Pintor Fortuny, 17-19 - Barcelona										
Teleinformática y Comunicaciones, S.A. (TELYCO) (SPAIN) (*) (**) (3) <i>Promotion, marketing and distribution of telephone and telematic equipment and services</i>	100.00%	100.00%	2.77	12.44	—	(1.02)	12.47	F.C.	—	
Plaza del Descubridor Diego de Ordás, 3 - 28003 Madrid										
Telyco Marruecos, S.A. (MOROCCO) (3) <i>Promotion, marketing and distribution of telephone services</i>	54.00%	54.00%	0.60	(0.03)	—	0.10	0.32	F.C.	—	
Boulevard Abdelmoumen, 88 - Casablanca										
Telefónica Telecomunicaciones Públicas, S.A. (SPAIN) (*) (**) (1) <i>Installation of public telephones</i>	100.00%	100.00%	1.20	73.73	—	4.93	64.12	F.C.	—	
Plaza de Carlos Trias Bertrán, 7 - 28020 Madrid										
Adquira Spain, S.A. (SPAIN) (2) <i>Development of e-commerce platform</i>	20.00%	20.00%	0.45	17.22	—	(4.73)	7.64	E.M.	1.64	
Pl. Pablo Ruiz Picasso, s/n. Edif. Torre Picasso - Madrid										
Other holdings	N/A	N/A	N/A	N/A	N/A	N/A	22.60	I	22.60	
Telefónica Cable, S.A. (SPAIN) (*) (**) (7) <i>Cable telecommunications services</i>	100.00%	100.00%	26.81	(23.76)	—	(5.11)	29.58	F.C.	—	
Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid										
Telefónica Cable Menorca, S.A. (SPAIN) (*) (**) (7) <i>Cable television systems and value-added services</i>	100.00%	100.00%	0.60	(0.13)	—	0.00	0.56	F.C.	—	
Santiago Ramón y Cajal, 13 - Mahón - Menorca										
Telefónica Cable Asturias, S.A. (SPAIN) (*) (**) (7) <i>Cable television systems and value-added services</i>	100.00%	100.00%	0.60	0.07	—	0.01	0.61	F.C.	—	
Gral. Elorza, 8 - 33001 Oviedo										
Telefónica Cable Galicia, S.A. (SPAIN) (*) (7) <i>Cable television systems and value-added services</i>	85.00%	85.00%	0.60	0.09	—	0.01	0.53	F.C.	—	
Ronda de Outerio, 1-3 - A Coruña										
Telefónica Cable Valencia, S.A. (SPAIN) (*) (**) (7) <i>Cable television systems and value-added services</i>	100.00%	100.00%	0.06	0.56	—	0.00	1.16	F.C.	—	
San Vicente, 148 - 46007 Valencia										

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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 Cable Balears, S.A. (SPAIN) (*) (**) (7) <i>Cable television systems and value-added services</i> Federico García Lorca, 2 - 07014 Palma de Mallorca		100.00%	100.00%	0.23	—	—	(0.00)	0.51	F.C.	—
Telefónica Cable Extremadura, S.A. (SPAIN) (**) (7) <i>Cable television systems and value-added services</i> Plza. de la Soledad, 2 - 06001 Badajoz		100.00%	100.00%	0.60	0.09	—	0.01	0.61	F.C.	—
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)	—	(0.00)	1.17	F.C.	—
Telefónica Media International y de Contenidos USA, Inc. (USA) <i>Operation of media services in USA</i> 1221 Brickell Av. - Miami	100.00%		100.00%	17.89	(17.79)	—	0.36	0.33	F.C.	—
Taetel, S.L. (SPAIN) (*) (**) (1) <i>Acquisition, holding and disposal of shares and ownership interests in other companies</i> Beatriz de Bobadilla, 3 - 28040 Madrid	100.00%		100.00%	28.25	10.40	—	0.70	28.25	F.C.	—
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	—	—	(0.01)	16.93	F.C.	—
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	(0.35)	—	(2.26)	3.58	F.C.	—
Telefónica Engenharia de Segurança (BRAZIL) <i>Security services and systems</i> Rua Haddock Lobo, 337 2º andar, conjunto 21 - 01414-001 - Sao Paulo	99.99%	99.99%	0.55	(0.17)	—	—	(0.26)	0.37	F.C.	—
Telefónica Ingeniería de Seguridad México, S.A. de C.V. (MEXICO) <i>Security services and systems</i> Ciudad de México, Distrito Federal	65.00%	65.00%	0.52	(0.42)	—	—	(0.35)	0.34	F.C.	—
Inmobiliaria Telefónica, S.L. (SPAIN) (*) (**) (1) <i>Purchase, sale and lease of real estate</i> Gran Vía, 28 - 28013 Madrid	100.00%		100.00%	10.04	102.62	—	10.02	103.44	F.C.	—
Telefónica Capital, S.A. (SPAIN) (*) (**) (3) <i>Financial institution</i> Gran Vía, 28 - 28013 Madrid	100.00%		100.00%	7.00	39.16	—	1.12	18.12	F.C.	—
Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (SPAIN) (3) <i>Administration of pension funds</i> Pedro Teixeira nº 8 - 3º P. - 28020 Madrid	70.00%	70.00%	15.70	15.07	—	—	7.57	22.45	F.C.	—
Fonditel Gestión, Sociedad Gestora de Instituciones de Inversión Colectiva, S.A. (SPAIN) (**) (2) <i>Administration and representation of collective investment institutions</i> Pedro Teixeira nº 8 - 3º P. - 28020 Madrid	100.00%	100.00%	1.50	—	—	—	0.21	1.50	F.C.	—
Fonditel Valores, Agencia de Valores, S.A. (SPAIN) (**) (1) <i>Investment services</i> Pedro Teixeira nº 8 - 3º P. - 28020 Madrid	100.00%	100.00%	3.00	—	—	—	(0.11)	3.00	F.C.	—

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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)			
Catalana D'Iniciatives, C.R., S.A. (SPAIN) <i>Promotion of non-finance companies Passeig de Gracia, 2 - 2^oB - 08007 Barcelona.</i>		5.99%	5.99%	30.86	17.49	—	2.78	3.77	I	3.77
Atento Servicios Corporativos, S.A. (SPAIN) (*) (**) (1) <i>Holding company C/ Gran Vía, 28 - 28013 Madrid</i>	100.00%		100.00%	6.12	36.56	—	3.48	107.58	F.C.	—
Telepizza, S.A. (SPAIN) Atento N.V. (NETHERLANDS) (1) (6) <i>Provision of telecommunications services Locatelliakade, 1 - 1076 AZ Amsterdam</i>		4.89%	4.89%	N/D	N/D	N/D	N/D	102.02	I	102.02
Procesos Operativos, S.A. (1) <i>Provision of telematic services (telemarketing, help line and, in general, call-center activities) Isla Sicilia, 3 - 28034 Madrid</i>	100.00%	91.35%	0.06	0.31	—	—	0.80	0.76	F.C.	—
Atento Holding, Inc. (USA) (1) <i>Holding company 1013 Center Road, Wilmington - Delaware</i>	100.00%	91.35%	—	(47.47)	—	—	17.11	124.14	F.C.	—
Atento Teleservicios España, S.A. (SPAIN) (4) <i>Provision of promotion, marketing and market research services relating to direct marketing Santiago de Compostela, 94 - 7^o - 28035 Madrid</i>	100.00%	91.35%	1.38	38.33	(12.00)	(1.35)	22.64	F.C.	—	—
Tempotel, Empresa de Trabajo Temporal, S.A. (SPAIN) (4) <i>Temporary employment agency Príncipe de Vergara, 28 Madrid</i>	100.00%	91.35%	0.06	1.42	—	—	0.10	0.06	F.C.	—
Atento Servicios Técnicos y Consultoría, S.L. <i>Study, development and performance of projects and system-related services Santiago de Compostela, 94 - 7^o - 28035 Madrid</i>	100.00%	91.35%	0.01	—	—	—	0.15	0.01	F.C.	—
Servicios Integrales de Asistencia y Atención, S.L. <i>Management of specialized employment centers for disabled workers Santiago de Compostela, 94 - 7^o - 28035 Madrid</i>	100.00%	91.35%	0.01	—	—	—	(0.00)	0.01	F.C.	—
Leader Line, S.A. (1) <i>Telephone marketing activities and training in telesales techniques Almansa, 66 - 28039 Madrid</i>	100.00%	91.35%	0.37	1.55	—	—	1.84	—	F.C.	—
Atento Brasil, S.A. (BRAZIL) (1) <i>Provision of call-center services Av. Maria Coelho de Aguiar, 215 - Bloco B, 8 - 05804-900 Sao Paulo</i>	100.00%	91.35%	249.75	(176.95)	—	(7.04)	185.29	F.C.	—	—
Atento Puerto Rico, Inc. (PUERTO RICO) (1) <i>Provision of call-center services Valencia Park calle 2 edificio 17 suite 600, Guaynabo - Puerto Rico 00968</i>	100.00%	91.35%	7.12	(5.99)	—	—	0.45	7.77	F.C.	—
Atento Colombia, S.A. (COLOMBIA) (1) <i>Provision of call-center services Santa Fé de Bogotá</i>	35.84%	91.35%	1.55	1.87	—	—	0.78	7.60	F.C.	—

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

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	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim dividend	Income (Loss)			
Atento Maroc, S.A. (MOROCCO) (1) <i>Provision of call-center services</i>		100.00%	91.35%	2.52	(0.23)	—	(1.17)	1.83	F.C.	—
Bd Abdelmoumen, Angle rue Errazi et Charles Lebrun - Casablanca		0.47%	91.35%	18.05	(22.98)	—	1.84	18.96	F.C.	—
Atento Argentina, S.A. (ARGENTINA) (1) <i>Provision of call-center services</i>		100.00%	91.35%	0.26	(0.71)	—	(0.30)	0.69	F.C.	—
Avda. de Mayo, 645 P. 1º - Buenos Aires		100.00%	91.35%	—	(1.94)	—	(2.04)	18.47	F.C.	—
Atento Uruguay, S.A. (URUGUAY) <i>Provision of call-center services</i>		100.00%	91.35%	—	—	—	—	—	—	—
Montevideo		64.16%	91.35%	—	—	—	—	—	—	—
Atento USA, Inc. (USA) (1) <i>Provision of call-center services</i>		100.00%	91.35%	—	—	—	—	—	—	—
1001 Brickell Bay Drive P. 32º - Miami - Florida 33131		100.00%	91.35%	11.19	(10.62)	—	1.34	8.30	F.C.	—
Atento Colombia, S.A. (COLOMBIA) (1) <i>Provision of call-center services</i>		100.00%	91.35%	—	—	—	—	—	—	—
Atento Venezuela, S.A. (VENEZUELA) (1) <i>Provision of call-center services</i>		100.00%	91.35%	—	—	—	—	—	—	—
Caracas		100.00%	91.35%	15.95	(6.37)	—	(0.37)	11.57	F.C.	—
Atento Centroamérica, S.A. (GUATEMALA) (1) <i>Provision of call-center services</i>		100.00%	91.35%	—	—	—	—	—	—	—
14 Calle 3-51 Zona 10 Edificio Murano Center 18 Nivel - Departamento de Guatemala		7.41%	91.35%	4.40	(3.54)	—	0.50	3.19	F.C.	—
Atento El Salvador, S.A. de C.V. (EL SALVADOR) (1) <i>Provision of call-center services</i>		100.00%	91.35%	—	—	—	—	—	—	—
San Salvador		92.59%	91.35%	0.01	0.10	—	(0.10)	0.01	F.C.	—
Atento de Guatemala, S.A. (GUATEMALA) (1) <i>Provision of call-center services</i>		100.00%	91.35%	19.40	(13.39)	—	(0.93)	14.43	F.C.	—
Guatemala City		99.98%	91.35%	—	—	—	—	—	—	—
Atento El Salvador, S.A. de C.V. (EL SALVADOR) (1) <i>Provision of call-center services</i>		100.00%	91.35%	—	—	—	—	—	—	—
Atento Guatemala Comercial, S.A. (GUATEMALA) (1) <i>Provision of call-center services</i>		100.00%	91.35%	—	—	—	—	—	—	—
Guatemala City		100.00%	91.35%	38.85	(9.24)	—	(0.18)	28.50	F.C.	—
Atento Holding Chile, S.A. (CHILE) (1) <i>Holding company</i>		100.00%	91.35%	—	—	—	—	—	—	—
Ciudad y Comuna de Santiago		99.53%	91.35%	—	—	—	—	—	—	—
Atento Argentina, S.A. (ARGENTINA) (1) <i>Provision of call-center services</i>		70.00%	82.77%	21.72	(9.45)	—	1.44	14.00	F.C.	—
Diagonal Paraguay, 386 - Santiago de Chile		100.00%	63.95%	1.73	(0.90)	—	(0.12)	0.86	F.C.	—
Nexcom (CHILE) (1) <i>Provision of call-center services</i>		100.00%	63.95%	—	—	—	—	—	—	—
Santiago de Chile		100.00%	63.95%	0.01	0.01	—	0.05	0.01	F.C.	—
Atento Educación, Ltda. (CHILE) (1) <i>Provision of call-center services</i>		100.00%	63.95%	—	—	—	—	—	—	—
Santiago de Chile		100.00%	63.95%	0.01	(0.22)	—	(0.03)	0.01	F.C.	—
Atento Recursos, Ltda. (CHILE) (1) <i>Provision of call-center services</i>		70.00%	99.15%	8.90	(7.42)	—	2.33	14.22	F.C.	—
Atento Perú, S.A.C. (PERU) (1) <i>Provision of call-center services</i>		70.00%	99.15%	—	—	—	—	—	—	—
C/ Jiron Camaná, 654 - 01 Lima		—	—	—	—	—	—	—	—	—

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(**) Companies filing consolidated corporate income tax returns in 2003.

DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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 Italia, S.R.L. (ITALY) (5) <i>Provision of call-center services</i> Via Lamaro, edif. D/2 - Roma		100.00%	91.35%	0.01	(2.23)	—	—	5.75	F.C.	—
Atento Mexicana, S.A. de C.V. (MEXICO) <i>Provision of call-center services</i> Mexico City		100.00%	91.35%	5.36	(4.24)	—	1.56	3.87	F.C.	—
Atento Servicios, S.A. de C.V. (MEXICO) <i>Provision of call-center services</i> Mexico City		100.00%	100.00%	0.02	(0.07)	—	0.06	0.01	F.C.	—
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	48.90	—	6.26	6.01	F.C.	—
Telefónica Pesquisa e Desenvolvimento (BRAZIL) <i>Telecommunications research activities and projects</i> Sao Paulo		99.99%	99.99%	N/D	N/D	N/D	N/D	0.21	I	0.21
Communicapital Inversiones, S.A.I.U. (SPAIN) (1) <i>Global telecommunications fund</i> Gran Vía, 28 - 28013 Madrid	100.00%		100.00%	6.00	(73.19)	—	8.01	6.00	I	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 1ª Oficina 23 - 28001 Madrid	100.00%		100.00%	3.99	(0.29)	—	(0.04)	10.11	F.C.	—
Cleon, S.A. (SPAIN) (3) <i>Property development</i> Villanueva, 2 duplicado planta 1ª Oficina 23 - 28001 Madrid		50.00%	50.00%	8.23	(0.68)	—	(0.03)	4.12	F.C.	—
Casiopea Reaseguradora, S.A. (LUXEMBOURG) (3) <i>Reinsurance</i> 6D, route de Trèves, L-2633 Senningerberg, Luxembourg	100.00%		100.00%	3.60	48.18	—	15.94	2.99	F.C.	—
Pléyade Peninsular, Correduría 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	—	2.23	0.36	F.C.	—
Pléyade Perú Corredores de Seguros, S.A.C. (PERU) <i>Insurance broker</i> Lima		99.93%	100.00%	0.01	0.02	—	—	0.01	F.C.	—
Pléyade Argentina, S.A. (ARGENTINA) <i>Insurance broker</i> Buenos Aires		99.80%	99.80%	0.01	0.14	—	0.06	0.01	F.C.	—
TGP Brasil Corretora de Seguros e Resseguros, Ltda. (BRAZIL) <i>Insurance broker</i> Rua do Livramento, 66 - Bloco A, 1º andar - 04008-030 - Sao Paulo		99.90%	99.90%	0.01	0.02	—	0.02	0.01	F.C.	—
Pléyade México, Agente de Seguros y de Fianzas, S.A. de C.V., Ltda. (MEXICO) <i>Insurance broker</i> San Pedro Garza García - Nuevo León		99.50%	99.50%	0.02	(0.01)	—	0.10	0.02	F.C.	—

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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)				
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 Other holdings	94.67%	5.33%	100.00%	204.33	(0.50)	—	7.96	216.48	F.C.	—	
Zeleris Soluciones Integrales, S.L. (SPAIN) (*) (**)(3) <i>Provision of mail, directory, and domestic and international parcel distribution services</i> Paseo de Gracia, 81 1º - Barcelona	100.00%	N/A	N/A	N/A	N/A	N/A	N/A	6.52	I	6.52	
Zeleris España, S.A. (SPAIN) (*) (**)(3) <i>Provision of mail, directory and parcel distribution services</i> C/ Gran Via, 28 - 28013 Madrid		100.00%	100.00%	2.38	(0.77)	—	1.90	0.82	F.C.	—	
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	7.76	—	2.17	12.61	F.C.	—	
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	(0.03)	—	(0.24)	0.43	F.C.	—	
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	0.30	—	(0.37)	3.60	F.C.	—	
Venturini, S.A. (SPAIN) (*) (**)(2) <i>Direct marketing</i> Vía Augusta, 117, 2º 1º - 08006 Barcelona		100.00%	100.00%	0.18	0.03	—	(0.01)	0.21	F.C.	—	
Telefónica Procesos y Tecnología de la Información, S.A. (SPAIN) (*) (**)(3) <i>Provision of IT related services</i> José Abascal, 4 - 28003 Madrid	100.00%		100.00%	3.00	4.79	—	0.74	3.01	F.C.	—	
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	F.C.	—	
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	4.74	—	1.18	0.05	F.C.	—	
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	0.47	(84.15)	83.69	0.01	F.C.	—	
Telefónica Internacional USA Inc. (U.S.A.) (1) 1221 Brickell Avenue suite 600 - 33131 Miami - Florida	100.00%		100.00%	0.50	(0.11)	—	0.22	0.01	F.C.	—	
Telefónica USA, Inc. (U.S.A.) (8) <i>E-commerce</i> 1221 Brickell Avenue - Miami - Florida 33131	100.00%		100.00%	0.01	N/D	N/D	N/D	0.01	I	0.01	

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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 B2B, Inc. (U.S.A.) <i>B2B e-commerce</i> 1001 Brickell Bay Drive - Miami, Florida 33131	100.00%		100.00%	0.01	N/D	N/D	N/D	0.01	F.C.	—
Telefónica B2B Licensing, Inc. (U.S.A.) (1)	100.00%		100.00%	0.01	(2.42)	—	(6.45)	0.01	F.C.	—
Telefónica Gestión de Servicios Compartidos, S.A. (*) (**) (SPAIN) (1) <i>Provision of management and administration services</i> Gran Vía, 28 - 28013 Madrid	100.00%		100.00%	2.11	4.13	—	(4.09)	14.61	F.C.	—
Telefónica Gestión de Servicios Compartidos, S.A. de C.V. (MEXICO) (1) (6) <i>Provision of management and administration services</i> Blvd. Diaz Ordaz Pte N 123 2º, Col. Santamaría - 6465 Monterrey	99.99%	0.01%	100.00%	6.75	(3.32)	—	(0.37)	6.76	F.C.	—
Telefónica Gestión de Servicios Compartidos El Salvador, S.A. (EL SALVADOR) (1) <i>Provision of management and administration services</i> 63 Avda. Sury Alameda Roosevelt-Ctro F Gigante Torre B n 10, San Salvador	99.20%	99.20%	0.02	0.01	—	—	—	0.02	F.C.	—
Telefónica Gestión de Servicios Compartidos Guatemala, S.A. de C.V. (GUATEMALA) (1) <i>Provision of management and administration services</i> 18 Calle 5-56, Zona 10, Edif. Unicentro Nivel 10, Guatemala	100.00%	100.00%	0.01	0.01	—	0.02	0.01	F.C.	—	
Telefonica Gestao de Serviços Compartilhados do Brasil, Ltda. (BRAZIL) (1) <i>Provision of management and administration services</i> Rua Do Livramento, 66 Bolco Ibirapuera - Sao Paulo	99.99%	99.99%	8.45	(5.72)	—	0.69	5.00	F.C.	—	
Telefónica Gestión de Servicios Compartidos, S.A.C. (PERU) (1) (6) <i>Provision of management and administration services</i> Shell, 310 - Miraflores	99.99%	0.01%	100.00%	3.91	0.63	—	0.72	3.91	F.C.	—
Telefónica Centro de Cobros Perú, S.A.C. (PERU) (1) <i>Provision of management and administration services</i>	100.00%	100.00%	0.01	0.28	—	0.27	0.53	F.C.	—	
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%	99.99%	0.01	(0.84)	—	0.28	0.01	F.C.	—	
Emergia, S.A. (URUGUAY) (1) (6) <i>Supplier of broadband communication services</i> Luis A. de Herrera, 1248 Piso 4 - Montevideo	100.00%	100.00%	30.29	328.23	—	(94.11)	499.05	F.C.	—	
Emergia Argentina, S.A. (ARGENTINA) (1) <i>Provision of high bandwidth communications services</i> Paraguay, 1345 Piso 6 - Buenos Aires	99.99%	99.99%	12.74	0.66	—	(6.22)	7.19	F.C.	—	
Emergia Participacoes, Ltd. (BRAZIL) (1) <i>Provision of high bandwidth communications services</i> Rua Martiniano de Carvalho, n° 851, 16º andar, Bela Vista	99.99%	99.99%	N/D	N/D	N/D	N/D	N/D	F.C.	—	
Emergia Brasil, Ltd. (BRAZIL) (1) <i>Provision of high bandwidth communications services</i> Av. Brigadeiro Faria Lima, 1188 Piso 8º - San Pablo	99.99%	99.99%	58.38	(22.45)	—	(5.72)	30.22	F.C.	—	

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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 Chile, S.A. (CHILE) (1) <i>Provision of high bandwidth communications services</i> Ricardo Lyon, 222 Piso 14 - Santiago de Chile		99.99%	99.99%	25.40	(6.93)	—	(3.33)	15.14	F.C.	—	
Emergia Perú, S.A.C. (PERU) (1) <i>Provision of high bandwidth communications services</i> Av. de la Floresta, 497 Piso 5 - San Borge	99.99%	99.99%		15.77	0.54	—	(5.03)	11.28	F.C.	—	
Emergia USA, Inc. (U.S.A.) (1) <i>Provision of high bandwidth communications services</i> 1221 Brickell Avenue, Piso 6 - 33131 Miami (Florida)	100.00%	100.00%		25.94	(14.97)	—	(2.77)	8.20	F.C.	—	
Emergia Guatemala, S.A. (GUATEMALA) (1) <i>Provision of high bandwidth communications services</i> Blvd. Los Próceres, 5-56 Piso 11, zona 10 - Guatemala City	99.99%	99.99%		22.49	(6.23)	—	(3.64)	12.62	F.C.	—	
Emergia Puerto Rico, Inc. (PUERTO RICO) (1) <i>Provision of high bandwidth communications services</i> Metro Office Park Edificio 17, Calle 2, Suite 600 - Guaynabo	100.00%	100.00%		4.00	(1.72)	—	(1.83)	0.45	F.C.	—	
Telefónica Internacional, S.A. (SPAIN) (*) (**) (1) (6) <i>Investment in the telecommunications industry abroad</i> C/ Gran Vía, 28 - 28013 Madrid	99.88%	0.12%	100.00%	7,381.66	(1,310.65)	—	404.02	8,141.40	F.C.	—	
Sao Paulo Telecomunicações Holding, Ltda. (BRAZIL) (1) <i>Holding company</i> Sao Paulo	100.00%	100.00%		1,251.17	5.43	(28.07)	59.01	2,882.52	F.C.	—	
Telecomunicações de Sao Paulo, S.A. - TELESP (BRAZIL) (1) <i>Wireline telephony operator in Sao Paulo</i> Sao Paulo	87.49%	87.49%		1,638.23	2,305.58	(1,041.35)	459.76	4,535.10	F.C.	—	
Telefónica Finance Limited (ISLE OF MAN) (1) <i>Finance</i>	100.00%	100.00%		N/D	N/D	N/D	N/D	N/D	F.C.	—	
Telefónica del Perú Holding, S.A. (PERU) (1) (5) <i>Holding company</i>	100.00%	100.00%		1,393.51	(262.90)	—	(0.09)	N/D	F.C.	—	
Telefónica del Perú, S.A.A. (PERU) (1) <i>Operator of local, long distance and international telephony services in Peru</i> Avda. Arequipa, 1155 Santa Beatriz - Lima	97.07%	97.21%		675.08	111.88	(37.93)	5.61	750.89	F.C.	—	
Atento Perú, S.A.C. (PERU)	30.00%										
Fotonica International Holding, BV. (NETHERLANDS) (1) <i>Holding company</i>	100.00%	100.00%		434.20	100.88	—	16.03	N/D	F.C.	—	
Telefónica Chile Holding, BV. (NETHERLANDS) (1) <i>Holding company</i>	100.00%	100.00%		25.62	75.23	—	(0.01)	N/D	F.C.	—	
Telefónica Internacional de Chile, S.A. (CHILE) (1) <i>Holding company</i>	100.00%	100.00%		12.49	771.42	—	6.10	N/D	F.C.	—	
Compañía de Telecomunicaciones de Chile, S.A. (C.T.C.) (1) <i>Operator of telecommunications services in Chile</i> Avenida Providencia, 111 piso 29 Santiago de Chile	43.64%	43.64%		1,098.84	602.37	—	15.10	N/D	F.C.	—	

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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)			
Telefónica Gestión de Servicios Compartidos Chile, S.A. (CHILE) <i>Provision of management and administration services</i>		99.90%	43.60%	N/D	N/D	N/D	N/D	N/D	F.C.	—
Impresora y Comercial Publigráficas, S.A. (CHILE) (1)		9.00%								
Atento Chile, S.A. (CHILE) (1) (6) <i>Holding company</i>		30.00%								
Compañía Internacional de Telecomunicaciones, S.A. (ARGENTINA) (1) <i>Holding company</i>	99.98%	99.98%	143.39	(4.32)	—	83.33	372.57	F.C.	—	
Tucumán, 1P-18 Buenos Aires										
Telefónica Holding de Argentina, S.A. (ARGENTINA) (1) <i>Holding company</i>	99.96%	99.96%	109.37	(394.07)	—	65.28	998.90	F.C.	—	
Tucumán, 1P-17 Buenos Aires										
Telefónica de Argentina, S.A. (ARGENTINA) (1) <i>Provision of telecommunications services</i>	98.03%	98.03%	471.84	157.03	—	121.83	866.22	F.C.	—	
Presidente Perón, 949 - piso 7 - 1038 Buenos Aires										
Telefónica Venezuela Holding, B.V. (NETHERLANDS) (1) <i>Holding company</i>	100.00%	100.00%	0.01	48.76	—	(38.05)	—	F.C.	—	
Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) (VENEZUELA) (1) PROVISION OF TELECOMMUNICATIONS SERVICES Avenida Libertador, Centro Nacional de Telecomunicaciones, Piso 1 - 1226 Caracas	6.92%	6.92%	1,922.27	(4.53)	(31.24)	41.50	N/D	E.M.	89.39	
Telefónica Larga Distancia de Puerto Rico, INC. (PUERTO RICO) (1) <i>Telecommunications operator</i>	98.00%	98.00%	88.54	(34.29)	—	(7.14)	N/D	F.C.	—	
Calle 1, Edificio nº 8. Metro Office Park. Sector de Buchanan. Guayanabo - Puerto Rico										
Infonet Services Corporation (U.S.A.) (1) <i>Telecommunications operator</i>	14.53%	14.53%	999.38	(313.51)	—	(15.23)	N/D	E.M.	97.69	
2100 East. Grand Avenue. El Segundo, California 90245 - 1022 USA										
Telefónica Móviles, S.A. (*) (**) (SPAIN) Fandem, Ltd. (IRELAND) (1) <i>Holding company</i>	21.43%							I	0.08	
2 Harbour Master Place, Custom House Dock - Dublin	100.00%	100.00%	1.00	N/D	—	N/D	N/D			
Communication Technology, Inc. (U.S.A.) (4) <i>Provider of long distance telecommunications services</i>	100.00%	100.00%	—	(1.32)	—	(4.67)	18.66	F.C.	—	
Delaware										
Other holdings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	E.M.	17.76	
Other holdings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	I	33.79	
Telefónica Móviles, S.A. (SPAIN) (*) (**) (1) (6) <i>Holding company</i>	71.01%	21.43%	92.44%	2,165.28	267.32	—	1,607.84	3,045.00	F.C.	—
Goya, 24 - 28001 Madrid										
Brasilcel, N.V. (NETHERLANDS) (1) <i>Joint Venture</i>	50.00%	46.22%	0.10	3,796.44	—	1.08	1,899.42	P.C.	—	
Strawinskyalaan 3105 - 1077ZX - Amsterdam										

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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)			
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%	46.22%	96.53	5.51	(1.24)	4.25	—	P.C.	—	
Sudestecel Participações, S.A. (BRAZIL) (1) <i>Holding company</i> Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, São Paulo	44.75%	41.37%	369.93	0.29	(7.01)	10.54	—	P.C.	—	
Tele Sudeste Celular Participações, S.A. (BRAZIL) (1) <i>Holding company</i> Praia de Botafogo 501, 20 andar, parte bela Vista, São Paulo	41.94%	38.77%	213.44	277.13	(11.95)	45.43	—	P.C.	—	
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	41.94%	38.77%	273.08	131.21	—	33.46	—	P.C.	—	
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	41.94%	38.77%	41.64	18.67	—	12.33	—	P.C.	—	
Portelcom Fixa, S.A. <i>Holding company</i> Av Brigadeiro Faria Lima, 2277, 15º andar, Conj1503, Jardim Paulistano, São Paulo	50.00%	46.22%	40.26	(0.94)	—	3.41	—	P.C.	—	
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%	45.53%	160.37	3.57	(5.17)	14.03	0.53	I	0.53	
Celular CRT Participações, S.A. (BRAZIL) (1) <i>Holding company</i> Rua José Bonifacio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul	25.08%	23.18%	43.27	180.82	(15.07)	55.64	—	P.C.	—	
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	25.08%	23.18%	138.08	67.93	—	55.53	—	P.C.	—	
Iberoleste Participações, S.A. (BRAZIL) (1) <i>Holding company</i> Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, São Paulo	50.00%	46.22%	130.85	(9.75)	—	(3.55)	—	P.C.	—	
Tele Leste Celular Participações, S.A. (BRAZIL) (1) <i>Holding company</i> Rua Silveria Martins, n 1036, Cabula, Salvador- Bahia	13.85%	12.80%	83.69	37.71	—	(12.08)	—	P.C.	—	
Telebahía Celular, S.A. (BRAZIL) (1) <i>Provision of wireless communications services</i> Rua Silveria Martins, n 1036, Cabula, Salvador- Bahia	13.85%	12.80%	98.06	10.16	—	(11.88)	—	P.C.	—	

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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)			
Telergipe Celular, S.A. (BRAZIL) (1) <i>Provision of wireless communications services Avda. Francisco Porto, 686, 13 de julho - Aracaju, Sergipe</i>		13.85%	12.80%	9.50	1.64	—	(0.49)	—	P.C.	—
Intertelecom, Ltda. (BRAZIL) <i>Holding company Rua Cubatao, 320, 4 andar, Sao Paulo, Sao Paulo</i>	49.99%	46.21%	141.26	(20.81)	—	(5.78)	—	P.C.	—	—
Ptelecom Brasil, S.A. (BRAZIL) <i>Holding company Rua Cubatao, 320, 4 andar, Sao Paulo, Sao Paulo</i>	49.99%	46.21%	609.56	(398.45)	—	(9.08)	—	P.C.	—	—
Portelcom Participações, S.A. (BRAZIL) <i>Holding company Av Brigadeiro Faria Lima, 2277, 15º andar, Conj1503, Jardin Paulistano, Sao Paulo</i>	50.00%	46.22%	970.42	(125.65)	—	(40.44)	—	P.C.	—	—
Telesp Celular Participações, S.A. (BRAZIL) <i>Holding company Av. Roque Petroni Júnior, nº 1464, 6 andar-parce, bloco B, Morumbi, Sao Paulo, Sao Paulo</i>	32.56%	30.10%	1,198.57	(93.25)	—	(188.58)	—	P.C.	—	—
Telesp Celular, S.A. (BRAZIL) <i>Holding company Av.Roque Petroni Júnior, nº 1464, 6 andar-parce, bloco B, Morumbi, Sao Paulo, Sao Paulo</i>	32.56%	30.10%	515.15	155.78	—	143.36	—	P.C.	—	—
Global Telcom Telecom, S.A. (BRAZIL) <i>Wireless operator Av.Higienópolis, nº 1635, Curitiba, Parana</i>	32.56%	30.10%	973.17	(582.74)	—	(126.24)	—	P.C.	—	—
Tele Centro Oeste Celular Participações, S.A. (BRAZIL) <i>Holding company and telecommunications services Sector Comercial Sul, Quadra 2, Bloco C, nº 226, Edif Telebrasília Celular, 7 andar, Brasilia</i>	9.40%	8.69%	156.23	215.89	—	83.43	—	P.C.	—	—
Telegoiás Celular, S.A. (BRAZIL) <i>Wireless operator Rua 136-C, Quadra F-44, nº 150, Setor Sul Goiania, Goias</i>	9.13%	8.44%	56.32	60.62	—	27.47	—	P.C.	—	—
Telemat Celular, S.A. (BRAZIL) <i>Wireless operator Av. Getúlio Vargas, nº 1,300, Centro, Cuiabá, Matogrosso</i>	9.20%	8.50%	31.06	36.03	—	16.64	—	P.C.	—	—
Telems Celular, S.A. (BRAZIL) <i>Wireless operator Av.Alfonso Pena, nº 2,386, Ed Dolor de Andrade, Campo Grande, Matogrosso Do Sul</i>	9.26%	8.56%	27.20	26.34	—	11.69	—	P.C.	—	—
Teleron Celular, S.A. (BRAZIL) <i>Wireless operator Av.Getúlio Vargas, 1941, Porto Velho, Rondonia</i>	9.14%	8.45%	8.76	7.46	—	4.20	—	P.C.	—	—
Teacre Celular, S.A. (BRAZIL) <i>Wireless operator Rua Minas Gerais, nº 64, Ivete Vargas, Rio Branco-Acre</i>	9.24%	8.55%	4.01	4.80	—	2.14	—	P.C.	—	—

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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)				
Norte Brasil Telecom, S.A. (BRAZIL) Wireless operator Travessa Padre Eutíquio, nº 1, 226, Barrio Batista Campos, Belém, Para		9.40%	8.69%	49.33	4.61	—	4.08	—	P.C.	—	
Tele Centro Oeste IP, S.A. (BRAZIL) Wireless operator AC/ Sul Quadra 02, Bloco C, nº 256, 3º Pavimento, Ed Toufic, Plano Piloto, Brasília		9.40%	8.69%	0.27	(0.68)	—	(0.99)	—	P.C.	—	
Telefónica Móviles El Salvador Holding, S.A. de C.V. (EL SALVADOR) (3) Holding company Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador	100.00%	92.44%		124.56	(3.67)	—	(1.31)	136.64	F.C.	—	
Telefónica Móviles El Salvador, S.A. de C.V. (EL SALVADOR) (3) Provision of wireless and international long distance communications services Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador	90.30%	83.47%		94.18	(62.50)	—	(11.88)	101.23	F.C.	—	
TCG Holdings, S.A. (GUATEMALA) (1) Holding company Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City	100.00%	92.44%		206.68	(0.92)	—	(0.40)	238.54	F.C.	—	
Telefónica Centroamérica Guatemala, S.A. (GUATEMALA) (1) Provision of wireless, wireline and radio paging communications services Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City	100.00%	92.44%		201.36	(91.81)	—	(21.83)	201.35	F.C.	—	
Telescucha, S.A. (GUATEMALA) (1) Provision of telecommunications and paging services Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City	100.00%	92.44%		2.49	(1.54)	—	(0.13)	2.49	F.C.	—	
Infraestructura Internacional, S.A. (GUATEMALA) Provision of telecommunications and paging services Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City	70.00%	64.71%		0.43	(0.11)	—	(0.04)	0.30	F.C.	—	
Telefónica Móviles España, S.A.U. (SPAIN) (*) (**) (1) Provision of wireless communications services Plaza de la Independencia, 6 - Pta. 5 - 28001 MADRID	100.00%	92.44%		423.34	(2,868.33)	—	1,856.63	933.21	F.C.	—	
Spiral Investment, B.V. (NETHERLANDS) (1) Strawinskylaan 3105 - 1077ZX - Amsterdam	100.00%	92.44%		38.54	(132.39)	—	0.25	42.69	F.C.	—	
3G Mobile AG (SWITZERLAND) (9)	100.00%	92.44%		35.37	(73.99)	—	(4.06)	90.87	F.C.	—	
MobiPay España, S.A. (SPAIN) Provision of payment services through wireless telephony Avda. Europa, 20 - Alcobendas - Madrid	13.33%	12.32%		15.05	—	—	(5.75)	3.24	E.M.	1.24	
Mediaway UK (U.K.)	100.00%	92.44%		—	—	—	—	—	I	—	
Solivella Investment, B.V. (NETHERLANDS) (1) Strawinskylaan 3105 - 1077ZX - Amsterdam	100.00%	92.44%		880.70	(1,497.29)	—	(55.93)	891.79	F.C.	—	

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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)			
Ipse 2000, S.p.A. (ITALY) <i>Installation and operation of third-generation wireless communications systems Piazza dei Cappettari, 70 - Rome</i>		45.59%	42.14%	2,150.00	303.87	—	(2,280.13)	1,218.15	E.M.	79.22
Group 3G UMTS Holding, GmbH (GERMANY) (1) <i>Network development and provision of third-generation telecommunications services Lilienthalallee, 40 - Munich</i>	57.20%	52.87%	250.03	(10,157.74)	—	0.09	5,540.06	F.C.	—	
Quam, GmbH (GERMANY) (1) <i>Provision of UMTS services Munich</i>	57.20%	52.87%	250.03	(250.03)	—	(41.49)	—	F.C.	—	
Opcó Mobile Services GmbH (GERMANY) (1) <i>Provision of UMTS services Munich</i>	57.20%	52.87%	0.05	—	—	—	—	F.C.	—	
Médi Telecom, S.A. (MOROCCO) <i>Provision of wireless communications services Twin Center, Tour A. Angle Bd Zertouni et El Massira El Kadra Casablanca</i>	32.18%	29.75%	796.97	(551.75)	—	(123.79)	274.65	E.M.	38.62	
Telefónica Móviles Interacción, S.A. (SPAIN) (1) <i>Engineering consultancy services in wireless environments. Gran Vía, 28 - 28013 Madrid</i>	100.00%	92.44%	4.00	(56.57)	—	(22.84)	—	F.C.	—	
Terra Mobile Brasil, Ltd. (BRAZIL) (1)	100.00%	92.44%	5.60	(5.61)	—	0.03	7.51	F.C.	—	
I.O.Box Deutschland, GmbH (GERMANY) (1)	100.00%	92.44%	0.03	(0.19)	—	0.18	5.86	F.C.	—	
Gruppo 3G, SRL (ITALY) <i>Via Lepetit, 4 - Milan</i>	100.00%	92.44%	0.07	(0.01)	—	—	0.10	I	0.10	
Tempos 21 Innovación en Aplicaciones Móviles, S.A. (SPAIN) <i>Research, development and commercial operation of wireless services and applications Avda. Diagonal, 640 - Barcelona</i>	38.50%	35.59%	13.22	(0.98)	—	(5.30)	5.09	I	5.09	
Main Instituto Superior de Tecnología y Empresa, S.L. (SPAIN) <i>Teaching relating to new corporate technologies Españoleta, 19 - Madrid</i>	20.00%	18.49%	0.75	(0.74)	—	(0.04)	0.15	I	0.15	
Simpay, Ltd. (U.K.) <i>Wireless means of payment 62-65 Chandos Place, London WC2N 4LP</i>	25.00%	23.11%	—	—	—	—	—	I	—	
Omicron Ceti, S.L. (SPAIN) <i>Holding company José Abascal - Madrid</i>	100.00%	92.44%	—	—	—	—	—	I	—	
Telefónica Móviles Puerto Rico, Inc. (PUERTO RICO) <i>Ownership of wireless operators in Puerto Rico Metro Office Park Calle Edificio #17, Suite 600 - 00968 Guaynabo</i>	100.00%	92.44%	0.60	0.01	—	(0.10)	0.64	F.C.	—	
Telefónica Móviles USA, Inc. (U.S.A.) <i>Telecommunications consultancy services 1221 Brickell Avenue - Miami - Florida</i>	100.00%	92.44%	—	(0.92)	—	(0.08)	0.75	F.C.	—	

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	% of Ownership								Gross book value	Consolidation method	Value in consolidation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim dividend	Income (Loss)				
TELCA Gestión, S.A. de C.V. (EL SALVADOR) <i>Management of and counseling on telecommunications services 63 Avda. Sur y Alameda Roosevelt, Torre B nivel 10 - San Salvador</i>	100.00%	92.44%	0.02	—	—	—	—	0.02	I	0.02	
MobiPay Internacional, S.A. (SPAIN) <i>Provision of payment services through wireless telephony</i>	36.05%	33.32%	32.26	(12.62)	—	(7.90)	12.17	E.M.	4.23		
Telefónica Móviles Perú Holding, S.A.A. (PERU) (1) <i>Holding company Avda. Arequipa, 1155 Lima, 01</i>	97.97%	90.56%	184.00	20.16	—	14.68	254.46	F.C.	—		
Telefónica Móviles, S.A.C. (PERU) (1) <i>Provision of wireless communications services Avda. Arequipa, 1155 Lima, 01</i>	97.97%	90.56%	196.25	8.13	—	14.78	—	F.C.	—		
Telefónica Móviles Argentina, S.A. (ARGENTINA) (1) <i>Holding company Ing Huergo 723, piso 17 - Buenos Aires</i>	97.93%	90.53%	141.15	(674.64)	—	56.97	495.79	F.C.	—		
Telefónica Comunicaciones Personales, S.A. (ARGENTINA) (1) <i>Provision of wireless communications services Ing Huergo 723, piso 17 - Buenos Aires</i>	97.93%	90.53%	144.58	(677.71)	—	57.04	—	F.C.	—		
Radio Servicios, S.A. (ARGENTINA) (7) <i>Inactive company Ing Huergo 723, piso 17 - Buenos Aires</i>	97.92%	90.52%	0.27	(0.31)	—	—	—	I	(0.05)		
Radio Móvil Digital Argentina, S.A. (ARGENTINA) (5) <i>Telecommunications under SRCE license (trunking) Ing Huergo 723, piso 17 - Buenos Aires</i>	97.92%	90.52%	1.69	(3.21)	—	(0.11)	—	I	(1.62)		
Telefónica de Centroamérica, S.L. (SPAIN) (1) (7) <i>Inactive company Gran Vía, nº 28, Madrid</i>	100.00%	92.44%	0.50	0.01	—	(0.13)	1.33	I	1.33		
Telefónica Móviles Holding Uruguay, S.A. (URUGUAY) (7) <i>Inactive company Plaza de la Independencia 8, planta baja, Montevideo</i>	100.00%	92.44%	0.02	(0.01)	—	—	0.05	I	0.05		
Telefónica Móviles Uruguay, S.A. (URUGUAY) (7) <i>Inactive company Plaza de la Independencia 8, planta baja, Montevideo</i>	100.00%	92.44%	0.02	(0.01)	—	—	—	I	—		
Paging de Centroamérica, S.A. (GUATEMALA) <i>Provision of telecommunications and paging services Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City</i>	100.00%	92.44%	—	—	—	—	—	I	—		
Telefónica Soporte y Tecnología, S.A. (GUATEMALA) <i>Provision of telecommunications and paging services Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City</i>	99.99%	92.43%	—	—	—	—	—	I	—		
Telefónica Móviles México, S.A. de C.V. (MEXICO) (1) <i>Holding company Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>	92.00%	85.04%	1,483.31	(131.22)	—	(530.03)	998.99	F.C.	—		

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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)			
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%	85.04%	0.05	2.11	—	4.55	—	F.C.	—
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%	85.04%	99.76	5.27	—	(20.97)	—	F.C.	—
Baja Celular Servicios Corporativos, S.A. de C.V. (MEXICO) (1) <i>Promotion, organization and administration of all manner of civil or mercantile companies</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120		92.00%	85.04%	0.00	0.52	—	(0.05)	—	F.C.	—
Tamcel, 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%	85.04%	40.24	(6.54)	—	(12.52)	—	F.C.	—
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%	76.54%	14.45	14.09	—	(15.41)	—	F.C.	—
Movicelular, 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		82.80%	76.54%	—	(0.22)	—	0.01	—	F.C.	—
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		82.80%	76.54%	—	0.43	—	0.10	—	F.C.	—
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%	85.04%	7.04	(7.67)	—	(4.87)	—	F.C.	—
Telefónica 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%	85.04%	25.63	(44.43)	—	(23.22)	—	F.C.	—
Todo para Celulares, S.A. de C.V. (MEXICO) (1) <i>Manufacture, distribution and marketing of wireless handsets and their accessories</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120		92.00%	85.04%	—	0.07	—	(0.03)	—	F.C.	—

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(amounts in millions of euros)

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	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim dividend	Income (Loss)				
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%	85.04%	5.27	(5.07)	—	—	(15.63)	—	F.C.	—	
Celular de Telefonía, 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%	85.04%	12.39	10.83	—	(59.72)	—	F.C.	—		
Soluciones Celulares, 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%	85.04%	1.86	(0.49)	—	(0.04)	—	F.C.	—		
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%	80.71%	0.04	1.97	—	0.72	—	F.C.	—		
Grupo de Telecomunicaciones Mexicanas, 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	89.61%	82.83%	0.01	11.00	—	2.46	—	F.C.	—		
Pegaso Telecommunicaciones, 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%	85.04%	743.70	(886.80)	—	(326.57)	—	F.C.	—		
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%	85.04%	589.38	(821.26)	—	(304.63)	—	F.C.	—		
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%	85.04%	10.57	(30.99)	—	(21.15)	—	F.C.	—		
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%	85.04%	2.32	(2.08)	—	0.91	—	F.C.	—		
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%	85.04%	—	—	—	—	—	F.C.	—		
Pegaso Finco I, S.A. de C.V. (MEXICO) (1) <i>Operation of public telecommunications networks and bands of frequencies</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120	92.00%	85.04%	—	—	—	—	—	F.C.	—		

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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)				
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%	85.04%	—	—	—	—	—	F.C.	—	
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%	85.04%	—	—	—	—	—	F.C.	—	
Telefónica Móviles Soluciones y Aplicaciones, S.A. (1) Other holdings	100.00% N/A	92.44% N/A	9.16 N/A	0.53 N/A	— N/A	1.33 N/A	9.50 1.84	F.C. I	— 1.83		
Terra Networks, S.A. (SPAIN) (1) (6) <i>Provision and operation of telecommunications services</i>	71.97%	3.32%	75.29%	1,202.94	1,690.31	—	(172.71)	3,755.96	F.C.	—	
Nicaragua, 54 - 08029 Barcelona											
Terra Lycos, S.A. (SPAIN) <i>Internet services provider</i> Paseo de la Castellana, 92 - 28046 Madrid	100.00%	75.29%	0.06	(0.01)	—	—	0.06	F.C.	—		
Terra Lycos Holding, B.V. (NETHERLANDS) <i>Marketing of software licenses</i> Koningslaan, 34. 1075 AD Amsterdam	100.00%	75.29%	0.02	—	—	—	0.02	I	0.02		
Terra Lycos Intangibles, S.A. (SPAIN) (1) <i>Internet services provider</i> Paseo de la Castellana, 92 - 28046 Madrid	100.00%	75.29%	0.66	13.42	—	(0.12)	19.29	F.C.	—		
Lycos, Inc. and subsidiaries (U.S.A.) (1) (6) <i>Internet portal</i> 100 Fifth Avenue, Waltham, Massachusetts	100.00%	75.29%	1.37	500.60	—	(75.59)	2,799.66	F.C.	—		
Other holdings	N/A	N/A	N/A	N/A	N/A	N/A	63.18	E.M.	63.18		
Other holdings	N/A	N/A	N/A	N/A	N/A	N/A	64.11	I	64.11		
Terra Networks USA, Inc. and subsidiaries (U.S.A.) (6) <i>Internet portal</i> 1201 Brickell Avenue, Suite 700, Miami - Florida 33131	100.00%	75.29%	N/D	N/D	N/D	N/A	67.47	F.C.	—		
Deremate.com, Inc. (USA) <i>Internet content and e-commerce</i> 1018 Centre Road, Wilmington - Delaware	29.50%	22.21%	N/D	—	—	—	3.98	I	3.98		
Centro de Investigación y Experimentación de la Realidad Virtual, S.L. (SPAIN) <i>Design of communications products</i> Vía de Dos Castillas, 33 - Comp. Ática Ed. 1, 1º Plta. Pozuelo de Alarcón - 28224 Madrid	100.00%	75.29%	0.01	—	—	—	10.08	F.C.	—		
Corporation Real Time Team, S.L. (SPAIN) <i>Design, advertising and consulting on the Internet</i> Claudio Coello, 32, 1º ext. - Madrid	100.00%	75.29%	0.02	N/D	—	N/D	12.40	F.C.	—		
UNO-E Bank, S.A. (SPAIN) <i>On-line banking</i> Julián Camarillo, 4 Edificio C, 28037 - Madrid	33.00%	24.85%	80.32	36.21	—	(5.07)	189.83	I	189.83		

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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 Asociadas, S.L. (SPAIN)		100.00%	75.29%	6.11	6.08	—	(14.52)	61.12	F.C.	—	
<i>Portfolio company</i>											
Paseo de la Castellana, 92 - 28046 Madrid											
Maptel Networks, S.A.U. (SPAIN) (1)		100.00%	75.29%	1.50	(0.68)	—	(0.80)	1.37	F.C.	—	
<i>Design of digital cartography</i>											
Plaza Santa María Soledad Torres Acosta, 15º - 28004 Madrid											
Ifigenia Plus, S.L. (SPAIN) (1)		100.00%	75.29%	0.14	(1.00)	—	(0.52)	10.11	F.C.	—	
<i>Education and cultural portal</i>											
Plaza Alonso Martínez, 3 - 28004 Madrid											
Educaterra, S.L. (SPAIN) (1)		100.00%	75.29%	0.06	(2.19)	—	(1.29)	0.06	F.C.	—	
<i>Vertical education Internet portal</i>											
Vía de Dos Castillas, 33 - Comp. Ática Ed. 1, 1º Plta. Pozuelo de Alarcón - 28224 Madrid											
Emplaza, S.A. (SPAIN) (5)		80.00%	60.23%	1.20	(2.15)	—	0.95	6.37	I	—	
<i>Intranet development portal</i>											
Centro Europa Empresarial, Rozabella 8, 28230 Las Rozas, Madrid											
Azeler Automoción, S.A. (SPAIN) (6)		50.00%	37.65%	1.80	0.47	—	(1.09)	5.22	E.M.	0.59	
<i>Motoring portal</i>											
Vía de Dos Castillas, 33 - Comp. Ática Ed. 1, 1º Plta. Pozuelo de Alarcón - 28224 Madrid											
Red Universal de Marketing y Bookings Online, S.A. (SPAIN) (6)		50.00%	37.65%	9.00	(9.48)	—	(5.89)	7.50	E.M.	—	
<i>Travel booking portal</i>											
Procién 1 y 3 La Florida - 28023 Madrid											
Inversis Networks, S.A. (SPAIN)		9.13%	6.87%	69.05	(10.02)	—	(25.95)	10.09	I	10.09	
<i>Telematic and computer systems and applications</i>											
C/ Arrastacia, 13 . Polígono de las Mercedes - Madrid											
A Tu Hora, S.A. (SPAIN)		50.00%	37.65%	7.18	(3.37)	—	(0.13)	6.59	E.M.	0.00	
<i>E-commerce</i>											
Isla Graciosa, 7 - San Sebastián de los Reyes - 28700 Madrid											
One Travel.com, Inc. (USA) (1) (6)		54.15%	40.77%	0.01	8.05	—	(1.48)	29.64	F.C.	—	
<i>Travel booking portal</i>											
258 Main Street, 3rd floor - East Greenville											
11th Hour Vacations, Inc. (USA)		100.00%	75.29%	N/D	N/D	—	N/D	—	F.C.	—	
<i>Travel booking portal</i>											
15 Century Drive, Greenville - South Carolina											
Iniciativas Residenciales en Internet, S.A. (ATREA) (SPAIN)		50.00%	37.65%	1.42	2.38	—	(2.02)	3.85	E.M.	0.89	
<i>Real estate portal</i>											
Pº de Recoletos, 10 Ala Norte 1ª pta. - 28001 Madrid											
Terra Networks España, S.A. (SPAIN) (4)		100.00%	75.29%	8.12	(404.63)	—	(4.90)	76.47	F.C.	—	
<i>ISP and portal</i>											
Vía Dos Castillas, 33 - Comp. Ática Ed. 1, 1º Plta. Pozuelo de Alarcón - 28224 Madrid											
Ordenamiento de Links Especializados, S.L. (SPAIN)		100.00%	75.29%	6.00	(7.92)	—	(0.03)	18.03	F.C.	—	
<i>Internet browser</i>											
Nicaragua, S4 - Barcelona											

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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)				
OLE de Contenidos Interactivos, S.A. (SPAIN) (5) <i>Gathering, preparation and dissemination of information of all kinds</i> Paseo de la Castellana, 210 - 28046 Madrid		100.00%	75.29%	0.09	(0.08)	—	—	6.01	F.C.	—	
ADQ Advertising Quality, S.L. (SPAIN) (5) <i>Computerized advertising services</i> Paseo de la Castellana, 210 - 28046 Madrid		100.00%	75.29%	0.01	—	—	—	0.01	I	0.01	
Terra Networks LATAM E.T.V.E., S.L. (SPAIN) (1) <i>Foreign securities holding and management</i> Paseo de la Castellana, 92 - 28046 Madrid		100.00%	75.29%	57.10	102.17	—	(48.79)	537.17	F.C.	—	
Terra Networks Venezuela, S.A. (VENEZUELA) (1) <i>ISP and portal</i> Avda. Francisco de Miranda, Centro Plaza, Torre A, Piso 11, Los Palos Grandes - Caracas		100.00%	75.29%	1.37	(1.56)	—	(1.32)	20.62	F.C.	—	
Terra Networks Perú, S.A. (PERU) (1) <i>ISP and portal</i> Los Sauces, 374 - Torre Roja - San Isidro - Lima		99.99%	75.28%	2.54	3.02	—	(2.08)	52.80	F.C.	—	
Terra Networks Mexico Holding, S.A. de C.V. (MEXICO) (1) (6) <i>Portfolio company</i> Antonio L. Rodríguez 1884, Monterrey - Nuevo León		100.00%	75.29%	91.20	(81.33)	—	(29.60)	355.46	F.C.	—	
Terra Networks Mexico, S.A. de C.V. (MEXICO) (1) <i>ISP and portal</i> Col. Santa María Monterrey, Ciudad de Monterrey - Nuevo Leon		99.99%	75.28%	3.19	20.12	—	(28.44)	(0.93)	F.C.	—	
Telefónica Interactiva Brasil, Ltda. (BRAZIL) (1) (6) <i>Portfolio company</i> Rua de Consolação, 247, 6º - São Paulo		99.99%	75.28%	534.51	(429.10)	—	(6.08)	359.66	F.C.	—	
Terra Networks Brasil, S.A. and subsidiaries (BRAZIL) (1) (6) <i>ISP and portal</i> Rua General Joao Manoel, 90 - Porto Alegre - Rio Grande do Sul - Brasil		100.00%	75.29%	246.37	(213.01)	—	(7.55)	266.43	F.C.	—	
Terra Networks Chile Holding Limitada (CHILE) (1) (6) <i>Portfolio company</i> Avda. Vitacura, 2736 - Santiago de Santiago		99.99%	75.28%	95.18	(57.42)	—	(7.14)	95.18	F.C.	—	
Terra Networks Chile, S.A. (CHILE) (1) <i>ISP and portal</i> Avda. Vitacura, 2736 - Santiago de Santiago		100.00%	75.28%	39.08	(33.64)	—	(3.05)	69.90	F.C.	—	
Terra Networks Guatemala, S.A. (GUATEMALA) (1) <i>ISP and portal</i> Diagonal, 6 Edificio Las Margaritas II - Guatemala City		100.00%	75.29%	12.22	(9.02)	—	(2.33)	16.36	F.C.	—	
Terra Networks El Salvador, S.A. de C.V. (EL SALVADOR) (1) <i>Internet portal</i> 63 Ave. Sury Alameda Roosevelt, Centro Fin. Gigante Torre de San Salvador		99.99%	75.28%	1.69	N/D	—	N/D	N/D	F.C.	—	
Terra Networks Honduras, S.A. (HONDURAS) <i>Internet portal</i> 14 Av. Circunvalación N.O. San Pedro Sula-Cortez		99.99%	75.28%	0.03	N/D	N/D	N/D	N/D	F.C.	—	

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DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEES AS OF DECEMBER 31, 2003

(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 Costa Rica, S.A. (COSTA RICA) (3) <i>Internet portal</i> Escurridabat, Edificio Domus Plaza, 2º Planta Oficina 2 - San José	99.99%		75.28%	0.21	N/D	N/D	N/D	N/D	F.C.	—	
Terra Networks Nicaragua, S.A. (NICARAGUA) <i>Internet portal</i>	99.99%		75.28%	—	N/D	N/D	N/D	N/D	F.C.	—	
Terra Networks Panamá, S.A. (PANAMA) <i>Internet portal</i> Harry Eno y Piloto, Posada Edificio El Educador - Coopeduc - Bethania	99.99%		75.28%	—	N/D	N/D	N/D	N/D	F.C.	—	
Terra Networks Caribe, S.A. (DOMINICAN REPUBLIC) (4) <i>Internet portal</i> Avda. Winston Churchill, Pza. Fernández II, Local 18 B - Ensanche Paraiso - Santo Domingo	99.98%		75.28%	1.29	(1.26)	—	(0.28)	—	F.C.	—	
Terra Networks Argentina, S.A. (ARGENTINA) (1) <i>ISP and portal</i> Avda. Leandro N. Alem, 712 Piso 11 - Buenos Aires	99.99%		75.29%	47.53	(45.70)	—	(2.03)	49.71	F.C.	—	
Terra Networks Maroc, S.A.R.L. (MOROCCO) <i>Inactive company</i> 332 Boulevard Brahim Roudani - Casablanca	100.00%		75.29%	0.06	N/D	—	N/D	0.03	I	0.03	
Terra Networks Colombia Holding, S.A. (COLOMBIA) (1) (6) <i>Portfolio company</i> Avda. 100 nº 7-33 Torre 11 Of.301 - Santa Fé de Bogotá	100.00%		75.29%	(4.69)	—	(4.98)	(3.21)	40.78	F.C.	—	
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	68.00%		51.20%	2.06	(1.25)	—	(1.68)	11.16	F.C.	—	
Terra Networks Serviços de Acesso a Internet e Trading, Ltd. (PORTUGAL) <i>Inactive company</i> Avda. Arriaga, 73-2º andar, sala 212 - Freguesia de Se, Concelho do Funchal (Madeira)	100.00%		75.29%	0.01	N/D	—	N/D	0.01	I	0.01	
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%	43.76%	93.76%	40.00	1.00	—	0.80	21.97	F.C.	—	
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	1.68	—	2.77	2.64	E.M.	4.80	
Torre de Collcerola, S.A. (SPAIN) (2) <i>Operation of a telecommunications mast and technical assistance and consulting services</i> Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona	42.00%		42.00%	12.02	0.56	—	—	5.08	E.M.	5.28	
Telefónica Factoring Do Brasil, Ltd. (BRAZIL) (1) <i>Development offactoring business</i> Avda. Paulista, 1106	40.00%	10.00%	50.00%	2.41	(0.78)	(0.23)	0.74	1.45	E.M.	0.95	

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(amounts in millions of euros)

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	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim dividend	Income (Loss)			
Banco Bilbao Vizcaya Argentaria, S.A. (SPAIN) (1) (6) <i>Banking</i> Plaza de San Nicolás, 4 - 48013 Bilbao (Vizcaya)	1.13%			1,565.97	6,936.51	(862.88)	1,460.34	555.63	E.M.	555.63
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	102.45	—	90.06	4.06	F.C.	—
Compañía Española de Redes y Nuevos Entornos Tecnológicos, S.L. (SPAIN) (2) <i>Construction and refurbishment of buildings.</i> <i>Refurbishments in general.</i> Claudio Coello, 76 - Madrid	100.00%	59.90%	0.06	0.18	—	(0.18)	0.64	F.C.	—	
Goodman Business Press, S.A.U. (SPAIN) (2) <i>Publishing of technical and professional publications in several industries</i> Fuerteventura, 21- San Sebastián de los Reyes. Madrid	100.00%	59.90%	0.66	8.91	—	(0.14)	11.02	F.C.	—	
Buildnet, S.A.U. (SPAIN) (2) <i>Creation, development, management and provision of on-line information services</i> Claudio Coello, 76 - Madrid	100.00%	59.90%	0.06	0.04	—	(0.05)	0.35	F.C.	—	
Adquira Spain, S.A. (SPAIN) (2) <i>E-commerce</i> Goya, 4 ^a planta - Madrid	20.00%	11.98%	0.45	18.22	—	(5.76)	3.17	E.M.	2.58	
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	(0.13)	—	(0.37)	49.34	F.C.	—	
Directories Holding, B.V. (NETHERLANDS) <i>Holding company</i> Drentestraat 24 BG 1083 HK - Amsterdam	100.00%	59.90%	0.02	13.14	—	(0.02)	47.58	F.C.	—	
Publiguías Holding, S.A. (CHILE) (2) <i>Holding company</i> Avda. Santa María 0792 - Providencia - Santiago de Chile	100.00%	59.90%	13.73	(3.92)	—	2.53	13.20	F.C.	—	
Urge Chile, S.A. (CHILE) (2) <i>Construction and upkeep of buildings.</i> <i>Refurbishment work in general</i> Moneda 970, piso 12 - Santiago de Chile	100.00%	59.90%	0.09	(0.04)	—	(0.33)	0.07	F.C.	—	
Impresora y Comercial Publiguías, S.A. (CHILE) (2) <i>Telephone directory and related products and telephone files business</i> Avda. Santa María 0792 - Providencia - Santiago de Chile	51.00%	34.48%	4.93	22.68	—	13.35	11.87	F.C.	—	
Other holdings	N/A	N/A	N/A	N/A	—	N/A	0.18	I	0.18	
Telefónica Publicidad e Información Perú, S.A.C. (PERU) (2) <i>Publishing of Peruvian market directories</i> Paseo República, 3755 San Isidro, Lima	100.00%	59.90%	2.34	(1.42)	—	3.94	22.36	F.C.	—	
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> Rua Gomes de Carvalho, 1507 Vila Olímpia, São Paulo - Brasil	100.00%	59.90%	54.54	(50.70)	—	(4.53)	64.02	F.C.	—	

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	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim dividend	Income (Loss)				
11888 Servicio Consulta Telefónica, S.A. (SPAIN) (2) <i>Provision of wireline public telephone and directory enquiry service</i> Avda. de Manoteras, 12 - 28050 MADRID		100.00%	59.90%	0.06	—	—	0.46	0.06	F.C.	—	
Guia Local Network, S.A. (BRAZIL) (2) <i>City guide Internet portal</i> Avda. Das Americas, 500 Bl. 6A - Rio de Janeiro		20.00%	11.98%	3.70	—	—	—	1.57	I	1.57	
Euredit, S.A. (FRANCE) (2) <i>Publication of European yearbooks</i> Avda. Friedland, 9 - 75008 París (*)		5.00%	2.99%	N/D	N/D	—	N/D	0.23	I	0.23	
Sistemas Técnicos de Loterías del Estado, S.A. (SPAIN) (2) <i>Operation of a gaming terminal system for the Spanish State Gaming Organization</i> Manuel Tovar, 9 - 28034 Madrid	31.75%		31.75%	12.02	52.66	—	12.94	3.82	E.M.	23.50	
Amper, S.A. (SPAIN) (1) (6) <i>Development, manufacture and repair of telecommunications systems and equipment and related components</i> Torrelaguna, 75 - 28027 Madrid	6.10%		6.10%	27.91	33.47	—	(7.93)	11.83	E.M.	3.26	
Portugal Telecom, S.G.P.S., S.A. (PORTUGAL) (1) <i>Holding company</i> Avda. Fontes Pereira de Melo, 40 - 1089 Lisbon	3.74%	0.95%	4.70%	1,254.29	1,753.51	—	348.96	361.59	E.M.	158.58	
I-CO Global Communications (HOLDINGS) Limited (U.K.)	N/D		N/D	N/D	N/D		N/D	6.03	I	6.03	
Other holdings	N/A	N/A	N/A	N/A	N/A		N/A	0.78	I	0.78	
TOTAL VALUE IN CONSOLIDATION, ASSOCIATED COMPANIES (Note 8)										1,507.40	
TOTAL VALUE IN CONSOLIDATION, INVESTEES (Note 8)										492.37	

(1) Company audited by Deloitte & Touche. In Spain Deloitte & Touche Spain, 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 audited by Hugo Bottino.

(6) Consolidated figures.

(7) Inactive company.

(8) Company in liquidation.

(9) Company audited by Treureva.

(10) This value relates to the contribution to the Telefónica Group and not to the subgroups to which the contributing companies belong.

F.C. Fully consolidated companies.

P.C. Proportionally consolidated companies.

E.M. Companies accounted for by the equity method.

I. Investees

Amounts in foreign currencies: M=millions and m= thousands.

N/D No data.

Provisional figures for associated companies and investees.

N/A Not available

Financial information obtained from the financial statements, if any, prepared by the company.

EXHIBIT II

The variations in the scope of consolidation in the years ended December 31, 2003 and 2002, were as follows:

2003

The variations in the scope of consolidation in the year ended December 31, 2003, were as follows:

Telefónica

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%. In December the Telefónica Group's effective holding in the Terra Group was increased to 75.29%, as described below. The company continues to be fully consolidated in the Telefónica Group.

In February 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 continues 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, 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 accounted for by the equity method in 2002, was fully consolidated in the first six months of 2003 and was subsequently excluded from the scope of consolidation.

In January the Mexican company Fisatel Mexico, S.A. de C.V. was formed with an initial capital stock of MXP 5 million,

comprising 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 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 percentage of ownership 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.

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 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 the 91.35% it currently holds. Atento N.V. continues 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 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 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 is 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 means 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 represent 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 is consolidated in the consolidated financial statements of Brasilcel, which, in turn, is 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 Interacions, 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 continues to be fully consolidated in the Telefónica Group. Subsequently, on June 24, 2003, Termespa, S.A. was merged by absorption into Telefónica Móviles Interacions, 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 continues 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 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 are 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.U. 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 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. is 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 includes 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 percentage 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 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 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 continues to be fully consolidated in the Telefónica Group.

In September 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 its current 59.90%. This company continues to be fully consolidated in the Telefónica Group.

Telefónica Datacorp Group

In October 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 continues 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 are 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 so as to include a new stockholder in its stockholder structure. Consequently, the Telefónica Group's holding in this company, which continues to be fully consolidated, decreased from 100% to 65%.

In June 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 continues 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 Tyssa was absorbed by its parent company.

Terra Group

In December 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. continues to guarantee the coverage of the employee stock option plan with the shares now 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 continues 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 are 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 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 de 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 continues 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 continues 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.

2002

The variations in the scope of consolidation in the year ended December 31, 2002, were as follows:

Telefónica

In March 2002, under the last part of the agreement entered into between Telefónica, S.A. and Iberdrola, S.A. for the acquisition by the former of all the holdings which the Iberdrola Group owned in the Brazilian operators in which the two companies were direct or indirect stockholders, Telefónica, S.A. acquired a 3.38% holding in Tele Leste Celular Participações, S.A. in exchange for 799,411 Telefónica, S.A. shares.

Following completion of the acquisition by Telefónica, S.A. of the aforementioned holdings owned by the Iberdrola Group, in May 2002 Telefónica, S.A. contributed to its subsidiary Telefónica Móviles, S.A. the shares of the following Brazilian companies owned by it, which accounted for 7% of the capital stock of TBS Celular Participações, S.A. and Sudestcel Participações, S.A., in addition to holdings of 3.38% in Tele Leste Celular Participações, S.A. and of 62.02% in Iberoleste Participações, S.A. In exchange, Telefónica, S.A. received all the new shares issued (26,801,494 new shares of €0.5 par value each) by the subsidiary in the two capital increases carried out in that month. Also in relation to the Iberdrola Group's investments, Telefónica sold to its subsidiary Telefónica Móviles, S.A. 0.66% of the capital stock of Celular CRT Participações, S.A. for €11.54 million.

Following this transaction, at 2002 year-end the Telefónica Group owned the following direct and indirect holdings in these Brazilian companies: 40.91% in TBS Celular Participações, S.A., 83.56% in Sudestcel Participações, S.A., 27.71% in Tele Leste Celular Participações, S.A. and all the shares of Iberoleste Participações, S.A. All these companies and Celular CRT Participações, S.A. were fully consolidated in

the Telefónica Group's consolidated financial statements (Tele Leste Celular Participações, S.A. had been accounted for by the equity method in the Telefónica Group's 2001 consolidated financial statements) through December 31, 2002, the date on which their respective balance sheets were proportionally consolidated through the joint venture Brasilcel, N.V. (see section on Telefónica Móviles).

In 2002 Telefónica, S.A. sold to Telefónica Internacional, S.A. 64,673 common shares of Telecomunicações de São Paulo, S.A., 189,278,445 "quotas" of SP Telecomunicações Holding, Ltda. and 2,669,724,381 common shares and 834,622,796 preferred shares of Telefónica Data Brasil Holding, S.A., which it had acquired in 2001 from the Iberdrola Group for their book value. All these companies continued to be fully consolidated in the Telefónica Group's 2002 consolidated financial statements.

In January 2002 Telefónica, S.A. acquired 50,000 shares of Endemol Entertainment Holding, N.V. (Endemol) for €2 million. Following this acquisition, the Telefónica Group owned a holding of 99.47% in Endemol, which continued to be fully consolidated in the Telefónica Group's consolidated financial statements.

In January 2002 Telefónica, S.A. acquired 50,000 shares of Telefónica Móviles, S.A. for €0.41 million. Following this acquisition and the above-mentioned contributions, at 2002 year-end the Telefónica Group owned a direct and indirect holding of 92.43% in Telefónica Móviles, S.A., which continued to be fully consolidated in the Telefónica Group.

In February 2002 Telefónica, S.A. participated in the incorporation of the Brazilian company Telefónica Factoring do Brasil, S.A. and subscribed and paid 40% of this company's initial capital stock for €0.96 million. This company was accounted for by the equity method in the Telefónica Group's 2002 consolidated financial statements.

In January 2002 Zeleris España, S.A. (formerly Telefónica Servicios de Distribución, S.A.), a wholly-owned subsidiary of Telefónica, S.A., increased capital by €1.92 million, which was subscribed and paid in full by the Parent Company. Subsequently, in June 2002 Zeleris Soluciones Integrales, S.L., a wholly-owned subsidiary of Telefónica, S.A., increased capital by €0.82 million, which was subscribed and paid in full by Telefónica, S.A. through the nonmonetary contribution of Zeleris España, S.A. Both companies continued to be fully consolidated in the Telefónica Group's consolidated financial statements.

In 2002 Telefónica acquired 717,465 shares of the subsidiary Terra Networks, S.A. for €5.53 million, bringing the Telefónica Group's direct and indirect holding in this company, which continued to be fully consolidated, to 38.58% at 2002 year-end.

On May 31, 2002, the Dutch company Atento N.V. was incorporated through the nonmonetary contribution of all the shares of the U.S. company Atento Holding Inc. The new company, which is a wholly-owned investee of Telefónica, S.A., was fully consolidated in the Telefónica Group.

In 2002 the following subsidiaries were fully consolidated for the first time in the Telefónica Group:

- Telefónica Gestión de Servicios Compartidos, S.A. de C.V. (Mexico)
- Telefónica Gestión de Servicios Compartidos, S.A.C. (Peru)
- Telefónica Gestao de Serviços Compartilhados do Brasil, Ltda. (Brazil)
- Telefónica Gestión de Servicios Compartidos, S.A. (Argentina)

In January 2002 Telefónica, S.A. incorporated the wholly-owned subsidiary Telefónica Capital, S.A. and paid this company's initial capital stock (€6 million) in full. Subsequently, Telefónica Capital increased capital by €1 million with additional paid-in capital of €38.01 million, all of which was subscribed and paid by its sole stockholder Telefónica, S.A. through the nonmonetary contribution of 201,682 shares of Fonditel, Entidad Gestora de Fondos de Pensiones, S.A. representing 77.22% of this company's capital stock. Telefónica Capital, S.A. was fully consolidated in the Telefónica Group's 2002 consolidated financial statements.

In December 2002 Telefónica Capital, S.A., a wholly-owned subsidiary of Telefónica, S.A., sold 28,736 shares of Fonditel, Entidad Gestora de Fondos de Pensiones, S.A. for €6.14 million. Also, Telefónica, S.A.'s wholly-owned subsidiary Seguros de Vida y Pensiones Antares, S.A., which owned 9,881 shares of Fonditel, sold these shares to Telefónica Capital for €2.11 million. As a result of these transactions, the Telefónica Group's direct and indirect holding in Fonditel decreased from 81% in 2001 to 70% in 2002. The company continued to be fully consolidated in the Telefónica Group.

In December 2002 Telefónica acquired from its Luxembourg subsidiary Casiopea Reaseguradora, S.A. 110,000 shares of Seguros de Vida y Pensiones Antares, S.A. for €59.63 million. Following this transaction, the Telefónica Group continued to own all the capital stock of this company, which continued to be fully consolidated in the Telefónica Group.

In November 2002 Telefónica, S.A. acquired Gran Vía Media, S.L. from its wholly-owned subsidiary Telefónica de Contenidos, S.A. Gran Vía Media, S.L. changed its corporate name to Lotca Servicios Integrales, S.L. In December 2002 Lotca increased capital by 16,920 shares of €1 par value each, which the Telefónica Group subscribed in full through a nonmonetary contribution. Lotca was fully consolidated for the first time in the Telefónica Group in 2002.

In December 2002, by virtue of its agreements with the Tyco Group, Telefónica, S.A. acquired 17,872,341 shares of the Dutch company Emergia Holding, N.V. for €47.09 million. The Telefónica Group thereby became the sole stockholder of this company, which continued to be fully consolidated in the Telefónica Group's consolidated financial statements.

The Uruguayan company Emergia, S.A. increased capital in December 2002 by US\$ 500 million. Telefónica subscribed and paid the capital increase in full by converting loans to this company into capital. Following this transaction, the Telefónica Group directly or indirectly owned all the shares of this Uruguayan company, which continued to be fully consolidated in the Telefónica Group's consolidated financial statements.

Grupo Admira Media, S.A. and Telefónica Internet, S.A., both of which were wholly-owned subsidiaries of Telefónica, S.A., changed their corporate names in 2002 to Telefónica de Contenidos, S.A. and Corporación Admira Media, S.A., respectively.

In 2002 the U.S. company Katalyx, Inc. increased capital by US\$ 124 million, which Telefónica, S.A. subscribed in full and paid through the conversion of loans to this company into capital. As a result of this transaction, Telefónica b2b Inc., the former sole stockholder of Katalyx, Inc., had a 0.1% holding, with Telefónica from then onwards owning the remaining 99.9% of the capital stock of Katalyx, Inc., which continued to be fully consolidated in the Telefónica Group's consolidated financial statements.

In 2002 Telefónica Europe, B.V., a wholly-owned investee of Telefónica, S.A., formed Telefónica Finance USA, L.L.C., which issued preferred shares amounting to €2,000 million. As a result, as of December 31, 2002, the Telefónica Group had a 0.01% holding in and held all the voting rights at Telefónica Finance USA, L.L.C.

Telefónica Datacorp Group

In January 2002 Telefónica DataCorp, S.A. acquired all the shares of the German company HighwayOne Germany, GmbH for €1.38 million. Subsequently, the German company increased capital by €2.57 million with additional paid-in capital of €634.5 million, which was subscribed and paid in full by the Telefónica Group. As part of the reorganization of the Telefónica Group by business line, HighwayOne Germany, GmbH acquired for their market price from Telefónica all the shares of MediaWays, GmbH and subsequently merged with this company. Lastly, the German company changed its corporate name to Telefónica Deutschland, which was fully consolidated in the Telefónica Group.

In July 2002 the holding in the Austrian company European Telecom International, GmbH, a wholly-owned subsidiary of Telefónica Datacorp, S.A.U., was sold, giving rise to a loss for the Telefónica Group of €38.79 million. This company was excluded from the scope of consolidation of the Telefónica Group.

The Uruguayan company Telefónica Data Uruguay, S.A., which had been fully consolidated, was sold in November 2002, giving rise to a loss of €2.28 million. Accordingly, it was excluded from the scope of consolidation of the Telefónica Group.

Also, in September 2002 Telefónica Datacorp, S.A. acquired all the shares of Telefónica Data México, S.A. de C.V. held by its minority stockholders for €5.16 million. Following this transaction, Telefónica Datacorp owned all the shares of Telefónica Data México, S.A. de C.V., which continued to be fully consolidated in the Telefónica Group.

The Datacorp Group, through its subsidiary Telefónica Data de Brasil Ltd., subscribed to the capital increase carried out by Telefónica Data Brasil Holding, S.A., contributing the loans previously granted amounting to 482,9 million reais, and thereby increased the Telefónica Group's holding in this company from 87.48% to 93.98%.

The 34%-owned investee of Telefónica Datacorp, S.A., the Italian company Atlanet, S.A., which through June 30, 2002, had been fully consolidated, was from that date accounted for by the equity method because it no longer fulfilled the management control requirements for full consolidation.

On July 2, 2002, Telefónica Data España, S.A., a wholly-owned investee of Telefónica Datacorp, S.A., sold 24% of the holding owned by it in Gestión del Conocimiento, S.A., giving rise to a gain of €58 thousand. This company, which had been accounted for by the equity method in the consolidated financial statements of the Telefónica Group, was excluded from consolidation.

Also, in July 2002 Telefónica Data España, S.A. acquired a 33.33% holding in Servicios On Line para Usuarios Múltiples, S.A. (Solum) for €0.7 million. This company was accounted for by the equity method in the consolidated financial statements of the Telefónica Group.

In November 2002 the Telefónica Datacorp Group acquired 15% of the capital stock of Agencia de Certificación Electrónica, S.A. for €3. As a result of this acquisition, the Telefónica Group became the sole stockholder of this company, which continued to be fully consolidated in the Telefónica Group's consolidated financial statements.

Telefónica de España Group

In 2002 Telefónica Cable, S.A., a wholly-owned subsidiary of Telefónica de España, S.A., made the following acquisitions:

- 22% of the capital stock of Telefónica Cable Extremadura, S.A.
- 10% of the capital stock of Telefónica Cable Catalunya, S.A.
- 10% of the capital stock of Telefónica Cable Madrid, S.A.
- 11% of the capital stock of Telefónica Cable Navarra, S.A.
- 15% of the capital stock of Telefónica Cable Galicia, S.A.
- 27 % of the capital stock of Telefónica Cable Andalucía, S.A.
- 49% of the capital stock of Sociedad General de Cablevisión Canarias, S.A.
- 49% of the capital stock of Telefónica Cable Castilla y León, S.A.

Following these acquisitions, Telefónica Cable, S.A., the parent company of all these companies, owned all the companies' shares, except in the case of Telefónica Cable Extremadura, S.A., in which it has an 83% holding, and Telefónica Cable Galicia, S.A., in which its new percentage of ownership was 85%. €5.82 million were disbursed for these investments. All these companies continued to be fully consolidated in the Telefónica Group.

In December 2002 Iniciativa de Mercados Interactivos, S.A. (I.M.I.) absorbed Adquira Spain, S.L., following which the Telefónica de España Group controlled 20% of the absorbing company's capital. I.M.I., which changed its corporate name to Adquira Spain, S.A., was accounted for by the equity method in the Telefónica Group's consolidated financial statements.

Telefónica de España, S.A.U. and Telefónica Móviles España, S.A.U. formed two joint ventures called "Telefónica de España, S.A.U.—Telefónica Móviles España, S.A.U., Unión Temporal de Empresas, Ley 18/1982 de 26 de mayo y Ley 12/1991, de 29 de abril" and "Telefónica de España, S.A.U.—Telefónica Móviles España, S.A.U., Unión Temporal de Empresas II, Ley 18/1982 de 26 de mayo y Ley 12/1991, de 29 de abril", both with an initial endowment fund of €3,006, which was paid in proportion to the two companies' respective ownership interests, i.e. 90% in the case of Telefónica de España and 10% in the case of Telefónica Móviles España for both joint ventures.

In April 2002 the wholly-owned subsidiary Telefónica Soluciones Sectoriales sold its holdings in the associated companies Madrid 112, S.A. (24.5%) and Fitex, S.A. (30.93%), giving rise to gains of €115 thousand and €30 thousand, respectively. These companies, which had been accounted for by the equity method in the Telefónica Group's consolidated financial statements, were excluded from consolidation.

Telefónica Móviles Group

On January 10, 2002, Telefónica Móviles acquired one-third of the shares of each of the following companies owned by Mesotel de Costa Rica, S.A. (Mesotel): TES Holding, S.A. de C.V., Telca Gestión, S.A. de C.V., TCG Holdings, S.A., Telca Gestión Guatemala, S.A., Paging de Centroamérica, S.A. and Telefónica de Centroamérica, S.L. (except for the holdings in Telefónica de Centroamérica Guatemala, S.A.—one share - and Tele-Escucha, S.A. - two shares -, which it acquired in full). As consideration, Mesotel received 7,333,180 existing shares of Telefónica Móviles.

Also, on July 22, 2002, Telefónica Móviles carried out a capital increase agreed upon by its Stockholders' Meeting on April 4, 2002, for a total amount (par value plus additional paid-in capital) of €27.66 million. Mesotel paid these new shares in full through the contribution of the shares of the following companies held by it: TES Holding, S.A. de C.V., Telca Gestión, S.A. de C.V., TCG Holdings, S.A., Telca Gestión Guatemala, S.A., Paging de Centroamérica, S.A. and Telefónica de Centroamérica, S.L. Following this capital increase, Telefónica Móviles, S.A. owned all the shares of each of these companies.

In April 2002 Tele Sudeste Celular Participações, S.A. and Celular CRT Participações, S.A. carried out capital increases that were subscribed by Telefónica Móviles, S.A.

On September 10, 2002, Telefónica Móviles acquired a 65.23% holding in Pegaso PCS (Mexico) for €92.87 million. Subsequently, in order to strengthen its net worth position, Pegaso carried out a capital increase in which Telefónica Móviles, S.A. paid €211.45 million corresponding to its 65.23% holding. The agreements entered into with Burillo contained a commitment to contribute the holdings of the two companies in the Pegaso Group and in the northern Mexican companies to a new Mexican company of which the two Groups would be stockholders. This transaction was implemented through the sale of their holdings to Telefónica Móviles Mexico, followed by the conversion of the debt into equity by the creditors. Telefónica Móviles thus obtained a holding of 92% in this new holding company.

On October 21, 2002, Telefónica Móviles, S.A. acquired from Portugal Telecom SGPS, S.A. a 14.68% holding in Telesp Celular Participações, S.A. for €200.31 million.

On December 27, 2002, once Brazilian legislation had been complied with, Telefónica Móviles, S.A. and PT Móveis Serviços de Telecomunicações, SGPS, S.A. (PT Móveis) formed the joint venture Brasilcel, N.V., 50% owned by each company, through the contribution of all the shares directly or indirectly held by the two groups in the wireless communications companies in Brazil, the detail being as follows:

Companies Contributed	% Contributed		
	Telefónica Móviles	PT Móveis	Total
Celular CRT			
Participações, S.A.	40.90%	7.58%	48.48%
Tele Leste Celular			
Participações, S.A.	27.70%	—	27.70%
Tele Sudeste Celular			
Participações, S.A.	83.56%	—	83.56%
Telesp Celular			
Participações, S.A.	14.68%	50.44%	65.12%

The value of the contribution to Brasilcel, N.V. of the wireless assets owned by Telefónica Móviles, S.A. was €1,898 million. Its balance sheet was proportionally consolidated in the consolidated financial statements as of December 31, 2002, and the results for the whole year of the Brazilian companies contributed by Telefónica Móviles were recorded in the consolidated statement of operations because this transfer was made on December 27, 2002.

Telefónica de Contenidos Group

In September 2002 all the shares of the Uniprex Onda Cero Group and of Cadena Voz de Radiodifusión, S.A. owned by Telefónica de Contenidos, S.A. were sold to the Antena 3 de Televisión Group, giving rise to gains of €35.82 million. The two companies, which until then had been fully consolidated in the Telefónica Group, were accounted for by the equity method (as part of the Antena 3 de Televisión Group).

In 2002 Mediapark, S.A. carried out a capital increase not subscribed by Telefónica de Contenidos. Therefore, since its holding in this company was reduced to 7.40%, the holding was recorded in the Telefónica Group's consolidated financial statements as of December 31, 2002, as a minority investment.

In April 2002 Telefónica de Contenidos sold 4.11% of its holding in Hispasat, S.A., giving rise to gains of €26.10 million. Telefónica de Contenidos, which owns a 13.23% holding in Hispasat, S.A., continued to account for this company by the equity method in its consolidated financial statements.

In June 2002 Telefónica de Contenidos sold its holding in Prime Argentina, S.A., which owns the Azul Televisión channel, for US\$ 12 million, giving rise to a loss of €162.78 million. This company, which had been accounted for by the equity method in the Telefónica Group's consolidated financial statements, was excluded from consolidation.

Telefónica Internacional Group

In September 2002 the Telefónica Internacional Group sold a 25% holding in the Chilean Group Sonda, S.A. for US\$ 38 million, giving rise to a loss in consolidation of €1.62 million. This sale reduced the Telefónica Internacional Group's ownership interest in Sonda to 35%. This company, which had been fully consolidated, was accounted for by the equity method from September 2002 onwards.

T.P.I. Group

On February 11, 2002, Telefónica Publicidad e Información, S.A. acquired all the shares of T.P.I. Perú, S.A.C., from Telefónica Internacional, S.A. for €36.28 million. The Telefónica Group's effective holding in this company, which continued to be fully consolidated, was reduced from 97.07% to 59.90%.

In December 2002 Iniciativa de Mercados Interactivos, S.A. (I.M.I.) absorbed Adquira Spain, S.L., following which the T.P.I. Group controlled 20% of the absorbing company's capital. I.M.I., which changed its corporate name to Adquira Spain, S.A., was accounted for by the equity method in the Telefónica Group's consolidated financial statements.

In December 2002 Publiguías Holding, S.A., a wholly-owned subsidiary of the Telefónica Publicidad e Información Group, participated in the incorporation of Urge Chile, S.A. by subscribing and paying 59.94 million Chilean pesos relating to 99.99% of this company's capital stock. Urge Chile, S.A. was fully consolidated in the Telefónica Group's consolidated financial statements.

In July 2002 Telefónica Publicidad e Información, S.A., the parent company of the Group, acquired a 9.33% holding in the Spanish company Goodman Business Press, S.A. for €0.98 million. As a result of this acquisition, the parent company controlled all the capital of this company, which continued to be fully consolidated in the Telefónica Group.

Katalyx Group

In April 2002 the wholly-owned subsidiary Adquira, Inc. sold one-half of its 50% holding in Adquira Mexico, Ltd. for a gain of €0.37 million. This company, which had been fully consolidated, was accounted for by the equity method in the Telefónica Group's consolidated financial statements.

On October 30, 2002, Katalyx España, S.L. acquired a 49% holding in Soluciones Tecnológicas para la Alimentación, S.L., as consideration for which it contributed all the shares of Katalyx Food España, S.L. Soluciones Tecnológicas para la Alimentación, S.L. was accounted for by the equity method in the Telefónica Group's consolidated financial statements.

Atento Group

In May 2002 Atento Holding Inc. carried out capital increases at companies that were already investees for an overall amount of €39.69 million. Atento Holding Inc. owned all the shares of the companies in Central America, Puerto Rico, Italy, Venezuela and Mexico, and had a 99.998% holding in the company in Morocco. All these companies continued to be fully consolidated in the Telefónica Group's consolidated financial statements.

Terra Group

In July 2002 Emplaza, S.A. increased capital by €1,421 thousand. In this capital increase, Terra Networks, S.A. acquired the shares required to increase its holding in this company from 50% to 80%. This company, which had been accounted for by the equity method in the Telefónica Group's consolidated financial statements, was fully consolidated.

In 2002 One Travel.com, Inc. increased capital by €4 million. In this capital increase, Terra Networks, S.A. acquired the shares required to increase its holding in this company from 27.8% to 39.6%, and disbursed US\$ 2.02 million in this connection. This company continued to be accounted for by the equity method in the Telefónica Group's consolidated financial statements.

In August 2002 Terra Networks, S.A., through its wholly-owned U.S. subsidiary Lycos, Inc., sold all its holding (44.82%) in Lycos Korea, Inc., obtaining gains in consolidation of €10.62 million. Also, in September 2002 Lycos, Inc. sold its minority holding in the Canadian company Sympatico Lycos, obtaining gains in consolidation of €8.49 million. In December 2002 the Terra Group sold all its holding in Lycos Japan, K.K., incurring a loss on the sale of €2.47 million. All these companies, which had been accounted for by the equity method in the Telefónica Group's consolidated financial statements, were 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, 2003 and 2002, and of the variations therein in 2003 and 2002 is as follows:

Millions of euros

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 and subsidiaries (Argentina)	581.51	—	—	(4.69)	(0.22)	576.60
T. Perú 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
Telefónica Internacional (Spain)	281.66	—	—	—	—	281.66
Telefónica 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 (U.S.A.)	309.49	—	(2.22)	—	—	307.27
Lycos companies (U.S.A.)	286.55	—	—	(207.39)	(13.43)	65.73
One Travel.com, Inc. (U.S.A.)	—	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.Centroamérica 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
	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 (Spain)	5.59	—	—	—	—	5.59
Dts D ^a Tv Digital (Spain)	88.11	—	(88.11)	—	—	—
Antena 3 (Spain)	209.48	63.91	(273.39)	—	—	—
Subsidiaries of Antena 3 T.V., S.A.	—	—	—	—	—	—
Pearson (U.K.)	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 (U.S.A.)	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 goodwill	8,727.69	1,135.82	(414.44)	(895.77)	(108.20)	8,445.10

Millions of euros

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 and subsidiaries (Argentina)	61.25	28.83	—	(3.46)	(0.17)	86.45
T. Perú 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
Telefónica Internacional (Spain)	72.46	14.02	—	—	—	86.48
Telefónica Móviles (Spain)	10.00	6.40	—	—	—	16.40
T. Data España (Spain)	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 (Brazil)	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 (U.S.A.)	244.47	8.12	—	—	0.02	252.61
Lycos companies (U.S.A.)	252.91	5.21	—	(207.39)	(8.28)	42.45
One Travel.com, Inc. (U.S.A.)	—	2.04	—	3.58	—	5.62
Terra Networks, S.A. (Spain)	12.05	3.16	—	—	—	15.21
Emergia Holding, N.V. (Netherlands)	0.18	0.12	—	—	—	0.30
T.Centroamérica 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
	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)	—	—	—
Subsidiaries of Antena 3 T.V. S.A.	—	3.60	(3.60)	—	—	—
Pearson (U.K.)	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 (U.S.A.)	3.58	—	—	(3.58)	—	—
Meditel (Morocco)	—	0.37	—	—	—	0.37
Other companies	5.97	(0.01)	—	(5.99)	—	(0.03)
	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

Millions of euros

Consolidation goodwill	Balance at 12/31/01	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/02
Fully consolidated companies:						
C.T.C. (Chile)	148.98	—	(13.28)	(18.12)	(20.51)	97.07
T. de Argentina and subsidiaries (Argentina)	594.50	—	(4.78)	2.96	(11.17)	581.51
T. Perú Holding (Peru)	49.04	—	—	1.37	—	50.41
Telefónica del Perú (Peru)	281.26	—	—	—	—	281.26
Telefónica Multimedia, S.A.C. (Peru)	10.82	—	—	—	(1.65)	9.17
Telefónica Móviles Chile, S.A. (Chile)	325.54	—	—	—	(58.09)	267.45
Telesp Participações (Brazil)	103.01	—	—	3.51	—	106.52
Cti (U.S.A.)	15.64	—	(14.08)	—	—	1.56
Cointel (Argentina)	484.29	—	—	—	—	484.29
Goodman (Spain)	7.96	0.11	—	0.22	—	8.29
Telefónica Internacional (Spain)	281.66	—	—	—	—	281.66
Telefónica Móviles (Spain)	113.21	12.63	—	—	—	125.84
T. Data España (Spain)	154.96	—	—	—	—	154.96
Atlanet s.p.a. (Italy)	65.39	—	—	(65.39)	—	—
T. Data Brasil (Brazil)	220.68	—	—	—	(92.90)	127.78
Mediaways (Germany)	1,225.66	—	(530.00)	(6.55)	—	689.11
Telefónica Deutschland GmbH (Germany)	—	10.82	—	—	—	10.82
Fieldy Group (Netherlands)	35.84	—	(20.49)	—	(7.26)	8.09
Endemol (Netherlands)	826.20	6.84	—	—	—	833.04
Endemol Group (Netherlands)	311.23	89.98	(18.73)	—	(3.36)	379.12
Atco Group (Argentina)	338.43	—	(32.47)	189.29	(118.01)	377.24
Telefónica Media Argentina (Argentina)	18.81	—	(1.83)	9.72	—	26.70
Atento Perú (Peru)	7.58	—	—	(0.11)	(1.71)	5.76
Atento Brasil (Brazil)	157.44	—	—	—	(24.78)	132.66
Terra Brasil Holding (Brazil)	234.91	—	—	—	(2.41)	232.50
Ordenamiento de Links Especializados, S.L.	12.25	—	(5.43)	—	—	6.82
Terra Networks Mexico (Mexico)	266.26	—	(129.47)	0.75	—	137.54
Terra Chile Holding (Chile)	25.05	—	—	—	—	25.05
Terra Networks Argentina (Argentina)	12.06	—	(2.33)	—	—	9.73
Terra Networks Venezuela (Venezuela)	4.49	—	(2.86)	—	—	1.63
Ifigenia Plus (Spain)	11.17	—	—	—	—	11.17
Terra Networks Colombia (Colombia)	21.53	—	(14.67)	—	—	6.86
Lycos (U.S.A.)	884.37	—	(574.88)	—	—	309.49
Lycos companies (U.S.A.)	727.05	—	(383.45)	39.08	(96.13)	286.55
Bumeran (Spain)	8.13	0.28	(4.09)	—	—	4.32
Terra Networks, S.A. (Spain)	17.78	(0.58)	—	—	—	17.20
Emergia Holding, N.V. (Netherlands)	2.30	49.65	(49.65)	—	—	2.30
Tele Sudeste Celular (Brazil)	174.40	—	(60.43)	(113.97)	—	—
Tele Leste Celular (Brazil)	—	8.26	(6.41)	(1.85)	—	—
Crt Celular (Brazil)	353.08	0.54	(176.81)	(176.81)	—	—
T.Centroamérica Guatemala (Guatemala)	10.02	41.40	—	—	(0.53)	50.89
Telefónica El Salvador (El Salvador)	64.72	19.82	—	—	(9.08)	75.46
Corporativo Del Norte (Mexico)	230.51	0.70	(18.50)	(212.71)	—	—
Corporativo Integral Comunicación (Mexico)	137.86	0.02	(11.03)	(126.85)	—	—
Brasilcel and subsidiaries (Brazil)	—	268.69	—	243.65	—	512.34
Móviles México and subsidiaries (Mexico)	140.40	598.44	—	342.19	(43.87)	1,037.16
I.O.Box (Finland)	233.45	—	(154.47)	(3.25)	—	75.73
Other companies	31.31	5.59	(8.91)	0.30	—	28.29
	9,381.23	1,113.19	(2,239.05)	107.43	(491.46)	7,871.34

Millions of euros

Consolidation goodwill	Balance at 12/31/01	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/02
Companies accounted for by the equity method:						
Venworld (Venezuela)	134.21	—	—	—	—	134.21
Mercador (Brazil)	11.12	—	(6.50)	—	—	4.62
Portugal Telecom (Portugal)	274.12	—	—	(55.25)	—	218.87
Torneos y Competencias (Argentina)	45.10	—	(33.92)	—	—	11.18
Amper (Spain)	5.59	—	—	—	—	5.59
Dts D ^a Tv Digital (Spain)	88.11	—	—	—	—	88.11
Antena 3 (Spain)	209.48	—	—	—	—	209.48
Pearson (U.K.)	479.70	—	(173.38)	(13.33)	—	292.99
Tick Tack Ticket (Spain)	4.15	—	(3.63)	—	—	0.52
Patagonik (Argentina)	7.31	—	—	—	—	7.31
Líderes Entertainment Group (U.S.A.)	20.19	—	(18.18)	—	—	2.01
Atlanet (Italy)	—	—	(59.14)	65.40	—	6.26
Uno-e Bank (Spain)	130.25	—	—	—	—	130.25
One Travel (U.S.A.)	14.12	3.25	—	—	—	17.37
Meditel (Morocco)	—	5.10	—	—	—	5.10
Andalucía Digital Multimedia (Spain)	6.13	—	—	—	—	6.13
Other companies	203.82	—	(40.07)	(96.86)	(5.11)	61.78
Total	1,633.40	8.35	(334.82)	(100.04)	(5.11)	1,201.78
Total goodwill	11,014.63	1,121.54	(2,573.87)	7.39	(496.57)	9,073.12

Millions of euros

Amortization of consolidation goodwill	Balance at 12/31/01	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/02
Fully consolidated companies:						
C.T.C. (Chile)	55.75	8.68	(3.29)	(7.82)	(4.62)	48.70
T. de Argentina and subsidiaries (Argentina)	35.35	29.56	—	0.47	(4.13)	61.25
T. Perú Holding (Peru)	2.11	2.50	—	—	—	4.61
Telefónica del Perú (Peru)	27.44	14.23	—	—	—	41.67
Telefónica Multimedia, S.A.C. (Peru)	3.56	1.00	—	—	(0.64)	3.92
Telefónica Móviles Chile, S.A. (Chile)	66.14	14.54	—	—	(7.58)	73.10
Telesp Participações (Brazil)	9.46	5.43	—	—	—	14.89
Cti (U.S.A.)	0.78	0.78	—	—	—	1.56
Cointel (Argentina)	167.13	21.67	—	—	—	188.80
Goodman (Spain)	0.42	0.42	—	0.22	—	1.06
Telefónica Internacional (Spain)	58.44	14.02	—	—	—	72.46
Telefónica Móviles (Spain)	3.97	6.03	—	—	—	10.00
T. Data España (Spain)	107.25	2.98	—	—	—	110.23
Atlanet s.p.a. (Italy)	4.63	—	—	(4.63)	—	—
T. Data Brasil (Brazil)	5.43	8.30	—	—	0.09	13.82
Mediaways (Germany)	73.66	48.81	—	(1.76)	—	120.71
Telefónica Deutschland GmbH (Germany)	—	0.50	—	—	—	0.50
Fieldy Group (Netherlands)	1.44	0.57	—	—	—	2.01
Endemol (Netherlands)	58.43	42.00	—	—	—	100.43
Endemol Group (Netherlands)	16.80	20.51	—	(0.36)	—	36.95
Atco Group (Argentina)	87.29	7.11	—	223.06	—	317.46
Telefónica Media Argentina (Argentina)	26.32	1.43	—	(24.04)	—	3.71
Atento Perú (Peru)	0.97	0.34	—	(0.17)	(0.20)	0.94
Atento Brasil (Brazil)	14.47	7.42	—	(0.66)	(2.37)	18.86
Terra Brasil Holding (Brazil)	102.13	18.84	—	—	—	120.97
Ordenamiento de Links Especializados, S.L.	5.95	0.87	—	—	—	6.82
Terra Networks Mexico (Mexico)	116.40	20.37	—	0.77	—	137.54
Terra Chile Holding (Chile)	11.38	2.19	—	—	—	13.57
Terra Networks Argentina (Argentina)	9.39	0.34	—	—	—	9.73
Terra Networks Venezuela (Venezuela)	1.24	0.39	—	—	—	1.63
Ifigenia Plus (Spain)	2.74	0.99	—	—	—	3.73
Terra Networks Colombia (Colombia)	4.93	1.93	—	—	—	6.86
Lycos (U.S.A.)	123.88	120.59	—	—	—	244.47
Lycos companies (U.S.A.)	162.29	70.60	—	39.07	(19.05)	252.91
Bumeran (Spain)	3.63	0.69	—	—	—	4.32
Terra Networks, S.A. (Spain)	11.31	0.74	—	—	—	12.05
Emergia Holding, N.V. (Netherlands)	0.06	0.12	—	—	—	0.18
Tele Sudeste Celular (Brazil)	8.17	6.52	(7.22)	(7.47)	—	—
Tele Leste Celular (Brazil)	—	0.56	(0.43)	(0.13)	—	—
Crt Celular (Brazil)	22.32	20.28	(21.30)	(21.30)	—	—
T.Centroamérica Guatemala (Guatemala)	1.22	2.51	—	—	(0.16)	3.57
Telefónica El Salvador (El Salvador)	7.97	4.04	—	—	(1.45)	10.56
Corporativo Del Norte (Mexico)	5.76	8.67	(1.15)	(13.28)	—	—
Corporativo Integral Comunicación (Mexico)	3.44	5.17	(0.69)	(7.92)	—	—
Brasilcel and subsidiaries (Brazil)	—	—	—	28.95	—	28.95
Móviles México and subsidiaries (Mexico)	61.29	19.55	—	21.37	(13.27)	88.94
I.O.Box (Finland)	57.06	18.67	—	—	—	75.73
Other companies	13.45	7.34	(0.02)	1.23	—	22.00
	1,563.25	590.80	(34.10)	225.60	(53.38)	2,292.17

Millions of euros

Amortization of consolidation goodwill	Balance at 12/31/01	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/02
Companies accounted for by the equity method:						
Venworld (Venezuela)	97.04	4.13	—	—	—	101.17
Mercador (Brazil)	1.12	1.05	—	—	1.39	3.56
Portugal Telecom (Portugal)	44.79	8.10	—	—	—	52.89
Torneos y Competencias (Argentina)	8.93	2.26	—	(0.01)	—	11.18
Amper (Spain)	0.94	0.28	—	—	—	1.22
Dts Dº Tv Digital (Spain)	12.24	4.40	—	—	—	16.64
Antena 3 (Spain)	39.49	10.36	—	(0.01)	—	49.84
Pearson (U.K.)	60.06	21.65	—	0.01	—	81.72
Tick Tack Ticket (Spain)	0.10	0.41	—	0.01	—	0.52
Patagonik (Argentina)	0.74	0.36	—	—	—	1.10
Lideres Entertainment Group (U.S.A.)	1.01	1.01	—	(0.01)	—	2.01
Atlanet (Italy)	—	1.63	—	4.63	—	6.26
Uno-e Bank (Spain)	4.34	13.03	—	—	—	17.37
One Travel (U.S.A.)	2.08	1.50	—	—	—	3.58
Meditel (Morocco)	—	—	—	—	—	—
Andalucía Digital Multimedia (Spain)	0.62	5.51	—	—	—	6.13
Other companies	48.94	1.01	(2.32)	14.11	—	61.74
	322.44	76.69	(2.32)	18.73	1.39	416.93
Total accumulated amortization	1,885.69	667.49	(36.42)	244.33	(51.99)	2,709.10
Unamortized consolidation goodwill	9,128.94	454.05	(2,537.45)	(236.94)	(444.58)	6,364.02

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, 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 % of Ownership	Balance at 12/31/03
Terra Network, 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 Publigráficas, 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 (holdings)	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

As of December 31, 2002, 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 % of Ownership	Balance at 12/31/02
Terra Network, S.A.	61.42%	3,399.38	(211.32)	(1,233.85)	—	1,954.21
C.T.C., S.A.	56.36%	726.03	69.11	3.05	—	798.19
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	30.00%	8.22	—	2.02	—	10.24
Impresora y Comercial Publigráficas, S.A.	49.00%	15.78	(4.49)	5.00	—	16.29
Telefónica Argentina, S.A.	1.97%	14.99	1.87	(18.71)	—	(1.85)
Telefónica del Perú, S.A.	1.98%	36.54	(18.29)	0.24	—	18.49
Telefónica Larga Distancia, Inc.	2.00%	1.92	0.01	(0.10)	—	1.83
Telefónica Publicidad e Información, S.A.	40.10%	42.03	(1.95)	30.17	—	70.25
Telesp Participações, S.A.	12.58%	446.74	(12.75)	47.13	—	481.12
Telefónica Móviles, S.A.	7.57%	606.66	(85.79)	(281.94)	—	238.93
Group 3G UMTS Holding, GmbH	42.80%	3,941.68	—	(4,324.12)	—	(382.44)
Telefónica Móviles Argentina, S.A.	2.07%	3.13	(7.92)	(6.93)	—	(11.72)
Telefónica Finance USA	99.99%	2,000.00	—	—	—	2,000.00
Brasilcel (holdings)	50.00%	216.00	—	—	36.05	252.05
Telefónica Móviles México, S.A.	8.00%	149.94	(3.05)	(13.64)	—	133.25
Emergia Holding N.V.	0.00%	—	—	(11.70)	11.70	—
Other companies	—	36.13	(9.76)	7.77	(0.05)	34.09
Total		11,645.17	(284.33)	(5,795.61)	47.70	5,612.93

Variations in minority interests

The variations in minority interests in 2003 were as follows:

Company	Balance at 12/31/02	Capital Contributions and Inclusion of Companies	Income (Loss) for the Year	Variation in Translation Differences	Other Variations	Acquisitions and Capital Reductions	Dividends Paid	Balance at 12/31/03
C.T.C., S.A.	798.19	—	30.87	6.73	15.84	—	(11.81)	839.82
Terra Network, 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
Telefónica 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 Centroamérica 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 (holdings)	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

The variations in minority interests in 2002 were as follows:

Company	Balance at 12/31/01	Capital Contributions and Inclusion of Companies	Income (Loss) for the Year	Variation in Translation Differences	Other Variations	Acquisitions and Capital Reductions	Dividends Paid	Balance at 12/31/02
Celular C.R.T Participacoes, S.A.	155.50	—	32.06	(81.81)	(105.75)	—	—	—
C.T.C., S.A.	1,093.99	—	3.05	(229.30)	(67.74)	—	(1.81)	798.19
Terra Network, S.A.	3,440.66	—	(1,233.85)	(136.40)	(29.50)	(86.70)	—	1,954.21
Fonditel	8.94	—	2.02	—	(0.72)	—	—	10.24
Lola Films, S.A.	1.58	5.40	(2.61)	—	(1.13)	—	—	3.24
Impresora y Comercial Publigráficas, S.A.	14.77	—	5.00	(3.82)	0.34	—	—	16.29
Telefónica de Argentina, S.A.	23.98	—	(18.71)	(7.66)	0.54	—	—	(1.85)
Telefónica del Perú, S.A.	21.47	—	0.24	(2.89)	(0.33)	—	—	18.49
Telefónica del Salvador, S.A.	38.30	—	(4.38)	(2.45)	(27.23)	—	—	4.24
Telefónica Larga Distancia Inc.	1.48	—	(0.10)	0.45	—	—	—	1.83
Telefónica Publicidad e Información, S.A.	56.11	—	30.17	(1.04)	(0.22)	—	(14.77)	70.25
Telesp Participações, S.A.	874.33	—	47.13	(348.84)	(0.01)	—	(91.49)	481.12
Tele Sudeste Celular participaciones, S.A.	102.84	—	5.65	(47.78)	(59.93)	—	—	0.78
Telefónica Móviles, S.A.	521.19	18.50	(281.94)	(56.72)	37.90	—	—	238.93
Group 3G UMTS Holding, GmbH (Note 1)	890.32	3,051.36	(4,324.12)	—	—	—	—	(382.44)
Tele Leste Celular Participações, S.A.	—	—	(1.65)	(49.10)	50.75	—	—	—
Atlanet, S.p.a.	136.87	—	(33.48)	—	(99.79)	—	—	3.60
Endemol Entertainment Holding, N.V.	15.86	0.33	4.07	(0.38)	(0.04)	(17.31)	(0.56)	1.97
Telefónica Móviles Argentina, S.A.	(4.57)	—	(6.93)	(0.22)	—	—	—	(11.72)
Telefónica Centroamérica Guatemala, S.A.	(2.13)	—	(3.46)	1.00	4.71	—	—	0.12
Movitel del Noroeste, S.A.	6.10	—	(0.25)	(0.81)	(5.34)	—	—	(0.30)
Emergia Holding N.V.	12.02	—	(11.70)	(0.36)	0.04	—	—	—
Telefónica Finance USA	—	2,000.00	—	—	—	—	—	2,000.00
Telefónica Móviles México, S.A.	—	166.13	(13.64)	(19.24)	—	—	—	133.25
Brasilcel (holdings)	—	82.92	—	—	169.13	—	—	252.05
Other companies	23.94	1.01	11.82	(3.14)	(8.38)	(4.32)	(0.49)	20.44
Total	7,433.55	5,325.65	(5,795.61)	(990.51)	(142.70)	(108.33)	(109.12)	5,612.93

EXHIBIT V
DEBENTURES AND BONDS

The detail of the debentures and bonds outstanding as of December 31, 2003, and of the main features thereof is as follows (in millions of euros):

Telefónica and instrumentality companies	Currency	Interest Rate %	Maturing in					Subsequent Years	Total	
			2004	2005	2006	2007	2008			
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	—	66.79	—	—	—	—	66.79	
FEBRUARY 1990 SERIES F	Euros	12.58	—	—	—	—	—	7.24	7.24	
DECEMBER 1990	Euros	13.58	—	629.77	—	—	—	—	629.77	
OCTOBER 2004 C	Euros	8.25	69.24	—	—	—	—	—	69.24	
APRIL 1999	Euros	4.50	—	—	—	—	—	500.00	500.00	
JUNE 1999	Euros	2.65	—	—	—	—	—	300.00	300.00	
JULY 1999 zero-coupon	Euros	6.37	—	—	—	—	—	39.48	39.48	
MARCH 2000	Euros	4.58 (*)	—	—	—	—	—	50.00	50.00	
APRIL 2000	Euros	5.63	—	—	—	500.00	—	—	500.00	
Debentures subtotal:			69.24	704.78	—	500.00	—	900.48	2,174.50	
EMTN ISSUE	Euros	Libor+0.07	74.82	—	—	—	—	—	74.82	
MARCH 1998	Euros	4.84	—	—	—	—	420.71	—	420.71	
EMTN ISSUE	JPY	1.23	45.91	0	—	—	—	—	45.91	
GLOBAL BOND	USD	7.35	—	989.71	—	—	—	—	989.71	
GLOBAL BOND	USD	7.75	—	—	—	—	—	1,979.40	1,979.40	
GLOBAL BOND	USD	8.25	—	—	—	—	—	989.71	989.71	
GLOBAL BOND	Euros	6.13	—	—	1,000.00	—	—	—	1,000.00	
EMTN ISSUE	Euros	4.90	39.50	—	—	—	—	—	39.50	
EMTN ISSUE	Euros	Euribor+0.70	1,000.00	0	—	—	—	—	1,000.00	
EMTN ISSUE	Euros	5.12	—	—	1,000.00	—	—	—	1,000.00	
EMTN ISSUE	Euros	0.15	—	50.00	—	—	—	—	50.00	
EMTN ISSUE	Euros	Eonia+0.30	80.00	—	—	—	—	—	80.00	
EMTN ISSUE	Euros	Eonia+0.47	—	100.00	—	—	—	—	100.00	
EMTN ISSUE	Euros	5.875%	—	—	—	—	—	500.00	500.00	
EMTN ISSUE	Euros	5.125%	—	—	—	—	—	1,500.00	1,500.00	
EMTN ISSUE	Euros	BNP EONIA 01+	—	—	—	—	—	—	—	
		23 bp	—	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	3m Euribor + 0.14	—	100.00	—	—	—	—	100.00	
EMTN ISSUE	Euros	3m Euribor + 0.18	—	—	200.00	—	—	—	200.00	
Bonds subtotal			1,240.23	1,389.71	2,300.00	—	420.71	4,969.11	10,319.76	
Total issues			1,309.47	2,094.49	2,300.00	500.00	420.71	5,869.59	12,494.26	

(*) The interest rate used (which is floating and set annually) is that of a 10-year pound sterling swap interest rate multiplied by 1,0225.

(**) Structured issue with a final rate of 3-month EUR + 40 bp.

Foreign operators	Currency	Interest Rate %	Maturing in					
			2004	2005	2006	2007	2008	Subsequent Years
Debentures and bonds:								
Yankee Bonds	USD	7.63	—	—	148.23	—	—	148.23
Yankee Bonds	USD	8.38	—	—	157.95	—	—	157.95
Eurobonds	Euros	5.43	130.98	—	—	—	—	130.98
Series F	UF	6.00	1.61	1.61	1.61	1.61	1.61	12.06
Series K 1998	UF	6.75	0.17	0.85	1.53	2.22	2.90	82.35
CTC CHILE:			132.76	2.46	309.32	3.83	4.51	94.41
Bonds 1 st Program T. Perú (1)	New Soles	VAC+6.94	—	—	24.83	—	—	24.83
Bonds 1 st Program T. Perú (2)	New Soles	VAC+7.00	—	—	—	—	—	10.80
Bonds 2 nd Program T. Perú (3)	New Soles	VAC+6.19	—	—	23.55	—	—	23.55
Bonds 2 nd Program T. Perú (4)	New Soles	6.38	3.83	—	—	—	—	3.83
Bonds 2 nd Program T. Perú (5)	New Soles	VAC+6.25	—	—	—	2.86	—	2.86
Bonds 2 nd Program T. Perú (6)	New Soles	7.75	2.17	—	—	—	—	2.17
Bonds 2 nd Program T. Perú (7)	USD	4.38	—	27.71	—	—	—	27.71
Bonds 2 nd Program T. Perú (7-Series B)	USD	4.00	—	9.48	—	—	—	9.48
Bonds 2 nd Program T. Perú (8)	New Soles	6.50	—	17.14	—	—	—	17.14
Bonds 2 nd Program T. Perú (8-Series B)	New Soles	6.19	—	3.43	—	—	—	3.43
Bonds 2 nd Program T. Perú (9)	USD	2.44	—	16.72	—	—	—	16.72
Bonds 3 rd Program T. Perú	New Soles	VAC+5	—	—	—	—	11.45	11.45
Bonds 6 th Program T. Perú	New Soles	5.19	—	16.00	—	—	—	16.00
Bonds 7 th Program T. Perú	New Soles	7.9375	—	—	—	14.44	—	14.44
Bonds 8 th Program T. Perú	USD	3.81	—	—	—	—	13.34	13.34
Bonds 9 th Program T. Perú	USD	3.13	—	—	15.84	—	—	15.84
Telefónica del Perú:			6.00	90.48	48.38	18.70	14.44	35.59
Marketable debentures	USD	11.88	62.55	—	—	—	—	62.55
Marketable debentures	USD	9.13	—	—	—	99.48	—	99.48
Marketable debentures	USD	9.79	—	—	56.51	—	—	56.51
Marketable debentures August 2003	USD	11.88	—	—	150.20	—	—	150.20
Marketable debentures August 2003	USD	9.12	—	—	—	—	174.20	174.20
Marketable debentures August 2003	USD	8.85	—	—	—	—	117.30	117.30
Marketable debentures August 2003	ARS	10.38	—	—	—	—	0.02	0.02
TASA			62.55	—	56.51	150.20	99.48	291.52
Marketable debentures			—	—	5.98	—	—	5.98
CEI			—	—	5.98	—	—	5.98
Series A 1997	USD	8.85	178.15	—	—	—	—	178.15
Series B 1997	ARP	10.38	47.29	—	—	—	—	47.29
Cointel			225.44	—	—	—	—	225.44
Marketable debentures	BRL	104.60	—	—	—	69.44	—	69.44
Marketable debentures	USD	6.75	59.38	—	—	—	—	59.38
Brasilcel			59.38	—	—	69.44	—	128.82
Total issues			486.13	92.94	420.19	172.73	187.87	421.52
Consolidation adjustments			(143.09)	(18.32)	—	(3.28)	—	(49.73)
Total Group issues			1,652.51	2,169.11	2,720.19	669.45	608.58	6,241.38
								14,061.22

The detail of the maturities and redemption values of the zero-coupon bonds and debentures as of December 31, 2003, is as follows (in millions of euros):

Zero-coupon Bonds and Debentures (Issue value + Accrued Interest at 12/31/03)	Redemption Date	Redemption Rate	Book Value	Redemption Value
Debentures				
FEBRUARY 1990 SERIES E	02/26/05	613.338%	66.79	76.79
FEBRUARY 1990 SERIES F	02/26/10	1,069.470%	7.24	15.04
DECEMBER 1990	12/28/05	675.000%	629.77	811.37
JULY 1999	07/21/29	637.638%	39.48	191.29
Total issues			743.28	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, 2003, is as follows:

Millions

Type of Risk	Equivalent euro value	Group Receives		Group Pays	
		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
Exchange rate 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
Forwards	1,378.52				
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 Amounts
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
Exchange rate 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
Stock options	713.63	
Subtotal	6,952.45	
Total	30,915.29	

Note: The stock 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 type of derivative, of the notional values of the derivatives arranged by the Group as of December 31, 2002, is as follows:

Millions

Type of Risk	Equivalent euro value	Group Receives		Group Pays	
		Value	Currency	Value	Currency
Euro interest rate swaps	5,025.36				
—from fixed to floating	1,348.92	1,348.92	EUR	1,348.92	EUR
—from floating to fixed	2,713.11	2,713.11	EUR	2,713.11	EUR
—from floating to floating	963.33	962.95	EUR	963.33	EUR
Cross-currency swap	8,493.29				
—from fixed to floating	2,472.85				
USD/USD	2,462.10	2,582.00	USD	2,582.00	USD
BRL/BRL	10.75	39.85	BRL	39.85	BRL
—from floating to fixed	5,520.53				
USD/USD	5,363.15	5,624.33	USD	5,624.33	USD
GBP/GBP	122.98	80.00	GBP	80.00	GBP
MXN/MXN	34.40	372.00	MXN	372.00	MXN
—from floating to floating	499.91				
USD/USD	476.78	500.00	USD	500.00	USD
BRL/BRL	23.13	85.70	BRL	85.70	BRL
Cross-currency swap	16,096.81				
—from fixed to fixed	687.23				
EUR/USD	193.28	194.39	EUR	202.69	USD
JPY/USD	80.64	8,816.00	JPY	84.57	USD
USD/EUR	70.61	65.00	USD	70.61	EUR
USD/JPY	132.29	136.00	USD	16,456.00	JPY
USD/BRL	116.97	180.00	USD	433.43	BRL
BRL/USD	93.44	363.28	BRL	98.00	USD
—from fixed to floating	1,794.67				
EUR/USD	101.08	100.00	EUR	106.00	USD
JPY/EUR	113.90	12,400.00	JPY	113.90	EUR
JPY/USD	129.68	16,456.00	JPY	136.00	USD
JPY/BRL	77.99	14,275.02	JPY	289.00	BRL
USD/EUR	119.58	109.00	USD	119.58	EUR
USD/BRL	1,252.42	1,720.72	USD	4,640.69	BRL
—from floating to fixed	1,791.40				
EUR/JPY	49.84	56.95	EUR	6,200.00	JPY
EUR/BRL	77.77	96.99	EUR	288.17	BRL
EUR/MAD	32.70	33.76	EUR	349.09	MAD
USD/EUR	1,357.18	1,247.73	USD	1,357.18	EUR
USD/BRL	39.84	57.00	USD	147.62	BRL
USD/PEN	81.14	85.00	USD	299.09	PEN
USD/MXN	41.64	45.00	USD	450.33	MXN
BRL/USD	111.29	427.17	BRL	116.70	USD
—from floating to floating	11,823.51				
EUR/USD	5,955.34	6,025.88	EUR	6,245.36	USD
EUR/GBP	384.32	387.08	EUR	250.00	GBP
JPY/EUR	282.00	30,000.00	JPY	282.00	EUR
USD/EUR	4,865.52	4,560.34	USD	4,865.52	EUR
USD/MXN	336.33	362.50	USD	3,637.33	MXN
Forwards	1,591.84				
USD/EUR	38.67	37.61	USD	38.67	EUR
EUR/USD	61.95	65.37	EUR	64.97	USD
USD/CLP	39.46	41.26	USD	29,737.41	CLP
USD/UFC	1,005.61	1,119.40	USD	45.26	UFC
USD/PEN	446.14	451.83	USD	1,644.57	PEN
Subtotal	31,207.30				

Notional amounts of structured products with options	Euros	Notional Amounts	
Interest rate options	4,912.72		
— Caps & Floors	3,705.14		
US DOLLAR	1,695.40	1,777.96	USD
EURO CURRENCY	2,009.74	2,009.74	EUR
— Swaptions	1,128.25		
US DOLLAR	1,048.92	1,100.00	USD
EURO CURRENCY	79.33	79.33	EUR
— Interest rate options	79.33	79.33	EUR
Exchange rate options	411.96		
USD/BRL	15.73	16.50	USD
USD/MXN	286.07	300.00	USD
BRL/USD	32.39	120.00	BRL
BRL/EUR	77.77	288.17	BRL
Equity swaps	377.05		
Subtotal	5,701.73		
Total	36,909.02		

The detail, by maturity, of the hedging transactions arranged as of December 31, 2003, is as follows:

<i>Millions of euros</i>	Amount	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
With underlying instrument					
Promissory notes					
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	—
Exchange rate 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					
Swaps	323.95	323.95	—	—	—
Stock options	713.63	713.63	—	—	—
Total	30,915.28	15,850.26	4,990.12	3,830.84	6,244.06

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.

The detail, by maturity, of the hedging transactions arranged as of December 31, 2002, is as follows:

Millions of euros

	Amount	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
With underlying instrument					
Promissory notes					
Loans	23,409.96	5,850.00	12,229.59	2,583.20	2,747.17
In national currency	12,163.29	1,656.69	6,248.78	2,181.57	2,076.25
In foreign currencies	11,246.67	4,193.31	5,980.81	401.63	670.92
MTN debentures and bonds	9,574.61	5,305.94	2,931.18	138.27	1,199.22
In national currency	509.74	—	149.64	—	360.10
In foreign currencies	9,064.87	5,305.94	2,781.54	138.27	839.12
Liability	3,547.40	1,160.59	715.17	—	1,671.64
Swaps	491.17	81.14	238.39	—	171.64
Exchange rate options	125.89	125.89	—	—	—
Interest rate options	2,930.34	953.56	476.78	—	1,500.00
Forward	—	—	—	—	—
Shares	377.05	377.05	—	—	—
Total	36,909.02	12,693.58	15,875.94	2,721.47	5,618.03

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

MANAGEMENT REPORT OF THE TELEFÓNICA GROUP 2003

INITIAL SUMMARY

The Telefónica Group's earnings increased significantly in 2003 despite the adverse effect of exchange rates (as a result of the drop in the value of the U.S. dollar with respect to the euro), the greater pressure brought to bear by competition and the commercial drive associated with the attraction of wireless and ADSL customers.

In this regard, operating revenues, which improved progressively throughout 2003, reached levels at year-end that were similar to those for 2002, despite the impact of exchange rates, without which they would have risen by 6.5%. This factor combined with the expense containment policy implemented made it possible to report EBITDA growth of 7.5%, which disregarding the exchange rate effect would have been 13.5%, which, together with the decrease in the depreciation and amortization expense as a result of the lower investments made in recent years, gave rise to a 25.8% increase in operating income. The rise in operating income and the positive trend in nonoperating results, enabled the Group to report net income of €2,203 million in 2003, as compared with the loss incurred in 2003, basically as a consequence of the asset write-downs recorded. This net income in 2003 would be in line with that obtained in 2002 if the impact of nonrecurring transactions last year were eliminated.

The process of rationalizing and optimizing investments in property and equipment and intangible assets continued in 2003. Additions of assets of this nature amounted to €3,705.8 million in 2003, 5.6% less than in 2002, thanks to the Group's policy of reducing the volume of assets in order to enhance profitability. The wireless telephony business is the only business to have increased its capital expenditure in 2003, due to the deployment of the GSM networks in Mexico and Chile. Expenditure control, the increase in revenues and greater cost efficiency led to a rise in cash flow in 2003.

The Telefónica Group had to manage its business in a difficult scenario characterized by a slowdown in the growth of the market for traditional services, the economic and social situation in certain of the countries in which it operates, the higher pressure exerted by competitors and certain decisions taken by the regulator. In order to address this situation, Telefónica focused its management priorities on strengthening its position in the key markets in order to take advantage of the increase in the number of customers (centering itself mainly on wireless telephony and broadband services), proactively manage the situation in Latin America, reinforce a more commercial corporate model, improve operating efficiency, continue with the expense and investment containment policy and restructure the businesses that had not achieved the level of development foreseen, focusing mainly on the key businesses.

This strategy enabled Telefónica to achieve a prominent position in the industry, where it remained leader in the

Spanish- and Portuguese-speaking wireline and wireless telephony markets, with almost 99 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. As a result of this situation, the Company can make a greater commitment to its stockholders by improving their returns and establishing an attractive remuneration policy for the coming years.

In the future, the Group's strategy will continue to focus on achieving sustainable cash flow growth and increasing the returns on capital invested, for the purpose of being able to apply as basic action principles the implementation of a corporate model that is more commercial and more customer-oriented, the shifting of the Company towards a more flexible and less complex business model as a result of greater operating efficiency and lower capital intensiveness by optimizing investments and, lastly, growth based mainly on three cornerstones, namely wireless telephony, broadband services and wireline telephony in Latin America.

ORGANIZATION BY LINE OF BUSINESS

The Group's strategy described in the preceding section requires an organization that places greater emphasis on the key businesses, thereby enabling the Group to attain a more flexible asset and cost structure.

To this end, certain measures were implemented in 2003 with a view to having the new organizational model (whereby the Lines of Business are simplified) fully operational in 2004. The measures taken in 2003 include most notably the approval in September of the inclusion of the business of Telefónica Empresas (Data, TIWS and Solutions) in the wireline businesses in Spain and Latin America, together with the restructuring of Telefónica de Contenidos and Admira. December saw the completion of this new organization, which also entails a greater involvement of Terra in the wireline telephony businesses, a new Subsidiaries unit encompassing TPI, Endemol and Contenidos and a Corporate Center with a more streamlined structure.

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 2003.

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.

TOTAL CUSTOMERS

At 2003 year-end the Telefónica Group had a total of 98.8 million customers, up 13.0% on 2002 year-end.

After having stepped up its commercial drive in the latter part of the year in order to bring forward its harnessing of the growth in the market, Telefónica Móviles was managing 52 million customers, which makes it the fifth largest group in

the world in terms of customers while at the same time consolidating its position as the leader in the Spanish- and Portuguese-speaking market. In Spain it leads the market with 19.7 million customers and continues to be a pioneer in new technologies and services. In Brazil it has broken the 20-million-customer barrier, as a result of its commercial efforts and its position in technological solutions applied to its range of products and services. Equally, Telefónica has significantly strengthened its competitive position in Mexico and now has 2.4 million customers, as compared with the 1.4 million customers with which it ended 2002.

In the wireline telephony business, Telefónica de España had 17.4 million traditional lines in service at the end of 2003, a net loss of 325 thousand lines, which is lower than the net loss witnessed in 2002. Also, as of December 31, 2003, Telefónica in Latin America was managing 20.9 million basic telephone lines, a slight drop with respect to 2002 year-end as a result of the economic and social situation in Latin America.

In the ADSL market there were more than 2.6 million connections, as compared with 1.5 million one year ago, due mainly to the net gain of 703 thousand in Spain in 2003 to 1.7 million connections, Brazil, which ended the year with 484 thousand connections and Telefónica Deutschland, which has 227 thousand connections. 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, for which purpose specific services and content are being developed.

Also, the Group has 5.4 million wireline and wireless telephony customers through CanTV (Venezuela) and 363 thousand pay-TV customers in Peru.

INTERNATIONAL EXPANSION

The Telefónica Group is consolidating its position as a long-term investor in Latin America, thereby contributing to the economic and social development of the region. The investments made in this connection include most notably those in Brazil and Mexico.

In Brazil, Brasilcel, which has operated since March under the unified Vivo brand name throughout the country, concluded in April the acquisition of 61.10% of the common shares carrying voting rights of the Brazilian wireline telephony company Tele Centro Oeste Celular Participações, S.A. ("TCO") by Telesp Celular Participações, S.A.; TCO has been fully consolidated since May 1, 2003, in the consolidated financial statements of Brasilcel. With this acquisition, the Brazilian joint venture of Telefónica Móviles and Portugal Telecom has consolidated its leadership of the Brazilian wireless telephony market, and at 2003 year-end it had 20.7 million customers, 50% more than in December 2002, with an estimated average market share in the areas in which it operates of 56.5%, including the key markets of São Paulo, Rio de Janeiro and Brasilia, which is considerably higher than the share of its most direct Brazilian competitors.

In 2003 Telefónica improved its competitive position in the Long-Distance business in Brazil from São Paulo, and achieved an estimated market share at year-end of around 88% in

intrastate national long-distance calls, of 51% in interstate calls and of 39% in international calls, services launched in mid-2002. Also, in 2003 the Telefónica 15 dialing code started to be used for long-distance communications originated in any city in Brazil, signifying that Telefónica's long-distance service is now available throughout Brazil.

In Mexico, Telefónica Móviles, the second wireless telephony company in the country, witnessed important milestones in 2003, from both the commercial and network infrastructure standpoints. In April it announced the unification of all its operations under the Telefónica MoviStar brand name, and the new GSM network was deployed in record time, permitting the commercial launch of GSM services in May in the five most important Mexican cities. The efforts made throughout 2003 made it possible to significantly increase the coverage of the GSM network to 96 cities in December 2003. In addition, progress was made in the expansion of the capillarity of the distribution network, and the number of POS in Mexico almost trebled with respect to those existing at the beginning of the year to over 6,200.

OTHER RELEVANT MATTERS

Spanish private television legislation did not permit companies to own holdings in two television concession-holder companies, which was the case of the Telefónica Group with its ownership interests in Sogecable, S.A. and Antena 3 de Televisión, S.A. In order to make the divestment of Antena 3 TV, the Board of Directors of Telefónica S.A. decided to accept the offer tendered by the Planeta Group for 25.1% of the capital stock of Antena 3. Also, on April 11, 2003, the Stockholders' Meeting of Telefónica S.A. approved the distribution of a dividend of up to 30% of the capital stock of Antena 3 owned by Telefónica. This distribution was subject to the admission to listing of the shares of Antena 3, which commenced on October 29, 2003. Subsequently, the remaining 4.17% of the capital stock still owned by Telefónica plus the small amounts that could not be distributed as a dividend were sold, at which time the Telefónica Group ceased to be a stockholder of Antena 3.

2003 was also the year of the integration of the two satellite television platforms (Canal Satélite Digital and Vía Digital), giving rise to the leading operator in the Spanish pay TV market, under the Digital+ brand name. On July 2, 2003, the capital increase at Sogecable aimed at the stockholders of Vía Digital was carried out to enable the shares of the two companies to be exchanged. Following this transaction, the Telefónica Group owned 22.23% of the shares of Sogecable. It subsequently acquired a further 1.6% to bring its percentage of ownership at 2003 year-end to 23.83%. Under the agreements between the relevant parties, Telefónica de Contenidos will have its voting rights at Sogecable limited to the same level as those of the other major stockholders of the new platform.

In May the Board of Directors of Telefónica approved the launch of a tender offer in cash for all the shares of Terra. Telefónica obtained the backing of the stockholders owning 33.6% of the shares of Terra Networks, thereby guaranteeing it title to 71.97% of the company's capital stock. In December 2003 the Board of Directors of Terra Networks, S.A. approved

the acquisition of 4.41% of the capital stock owned by Citibank N.A. as the agent bank for the stock option plans assumed by the company as part of the integration of Lycos, Inc. Following the acquisition, Telefónica S.A. owned 75.29% of the effective capital stock of Terra.

In accordance with the Telefónica Group's policy of maximizing operating efficiency and improving productivity, Telefónica de España agreed with the labor union representatives the application of a Labor Force Reduction Plan that would guarantee the required level of competitiveness of the Company. This Plan will be implemented over a period of five years (2003/2007) and envisages up to 15,000 voluntary redundancies, of which there had been 5,489 by 2003 year-end.

Telefónica Móviles, T-Mobile International and Telecom Italia Mobile announced an agreement to forge a strategic alliance (to which Orange subsequently also became a party) that will enable them to offer customers in all the countries in which they have a presence common, higher-quality products and services, and to strengthen the partners' capacity to compete in international markets. The signatories will develop unified solutions that combine the three companies' technological and commercial strengths.

Regulatory environment

In 2003 the European Commission continued with the regulatory framework update process that it had initiated in 2002, and passed various pieces of legislation, such as the list of relevant markets, which will make it possible to progress towards a less regulated scenario.

In Spain the new General Telecommunications Law was passed in order to transpose the new European legislation into Spanish legislation. Also, the Telefónica de España rate rebalancing process continued through an increase in the monthly charge and a reduction in the rates for services included in the price cap.

The Spanish Government's Standing Committee for Economic Affairs approved the rate framework for 2004 and 2005. In 2004 the monthly charge will remain outside the price cap and Telefónica de España can market packages and discount plans merely by notifying the competent authorities in advance.

Other matters affecting Telefónica de España are the modification of the Reference Interconnection Offer (increase in interconnection prices by capacity and a reduction of interconnection prices by time), the transformation of the State Contract into the related licenses and authorizations, the process to replace TRAC with technologies that permit functional access to the Internet which has already started, the failure to establish a Universal Service Financing Fund, although in its resolution in this connection the Telecommunications Market Commission (CMT) states that in the future the financing mechanisms could be put into practice and, lastly, public authorities broadband infrastructure financing initiatives.

Noteworthy as regards wireless telephony were the negotiations with the Ministry of Science and Technology to replace the guarantees relating to UMTS with a floating

guarantee; an agreement was also reached whereby the wireless operators undertake to improve the quality and coverage of the service and the Ministry undertook to work towards eliminating the difficulties that the operators are experiencing in deploying their infrastructure. Also worthy of mention is the process initiated by the CMT aimed at reducing the prices for the termination of calls in the wireless operators' networks.

It should be noted in relation to the audiovisual market that the agreement for the merger of the Canal Satélite Digital and Vía Digital digital platforms was definitively approved by the Government.

The regulatory measures in Germany, Austria, Italy and Switzerland focused on achieving an appropriate degree of flexibility in the marketing of the spectrum acquired with the UMTS licenses, in order to maximize their value. In Austria, the new Telecommunications Law made it possible to trade the spectrum and, accordingly, the Regulator approved the agreement for the sale of 3G Mobile by Telefónica Móviles to Mobilkom Austria and in Italy, the new Telecommunications Law also provides for spectrum trading and, therefore, contacts and negotiations are currently under way for its sale.

In Argentina, the regulatory situation was conditioned by numerous political changes and changes in the telecommunications regulators. Wireline telephony rates remain frozen and there was an initial increase in the price of calls terminated in wireless networks. The "economic emergency" situation has been extended to December 31, 2004, until which date the Government can renegotiate its contracts with the telecommunications operators. A new Telecommunications Law is currently being drafted, together with a new Public Services Law, which will give rise to changes in the future regulatory framework.

A salient event in Brazil was the initiation, through a Public Consultation made by the Regulator ANATEL, of the process of renewing the Concession Agreement for the period from 2006 to 2020, since the current Agreement expires on December 31, 2005. The adjustment of wireline telephony rates to date remains in litigation due to disagreements between ANATEL, the Government and the Judiciary in relation to the index to be used as the reference for updating them.

In Chile, the proceedings relating to the appeal filed by Telefónica against the State continued. The appeal was filed against the 1999-2004 Rate Decree, which reduced voice telephony access prices by 73%. Also, a new ratemaking framework for the period from 2004 to 2009 is being defined.

In Mexico work commenced on the reform of the Federal Telecommunications Law, the new features of which would include the strengthening of the Regulator COFETEL and the establishment of a social welfare coverage fund.

In Peru, following various attempts by certain Congressmen to have the basic monthly subscription charge eliminated, Congress initially shelved the case, although proposals are still being made in this connection. Telefónica has made an undertaking to the Government to enable more people to access the service, for which it has launched new rate plans,

under which the monthly charged and free minutes are being marketed jointly, thereby reducing prices. Also noteworthy was the initiation of the process to extend Telefónica de Perú's Concession Agreement, for which a term ending in 2024 has been requested.

In Morocco, work began on the review of the Maroc Télécom Interconnection Catalog. Also, the Regulator authorized Méditel to review its coverage obligations based on the new market situation, and the Government Council approved a new Telecommunications Law, which envisages significant reductions in the economic contributions that the operators have to make to the State. This Law has yet to be approved by the Council of Ministers and Parliament.

Share performance

The Telefónica share price climbed by 43.2% in 2003, well above the 19.0% rise experienced by the European telecommunications industry as a whole. The sound performance of the markets in general and the improved situation in Latin America contributed to the increase. The solidity of Telefónica's balance sheet, the Company's vocation for growth and the stockholder remuneration policy established for the next three years, placed the Group in seventh place in terms of stock market capitalization in the world ranking of telecommunications operators. By year-end, Telefónica had climbed three places with respect to 2002, with a stock market capitalization of €57,687 million.

INFORMATION ON THE LINES OF BUSINESS

Wireline telephony in Spain

In 2003 the Telefónica Group's operating revenues in Spain amounted to €10,217.4 million, representing a slight drop of 0.5% with respect to the previous year. This decrease was due chiefly to the shrinkage of the voice consumption market, which gave rise to a 3.6% drop in revenues from traditional services at the operator with respect to 2002. Conversely, Internet and broadband services grew (by 32.3%), reflecting the excellent evolution of ADSL, which (including wholesale ADSL) now contributes more than 7% of the operating revenues of Telefónica de España.

The Telefónica de España Group's operating expenses amounted to €5,795.6 million in 2003, down 1.2% from 2002. The decrease was due to a fall in procurements which reflected the effect of the price reductions for interconnections with wireless operators, the lower expenses incurred in the purchase of equipment for sale, and the containment of personnel expenses as a result of the Labor Force Reduction Plan agreed on with the workers' representatives.

The Labor Force Reduction Plan, which forms part of the strategy aimed at achieving operating efficiency and increased productivity, has a total term of five years and will lead to redundancies of up to 15,000 people. The Parent Company's productivity ratio at 2003 year-end was 541.9 equivalent lines per employee, an improvement of 17.8% with respect to 2002, since in the second half of the year 5,489 employees took voluntary redundancy. As a result, the Telefónica Group's headcount in Spain was 36,586 employees as of December 31, 2003, a reduction of 13.2% in comparison with 2002 year-end.

In 2003 the Telefónica de España Group's EBITDA stood at €4,534.2 million, an increase of 0.4% with respect to 2002.

The Telefónica de España Group's net income amounted to €178.1 million, as a result of the provision recorded for the Labor Force Reduction Plan, which was partially offset by the gains obtained under the Efficiency and Real Estate Divestment Plan.

In operating terms, the equivalent lines in service amounted to 19.1 million at 2003 year-end (year-on-year growth of 2.0%). Noteworthy was the strong performance of ADSL, which grew by 73.5%. Also, the loss of traditional lines (BTN and ISDN) slowed, with a net loss of 334,299 lines compared with the loss of 492,793 lines in 2002. Preassigned numbers rose to 2.3 million, of which 91.4% are globally preassigned lines.

The volume of traffic through the network totaled 138,174 million minutes in 2003, down by 3.6% from 2002. This decrease was due to a 12.6% drop in outgoing traffic with respect to the preceding year to 84,180 million minutes, since incoming traffic increased by 14.8% to 53,993 million minutes.

In November 2003 Telefónica de España launched "Combinados", an innovative product that integrates for the first time the monthly charge for the line with flat and semi-flat rates for voice consumption. This product, which has been very well received by the market, will constitute one of the main strategies used by Telefónica de España to revitalize the voice business.

Also, in 2003 Telefónica de España continued to develop Internet and broadband services, with a firm commitment to the deployment of ADSL, which required a commercial drive the result of which is reflected in the 1.6 million connections to this service at 2003 year-end, of which 1.1 million relate to retail ADSL. In addition to this sound performance of ADSL access, a broad range of value added services was successfully introduced for both residential customers and companies, which will constitute an important source of growth for the future.

Wireline telephony in Latin America (Telefónica Internacional)

2003 in Latin America was marked by the 16.5% drop in value of the U.S. dollar with respect to the euro, which meant that the value of all the currencies in the countries in which the Group operates in Latin America, except for the Chilean peso, fell back against the euro, which had a significant effect on the financial statements of this line of business.

Telefónica Latinoamérica's operating revenues in Latin America amounted to €6,377.1 million at year-end, a year-on-year decrease of 8.3%. However, disregarding the exchange rate effect, there was year-on-year growth of 8.4%, attributable mainly to Telesp and TASA. Telefónica del Perú achieved slight revenue growth despite the launch of the new rate plans, which led to a drop in average rates. Lastly, CTC's revenues were affected by the contraction of the long-distance market and its replacement by the wireless market.

Telefónica Latinoamérica ended 2003 with EBITDA of €3,065.3 million, down 8.4% due to the impact of exchange rates. However, if this effect is ignored, it would have

increased by 8.6% as a result of the increase in revenues, which was partly offset by the increase in operating expenses as a result of the higher spending on procurements, due mainly to the evolution of interconnection and outside service expenses. Noteworthy was the drop in personnel expenses as a result of the decrease in the headcount of approximately 2,600 employees, due principally to the restructuring of Telesp. Also, once again there was a reduction in the period provision for bad debts.

At 2003 year-end Telefónica Latinoamérica was managing 21.6 million lines, including basic telephony and broadband. The number of basic telephony lines (20.9 million) dropped slightly in 2003.

In 2003 Telefónica Latinoamérica stepped up its ADSL Internet and broadband business expansion policy, and at year-end it had almost 770,000 users, representing an increase of 69% over 2002.

Telefónica Latinoamérica continued to adapt its operators to the new competitive environment by outsourcing activities. In this connection, it should be noted that Telesp has shed 25% of its labor force, thereby pushing up the lines/employee ratio to 1,792, one of the highest in the world. Following the labor force reduction plan implemented by Telefónica del Perú in 2002, under which 580 employees left the company, a Constitutional Court judgment ordered the company to rehire most of these employees in 2003.

The most salient matters relating to each operator are as follows:

In 2003 Telesp consolidated its position in the Long-Distance market from São Paulo, achieving estimated market shares at the end of December of around 88% in the Intrastate Domestic Long-Distance market, 51% in the Interstate market and 39% in the International Long-Distance market. Also, the traditional plant was reduced by 1.7%, with controlled bad debt levels, as a result of the various measures taken in this connection during the year. In 2003 the operator intensified its broadband expansion plan and achieved more than 484,000 users at the end of December, up 45.3% on 2002 year-end. In the narrow band business, in July Telesp started to offer free ISP services (i-Telefónica), and it is now the second ISP with an estimated market share of 25%.

Telesp also maintained its management focus on increasing productivity, achieving a lines/employee ratio that was 32.8% higher than in 2002, which is the result of internal service outsourcing and the corporate restructuring process, thanks to which the company had approximately 7,000 permanent employees at 2003 year-end. In 2003 the operator obtained more revenues, as a result of both rate increases and the expansion of the Broadband and Long-Distance businesses, while expenses also increased due to a higher volume of business and to the rise contract prices, which are largely indexed to inflation.

Following the severe crisis in Argentina in 2002, TASA's operating variables evolved favorably in 2003 as a result of the improved economic situation that was reflected in an increase in local and long-distance traffic. The fact that it was not possible to raise rates meant that the operator had to

manage its results with a considerable effort to reduce costs and contain investments. The number of lines in service remained at levels similar to those of 2002, thanks to the recovery in demand, which was reflected in the increase in the number of new lines. TASA resumed its ADSL expansion plan, and stepped up its commercial drive with a view to consolidating its position in the broadband market and achieved more than 69 thousand users at year-end. Future growth is dependent on the approval of the rate increases that will enable TASA to generate the funds required to develop its business activities and obtain a return on its investments.

CTC's earnings were hit by the decline in the long-distance market and its replacement by the wireless telephony market, which affected both traffic and the plant. Also, the number of lines in service dropped, since the number of suspended lines due to problems with nonpayment retired from service in the year increased. These negative effects were partially offset by the launch of new prepaid products and by the significant expense containment drive, which made it possible for EBITDA to recover in the last quarter. Also, CTC maintained the volume of cash flow generated constant through the rationalization of its volume of investments, focusing on projects with an immediate return or of a strategic nature. These include most notably the broadband expansion plans, a market in which the operator has become the leader with a market share of 36% and 125,262 users at 2003 year-end.

For Telefónica del Perú 2003 was marked by the launch of new rate plans whereby the monthly charge and traffic were marketed jointly at lower prices, in order to enable more people to access the service, in accordance with the commitment made to the Peruvian government. As a result, the lines under plans account for 43.9% of the total number of lines in service. Also, the long-distance business continued to be adversely affected by the aggressive competition in the market, which gave rise to a significant fall in the average rate as a result of the launch of numerous marketing campaigns.

Telefónica del Perú placed emphasis on the broadband business in 2003, and the number of users tripled. At year-end there were 66,403 ADSL users and 24,286 cable modem users.

Cellular telephony

The Telefónica Group's wireless operating revenues amounted to €10,428.3 million in 2003, up 10.4% on 2002. Assuming constant exchange rates and excluding the impact of the acquisition of Tele Centro Oeste Celular Participações, S.A (TCO), revenues increased by 14.2%, due to the increase in the number of customers and higher service revenues.

By geographical area, operating revenues in Spain (accounting for 72% of the total) increased by 10.7%, as a result of the rise in the number of customers, despite the high level of existing market penetration, and of the increase in the average monthly revenue per user (ARPU) of 3.8%. Voice ARPU grew by 3.2% due to the rise in outgoing traffic, whereas data ARPU increased by 7.5% based on the growth in GPRS services (connectivity with Internet and Intranet access, WAP, content, alerts, downloading of games and applications). Also, the year-on-year growth in operating revenues in Latin America was 12.3% in euro terms. This growth was attributable to Brazil and Mexico, as a result of the increase in the number of

customers and the aforementioned change in the scope of consolidation, which was partially offset by the adverse effect of exchange rates. Disregarding the latter effect and the inclusion in consolidation of TCO, revenues would have increased by 26.1% in 2003.

Operating expenses amounted to €5,883.8 million in 2003, up 5% on 2002, due mainly to the increase in procurements and outside services expenses as a result of the greater volume of business, particularly in Spain, Brazil, Mexico and Argentina, and of the aforementioned change in the scope of consolidation.

EBITDA grew by 19.6% from €3,830 million in 2002 to €4,581.9 million in 2003. Excluding the effect of exchange rates and the inclusion of TCO, annual EBITDA growth would have been 20.5%. The EBITDA margin increased to 43.9% in 2003 from the 40.5% reported in 2002. Operations in Spain accounted for 86% of the EBITDA of the Wireline Business in 2003, up 12.9% on 2002. The EBITDA of the operations in Latin America, assuming constant exchange rates and excluding the effect of the inclusion of TCO, would have increased by 7.5% in 2003 with respect to December 31, 2002.

As regards operations, the number of customers managed increased by 10.6 million, representing year-on-year growth of over 25% (15.8% excluding the effect of TCO). The Group ended 2003 with more than 52 million customers managed, as compared with the 41.4 million at 2002 year-end. As of December 31, 2003, Vivo had 20.7 million customers, 50% more than in December 2002, with an estimated average market share in its areas of operations of 56.5%. Annual growth of 6.8% in 2003 took the number of customers in Spain to 19.7 million at year-end. The competitive position in Mexico was clearly strengthened, and in December 2003 there were 3.5 million customers, as compared with 2.4 million in 2002, with an increase in the market share from 9.1% in December 2002 to 11.2% at 2003 year-end.

As indicated in the "International Expansion" section, a salient feature of 2003 was that Brasilcel, which has operated since March under the unified Vivo brand name throughout Brazil, concluded in April the acquisition of Tele Centro Oeste Celular Participações, S.A. (TCO). Also, in April 2003 Telefónica Móviles México unified all its operations under the Telefónica MoviStar brand name and started to deploy the new GSM network.

In November 2003 Telefónica Móviles España launched "Oficin@ MoviStar UMTS", the first precommercial UMTS service to be launched by a wireless operator in Spain in a real environment. Also, Telefónica Móviles España launched a new range of services based on wireless access to Internet content developed using i-mode™ technology, together with the marketing of a new range of handsets that include direct access to the service.

Telefónica Empresas

The operating revenues of Telefónica Empresas (encompassing Telefónica Data, Telefónica International Wholesale Services and Telefónica Soluciones) amounted to €1,782.0 million in 2003, up 1.3% on 2002, due mainly to changes in the scope of consolidation (Atlanet was fully consolidated in the first half of 2002) and to the depreciation of the main Latin-American

currencies. Disregarding these two effects, revenues would have increased by approximately 11%.

Thanks to the measures taken to improve operating efficiency through strict expense control, EBITDA rose by 136.7% in 2003 to €304.4 million.

Progress was made in 2003 towards the implementation of a new organizational model that will integrate the operations of Telefónica Empresas in Spain with those of Telefónica de España and under which the operations of Telefónica Empresas in Latin America will form a management unit with the wireline telephony operators in that region, in a process that completes the Company's reorientation from an organization focusing on products to another with a clear commercial vocation. The ultimate objective of this process is to make maximum use of the potential of the corporate segment through the integrated management of the catalog of services, better organizational coordination and the obtainment of synergies in costs and investments.

• Data

Data España ended 2003 with growth of 6% in operating revenues and of 26.4% in EBITDA with respect to 2002, the main driving force behind this growth being the Corporate Communications and Internet business. The emerging business lines (Hosting, Network Application Services, Security Services and Content Distribution) also experienced growth, but were less important overall. These results were made possible by the significant management efforts, since they were conditioned by the drop in unit prices brought about by the replacement of services based on traditional technology by broadband services.

The results of Incumbent Data Latin America (Argentina, Brazil, Chile and Peru) also improved in 2003. Revenues and EBITDA grew in local currency by 22.5% and 36.3%, respectively, which reflected the growth of the related markets. Noteworthy was the sound performance in Brazil and Chile. In the Latin-American countries in which the Telefónica Data Group operates as a new entrant, operating revenues increased significantly in 2003 and, as a result, EBITDA was less negative than in 2002.

However, in Europe (Germany and the U.K.), Telefónica Empresas obtained lower operating revenues than in the preceding year, due mainly to the drop in narrow band service revenues, which has not yet been offset by the growth in the broadband business. Noteworthy was the addition of 193 thousand ADSL users in Telefónica Deutschland's wholesale services to its AOL customer in the German market, giving total accesses of over 222 thousand, more than four times higher than the figure at 2002 year-end.

• Telefónica International Wholesale Services

This unit is responsible for serving operator customers and manages on an integrated basis the Group's international services and the supporting network. In 2003 its operating revenues were higher than in 2002. This growth is based mainly on the significant increase in IP traffic managed, from the markets in which Telefónica is deploying a significant level of broadband access infrastructure, including most notably Spain and Brazil. The revenue growth and cost reductions (as a result of the renegotiation of agreements

with suppliers and international traffic operators, the optimization of routes, peering agreements, etc.) made it possible to end 2003 with positive EBITDA.

• **Telefónica Soluciones**

Telefónica Soluciones, which engages in the systems integration and outsourcing and consulting businesses within the Telefónica Group, reported negative EBITDA in 2003, although its losses were considerably lower than in 2002. In addition to revenue growth, it should be noted that EBITDA in the fourth quarter was positive, thereby laying the foundations for profitable growth in 2004.

Internet

In 2003 the Terra Lycos Group's operating revenues amounted to €545 million. 40% related to access subscriptions, 26% to advertising and e-commerce, 22% to the communications, portal and content services business line and the remaining 12% to other revenues.

Noteworthy as regards access was the extension and improvement of the ADSL broadband services in both Spain and Latin America, mainly Brazil, where customers are provided with access and communications and content services. At year-end the company had 644,000 ADSL connections, an increase of 70% with respect to 2002. In Spain the company's position in the access market improved, despite the increased competition. A notable feature of the year was the launch of "ADSL Home" and "ADSL a tu medida", with prices, attributes and service timetables that complement the existing "ADSL Plus", the premium 24-hour product for gaining access to more market segments and strengthening residential Internet penetration. In Brazil, Terra was once again market leader with a market share of approximately 50%.

The expense containment drive made it possible to reduce the negative EBITDA to -€39.5 million in 2003 (an improvement of 72% with respect to 2002) and to obtain positive EBITDA in the last quarter of 2003.

In 2003 the Terra Lycos Group continued to progressively adapt to the conditions prevailing in the market. The Group maintained its firm commitment to recurring access and connectivity business growth, while at the same time increasing the relative importance of subscription and value added services, with significant growth in the customer roster. These business lines contributed to cushioning the effect of the stagnant on-line advertising market, the slow take-off of e-commerce in Spain and Latin America and the adverse impact of exchange rates.

A salient feature of 2003 was the positive performance of the business in Brazil, which was able to negotiate the growth in the free market in which Telefónica participated thanks to the launch by Telesp of i-Telefónica, which together with the content contributed by Terra, boosted this market.

In 2003 Telefónica fulfilled its commitments under the Strategic Alliance, which was entered into to replace the agreement with Bertelsmann, and helped the Telefónica Group to strengthen its range of Internet services for customers and enabled Terra Lycos to improve its competitive position, rationalize the production structure of its operations

and increase its margin. The Framework Strategic Alliance Agreement defines a new model for relations between the two companies, making better use of their respective capabilities while simultaneously strengthening their Internet growth and leadership.

At 2003 year-end the Terra Lycos Group had 1.7 million customers in the pay Internet access business (up 20% on 2002 due to the increase in the number of broadband access customers), of whom 21% relate to Spain and 63% to Brazil. Including the pay access and media services, OBP (Open, Basic, Premium) and CSP (Communication Service Provider) services, the Terra Lycos Group has more than 5 million customers (67% for these services), including those to whom it provides services through Telefónica and other corporations.

In 2003 the company forged significant strategic and commercial alliances, including most notably those with Google, Walt Disney and MovieLink.

As indicated in the "Other Relevant Matters" section, in May a tender offer was launched for all the shares of Terra, following which as of December 31, 2003, Telefónica S.A. owned 75.29% of Terra's effective capital stock.

Directories

In 2003 the directories line of business set up by the TPI Group and Telinver (the Group's subsidiary in the directories business in Argentina) obtained revenues amounting to €589.3 million, up 7.1% on 2002. EBITDA increased by 22% to €184.0 million, giving rise to net income of €88.8 million, 24.1% higher than in the preceding year.

Publishing products continue to represent the main source of revenues in this business, contributing 82.1% of total revenues. Once again in 2003 TPI demonstrated its capacity for innovation with the launch in Spain of an industry directory aimed at the construction industry. TPI has thus created a new business opportunity for its publishing products. Also, in 2003 changes continued to be made to the publishing products at all Group companies in order to make the publishing business more attractive and useful for users and thereby generate greater value for advertisers.

The Internet business is progressively gaining in importance in the directories line, and now accounts for more than 5.4% of the line's total revenues. The continuous growth in the number of hits and visits to all the Group's websites is also worthy of special mention.

A notable feature of 2003 was the growth in telephone traffic revenues because TPI took advantage of the new legal framework approved in 2002 regulating Telephone Information Services to set up the company 11888 Servicio de Consulta Telefónica S.A., which was the first Spanish company to provide this service in the deregulated market. The experience of this line of business in the advertising and information market was thus put to even better use.

This line of business is implementing a sustained and profitable growth strategy which, together with the expense containment policy and the joint negotiation for the line as a whole of the main direct costs, made it possible to generate

the aforementioned EBITDA, 83% of which relate to Spain and the remainder to the companies in Latin America.

Call centers

In 2003 the Atento Group's operating revenues amounted to €493.0 million, a reduction of 13.7% with respect to 2002, due mainly to exchange rate trends and to the drop in the volume of business in Spain and Morocco, which was partially offset by the greater contribution made by the other countries. Spain and Brazil continue to account for the highest proportion of revenues, contributing 37% and 34%, respectively. It should be noted that the percentage contribution of non-Telefónica Group customers to the company's total revenues continued to increase (36.5% in 2003 compared with 35.4% in 2002), as did diversification in different industries, with the financial services, consumption, and government sectors accounting for a higher proportion of revenues with respect to the previous year.

Atento continues to focus on providing higher value added services, combining these with automation, delocation and regionalization of services as an alternative for increasing margins.

The Atento Group's operating expenses fell by 16.5% due mainly to the impact of exchange rates and the control of operating costs and overheads, which offset the drop in revenues, giving rise to EBITDA of €66.5 million, up 22.4% on 2002.

At 2003 year-end Atento had a network of over 40 call centers with 25,700 positions, and a total headcount of over 54,000 employees. The revenue per position occupied amounted to €2,292 in 2003, virtually unchanged with respect to 2002.

The events in 2003 included most notably the closure of the center in Japan, the deregulation of the 1003 service in Spain and the major impact of price and collective labor agreement negotiations. Also, BBVA became a stockholder of this business, contributing a significant volume of business.

Media and content

In 2003 the operating revenues of Telefónica de Contenidos amounted to €1,378.5 million, up 28.1% on 2002, and its EBITDA totaled €210.3 million, representing growth of 83.7%. This growth was due to the full consolidation of the Antena 3 Group in the first half of the year (it was accounted for by the equity method in 2002), which gave rise to increases of €309.8 million in revenues and of €51 million in EBITDA.

Due to the situation referred to earlier, 2003 saw the divestment of the holding in the capital stock of Antena 3 and, accordingly, the Telefónica Group no longer has any ownership interest in this company. Also, in 2003 the two satellite television platforms (Canal Satélite Digital and Vía Digital) were integrated, giving rise to the leading operator in the pay television market in Spain under the Digital+ brand name. These two events are discussed in the "Other Relevant Matters" section.

Noteworthy in this line of business was the performance of Endemol, which reported revenues of €913.8 million in 2003, representing growth of 5.2%. EBITDA amounted to €164.6 million, up 8.9% on 2002.

This sound performance was achieved mainly in the more cost-competitive markets, such as the U.K. and the U.S., where Endemol increased its billings. In the U.K., Endemol consolidated its position as the leading independent television producer, and launched numerous successful formats throughout the year, as a result of which it achieved revenue growth of 40% in local currency terms. The year-on-year increase in billings in the U.S. was 50% in local currency terms. The company also consolidated its position in the main European markets and achieved equally significant revenue growth in France (11%) and Italy (13%). Gestmusic Endemol in Spain also contributed to growth in 2003 having diversified its revenue sources.

The Endemol Group is continuing to implement its revenue diversification policy both geographically and in terms of formats. Accordingly, it commenced operations in emerging markets such as Russia, and it is considering alliances in China and Japan. In addition, it is continuing to invest a significant volume of funds in the development of new formats that will make it possible to operate all multiplatform options, such as merchandising, telephone calls, SMS and the marketing of content on the Internet.

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 2002, the exclusion of Sonda (from September 2002) and Atlanet (from July 2002), which thereafter were accounted for by the equity method and, in 2003, the inclusion of TCO (from May 2003), Antena 3, which was fully consolidated in the first half of the year, OneTravel (from April 1, 2003), Posa (from November 2003) and Leaderline (from December 2003), and the exclusion of Atento Japan, Szena, Fieldy/Líderes and Euroleague.

The decrease in the Group's revenues slowed progressively in 2003, as a result of the improving exchange rate situation, leaving revenues of €28,399.8 million, similar to the figure achieved in 2002. The trend in revenues, combined with the efforts made to contain operating expenses (which fell by 3.8%), made it possible to reverse the trend of 2002 and to generate positive EBITDA growth of 7.5%. EBITDA amounted to €12,602.1 million and, disregarding the adverse impact of exchange rates, revenues and EBITDA would have increased by 6.5% and 13.5%, respectively.

Operating income increased by 25.8% due to the aforementioned rise in EBITDA and to the decrease of 6.2% in the depreciation and amortization expense, affected by exchange rates and 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 losses of associated companies dropped by 59.7%, due mainly to the lower losses of the Lycos Group, Vía Digital, Pearson, IPSE 2000 and Médi Télécom.

The financial loss fell by 52.3% as a result of the appreciation of the Argentine peso and the decrease in indebtedness, which offset the slight increase in the cost thereof.

The goodwill amortization expense decreased by 33.5%, mainly as a result of the write-downs recorded at 2002 year-end at Terra Lycos, Pearson, lobox and Mediaways.

The extraordinary loss amounted to €1,249.7 million and related mainly to the effect of the labor force reductions at Telefónica de España, which were partially offset by the gain obtained on the sale of Antena 3 TV and the sale of real estate assets under the Efficiency and Real Estate Divestment Plan in progress.

The positive trend in operating and nonoperating earnings enabled the Group to report net income of €2,203.6 million in 2003, as compared with the loss of €5,576.8 million incurred in 2002, when extraordinary provisions were recorded in relation to the write-down of assets and the provision for the restructuring expenses relating to the business of Telefónica Móviles in Europe (UMTS).

Revenues

Operating revenues amounted to €29,219.8 million in 2003, representing a slight decrease of 0.1% from 2002.

By item, operating revenues, which accounted for more than 97% of the total and amounted to €28,399.8 million, remained practically unchanged with respect to 2002, as did capitalized in-house work on fixed assets. The other operating revenues, although marginal, dropped by 2.9%.

The greatest contributions to consolidated operating revenues were made by the Telefónica de España Group (33%), the Wireless Business (31%) and Telefónica Latinoamerica (22%).

The operating revenues of the Parent Company Telefónica de España totaled €9,798.0 million in 2003, down 0.3% on 2002, due to the performance of the voice traffic market, which decreased by an estimated 4.9% with respect to 2002, and to the lower market share, which were partially offset by the strong growth in the ADSL market. Including the Parent Company's subsidiaries, operating revenues amounted to €10,217.4 million, a year-on-year fall of 0.5%.

The operating revenues of the Wireless Business amounted to €10,428.3 million in 2003, representing growth of 10.4% with respect to the preceding year. Spain and Latin America contributed 72% and 28%, respectively, of this amount. Disregarding the exchange rate effect and the impact of the acquisition of TCO (from May 1, 2003), revenues would have increased by 14.2%. This revenue growth was due to the increase in the customer base and to the higher service revenues. Operating revenues in Spain rose by 10.7%, fostered by the 6.8% increase in the number of customers and the 3.7% rise in the average monthly revenue per user (ARPU).

The operating revenues of Telefónica Latinoamérica totaled €6,377.1 million in 2003, down 8.3% from 2002. This decrease was partly attributable to exchange rates since, disregarding this effect, revenues would have increased by around 8.4%. Telesp made the largest contribution to total revenues (54%), as a result of the expansion of the new businesses and of the rate increase, with 12.3 million lines in service (year-on-year variation of -1.7%). Telefónica de Argentina, despite not having received authorization to increase its rates, reported higher

revenues due to the improvement of its operating variables, following the upturn of the economy in Argentina, and ended the year with 4.2 million lines in service (year-on-year variation of -0.3%). The Chilean wireline telephony operator ended the year with a drop in revenues and 2.4 million lines in service, and the retirement of lines with bad debt problems continued. The revenues of the Peruvian operator rose slightly, with an 8.5% increase in lines in service following the launch of the new rate plans to almost 2 million lines.

Expenses

Operating expenses, including procurements, outside services, personnel expenses and taxes other than income tax, amounted to €16,136.9 million in 2003, a year-on-year decrease of 3.8%. This decrease was principally due to exchange rate trends. Disregarding this effect, expenses would have risen by 2.9%.

This increase was mainly attributable to the Wireless Business as a result of the significant commercial drive, to Telefónica Latinoamérica, to TPI due to the launch of the 11888 platform in Spain and to Telefónica de Contenidos, as a result of the change in the method used to consolidate Antena 3 TV.

In the case of Telefónica de España procurement expenses decreased as a result of the reduction in prices for interconnections with wireless operators and the lower expenses incurred in the purchase of equipment for sale. Noteworthy among the Latin American wireline operators, disregarding the exchange rate effect, was the case of Telesp, whose interconnection expenses increased as a result of the interconnection rate increase approved by Anatel in February and of the increase in traffic derived from the commencement in August of the operation of the PMS (Personal Mobile Service) service, whereby the wireline operators can act as carriers for long-distance mobile-to-mobile calls. Expenses increased in the Wireless business as a result of the changes in the scope of consolidation and of the growth in commercial activity, particularly in Spain, Brazil, Mexico and Argentina.

Outside service expenses increased at Telefónica Móviles with respect to 2002, in line with the greater commercial activity both in Spain and at the Latin-American operators and with the change in the scope of consolidation. The increase in these expenses at the Latin American operators was due mainly to the greater commercial activity associated with the expansion of ADSL services and, to a lesser extent, to the renegotiation of the contracts indexed to inflation. Noteworthy at Telefónica de España was the increase in rent expenses caused by the real estate divestment process.

The Group's personnel expenses decreased by 3.2% with respect to 2002. As of December 31, 2003, the Telefónica Group's headcount was 148,288 employees, 3% below that of the preceding year, and the companies with most employees were Atento, Telefónica de España and Telefónica Latinoamérica. In 2003 there were various labor force restructuring and reduction processes which affected mainly Telefónica de España (as a result of the Labor Force Reduction Plan), Telefónica Latinoamérica (particularly at Telesp and TASA), the Wireless Telephony Business (the decrease in the labor force in Mexico and Argentina) and Telefónica de Contenidos due to the reduction in the headcount of Endemol.

Noteworthy in connection with the other operating expenses was the significant decrease in the period provision for bad debts in 2003 as a result of the greater control exercised over delinquency in Spain and Latin America. At Telefónica de España the decrease was due to the good results yielded by the control measures applied mainly in the Public Telephony market, and in Latin America it was due to the improved quality of the customer base and the measures implemented to reduce the bad debt ratio.

EBITDA and operating income

In 2003 EBITDA amounted to €12,602.1 million, an increase of 7.5%, as compared with the drop of 8.4% in the previous year, although growth was hindered by the exchange rate effect. Disregarding this effect, EBITDA would have increased by 13.5%, with across-the-board growth in all lines of business.

The EBITDA margin was 44.4% in 2003, 3.1 percentage points higher than in 2002, with an across-the-board improvement in all lines of business.

The Group's consolidated operating income, which stood at €6,327.9 million in 2003, was 25.8% higher than in 2002. This increase is higher than that in EBITDA due to the decrease in the depreciation and amortization expense, which fell by 6.2%, due mainly to the containment of investments and the trend in exchange rates.

Investment activity

In 2003 the Telefónica Group recorded intangible asset and property, plant and equipment additions of €3,705.8 million, 5.6% less than in 2002. This decrease was due mainly to the continuation of the investment rationalization and optimization drive.

The wireless telephony business was the only area to increase its investments in 2003, in this case to cater for the deployment of the GSM networks in Mexico and Chile.

In 2003 Telefónica de España continued to refocus its investments on shifting the Company towards broadband and new businesses without overlooking the needs of the traditional business. The investment in broadband accounted for 20% of the total.

The investments made by Telefónica Latinoamérica fell, due mainly to the reduction at Telesp as a result of the lower investment in traditional services, whereas the investments in broadband and systems increased. It should be noted that TASA and Telefónica del Perú increased their expenditure, despite the depreciation of the related currencies, due to the suspension of projects in 2002 as a result of the economic and regulatory uncertainty in their respective countries and, in the case of Telefónica del Perú, of the increased investment derived from the launch of new rate plans. Telefónica Latinoamérica's investments in broadband services now represent 21.9% of the total.

Investments in property, plant and equipment totaled €2,898.3 million in 2003, up 2.8% from 2002, whereas those in intangible assets totaled €806.5 million in 2003, a drop of 27.1% with respect to 2002.

Long-term investments increased by 98.6% to €1,979.39 million, due largely to the effect of the tender offer for Terra shares launched during the year.

R&D and technological innovation

In 2003 the Telefónica Group continued to be firmly committed to technological innovation as a key tool with which to achieve a sustainable competitive edge, such as preempting market trends and differentiating its products, through the introduction of new technologies, with the development of both new products and business processes with a view to becoming a more effective, efficient and customer oriented Group.

In 2003 Telefónica invested more than €1,900 million in technological innovation. Although this constitutes an additional effort in view of the investment reduction process in progress, each year Telefónica is increasing the percentage of investments targeted at new businesses. The percentage increased from 34% in 2002 to over 40% in 2003.

This innovation drive makes it possible to offer the Group's customers the technological solutions that are most suited to their needs.

However, as regards the means of obtaining innovative solutions, Telefónica also considers 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 research and development activities to guarantee this differentiation and to drive forward other innovation activities.

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.

In general, in the last ten years Telefónica has carried out the most important corporate technological innovation work to have been performed in Spain and Latin America.

In 2003 the Telefónica Group undertook technological innovation projects focusing on profitable innovation, process efficiency, the creation of new sources of revenues, customer satisfaction, the consolidation of the new markets and technological leadership. The technological innovation activities have been especially integrated in Telefónica's strategy to create value through broadband and IP network communications and services.

Also, projects to promote the Information Society were performed, new services that will use UMTS capacity and new wireless handsets were prepared, and work was performed with a view to identifying as soon as possible the emerging technologies that might have a relevant impact on the businesses, testing them with trials relating to new services, applications and platform prototypes.

In 2003 new systems were developed and the existing systems were substantially improved, the detail being as follows:

- Commercial and operating management systems, aimed at providing innovative solutions for business processes, in order to provide intelligence thereto and to increase the profitability and effectiveness of the procurement, customer service, billings and infrastructure management processes.
- Network and service management systems, aimed at strengthening infrastructures and their quality, using innovative solutions.

Lastly, it should be noted in connection with technological innovation, and in particular with R&D, that in 2003 the Telefónica Group, through Telefónica I+D, implemented measures aimed more at the medium and long term in order to detect, understand, develop and apply, using strategic studies, technological monitoring and experimental development methods, issues, singular matters, opportunities and particularly technologies that will have an effect on the performance of the Group's various lines of business. This includes extensive participation in European projects promoted and financed mainly by the EU.

Financial earnings

Net financial expenses totaled €1,060.7 million in 2003, including a gain of €134.4 million due to the appreciation of the Argentine peso. Without this effect, financial earnings for 2003 amounted to €1,195.1 million, 29.4% down on the comparable figures for 2002 (€1,692.8 million). Of this percentage, 15.8 percentage points were due to the gain of €267.5 million obtained from the repayment of debt denominated in U.S. dollars and, accordingly, disregarding this positive amount, the financial expenses for 2003 would have amounted to €1,462.6 million, down 13.6% from the aforementioned comparable figure for 2002.

The free cash flow generated by the Telefónica Group in 2003 amounted to €6,312.4 million, of which €1,233.3 million were used for the payment of dividends by Telefónica S.A., €1,715.9 million were earmarked for financial investments (net of real estate divestments) and €818.3 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, i.e. the amount available for reducing the net financial debt, amounted to €2,544.9 million.

Financing

The Telefónica Group's net debt decreased by €3,297.8 million from €22,533.1 million at 2002 year-end to €19,235.3 million at the end of 2003. This reduction was largely attributable to the aforementioned free cash flow after dividends of €2,544.9 million. Also, of the total reduction in net debt in the period, €859.4 million was due to the effect of exchange rates on debt not denominated in euros, largely as a result of the appreciation of the euro against the U.S. dollar, partially offset by the increase of €106.4 million in debt as a result of changes in the scope of consolidation and other effects on financial accounts.

The principal financing transactions in 2003 were as follows:

On February 3, 2003, Telefónica Europe B.V. issued notes under the documentation of the EMTN program underwritten by Telefónica S.A., for a total face value of €100 million, maturing

two years from the issue date. The notes were issued under the FRN format and bear floating interest tied to EONIA with a spread of 0.47%.

On February 14, 2003, Telefónica Europe B.V. issued notes under its EMTN program underwritten by Telefónica S.A. in two tranches: (i) for a face value of €1,500 million, maturing at ten years from the issue date, and with a fixed-rate coupon of 5.125%; and (ii) for a face value of €500 million, maturing at 30 years from the issue date, and with a fixed-rate coupon of 5.875%. Telefónica Europe B.V. applied for the admission to listing on these Notes on the London Stock Exchange.

At the beginning of August 2003 Telefónica de Argentina, S.A. (TASA) announced the issuance of new marketable debentures relating to its recently concluded tenders for the exchange of two classes of marketable debentures between TASA (the so-called "Marketable Debentures at 11.875% Maturing in 2004" and the "Marketable Debentures at 9.125% Maturing in 2008") for two new classes of marketable debentures of TASA plus a cash payment, and the related offers to exchange two types of marketable debentures issued by the parent company of TASA, i.e. Compañía Internacional de Telecomunicaciones, S.A., Cointel (the so-called "Class A Marketable Debentures at 8.85% Maturing in 2004" and the "Class B Marketable Debentures of Cointel at 10.375% Maturing in 2004") for two new classes of TASA marketable debentures plus a cash payment.

The main features of the four new marketable debenture issues issued in relation to the exchange transactions concluded are as follows:

- Marketable debenture issue amounting to US\$ 189.70 million at 11.875% maturing on November 1, 2007.
- Marketable debenture issue amounting to US\$ 220.00 million at 9.125% maturing on November 7, 2010.
- Marketable debenture issue amounting to US\$ 148.14 million at 8.85% maturing on August 1, 2011.
- Marketable debenture issue amounting to 0.22 million pesos at 10.375% maturing on August 1, 2011.

Also, in October 2003 Telefónica Europe B.V. launched two floating-rate issues under the documentation of its EMTN program underwritten by Telefónica S.A., each for a total face value of €100 million and with the following characteristics: (i) maturity of a total face value of €100 million on October 17, 2005, at a rate tied to EONIA plus a spread of 0.23%; and (ii) maturity on October 27, 2005, at an interest rate tied to three-month Euribor plus a spread of 0.14%.

In November Telefónica Europe B.V. launched two floating-rate notes issues under its EMTN program underwritten by Telefónica S.A. with the following characteristics: (i) issue date November 5, 2003, and maturing on May 5, 2005, for a total face value of €50 million and bearing interest tied to EONIA plus a spread of 0.17%; and (ii) issue date November 27, 2003, maturing three years after the issue date and bearing interest tied to three-month Euribor plus a spread of 0.18%. The total face value of this issue was €100 million.

Telefónica Europe B.V. issued notes under its EMTN program underwritten by Telefónica S.A. on December 11, 2003, the total face value of which is €200 million. These notes mature three years from the issue date and bear floating interest tied to three-month Euribor plus a spread of 0.18%.

As regards commercial paper, in 2003 Telefónica Europe continued to make issues under its ECP (Euro Commercial Paper) program underwritten by Telefónica S.A. As of December 31, 2003, the final balance of outstanding commercial paper totaled €595.38 million (at the initial issue price).

Rating agencies

The credit ratings assigned by the main rating agencies to Telefónica long-term debt are as follows: A3, with a stable outlook from Moody's (since December 2, 2002); A, with a stable outlook (since February 5, 2002) from Standard & Poor's; and, lastly, A with a stable outlook (since August 9, 2002) from Fitch IBCA.

As a result of the announcement of the resolution of the Board of Directors of Telefónica in July 2003 in relation to the stockholder remuneration policy, the rating agencies Moody's, Standard & Poor's and Fitch IBCA ratified on July 23 and 24 and August 1, 2003, respectively, the aforementioned long-term debt ratings.

Events subsequent to December 31, 2003

There were no significant events worthy of mention at the Telefónica Group in the period from December 31, 2003, through the date of preparation of the consolidated financial statements.

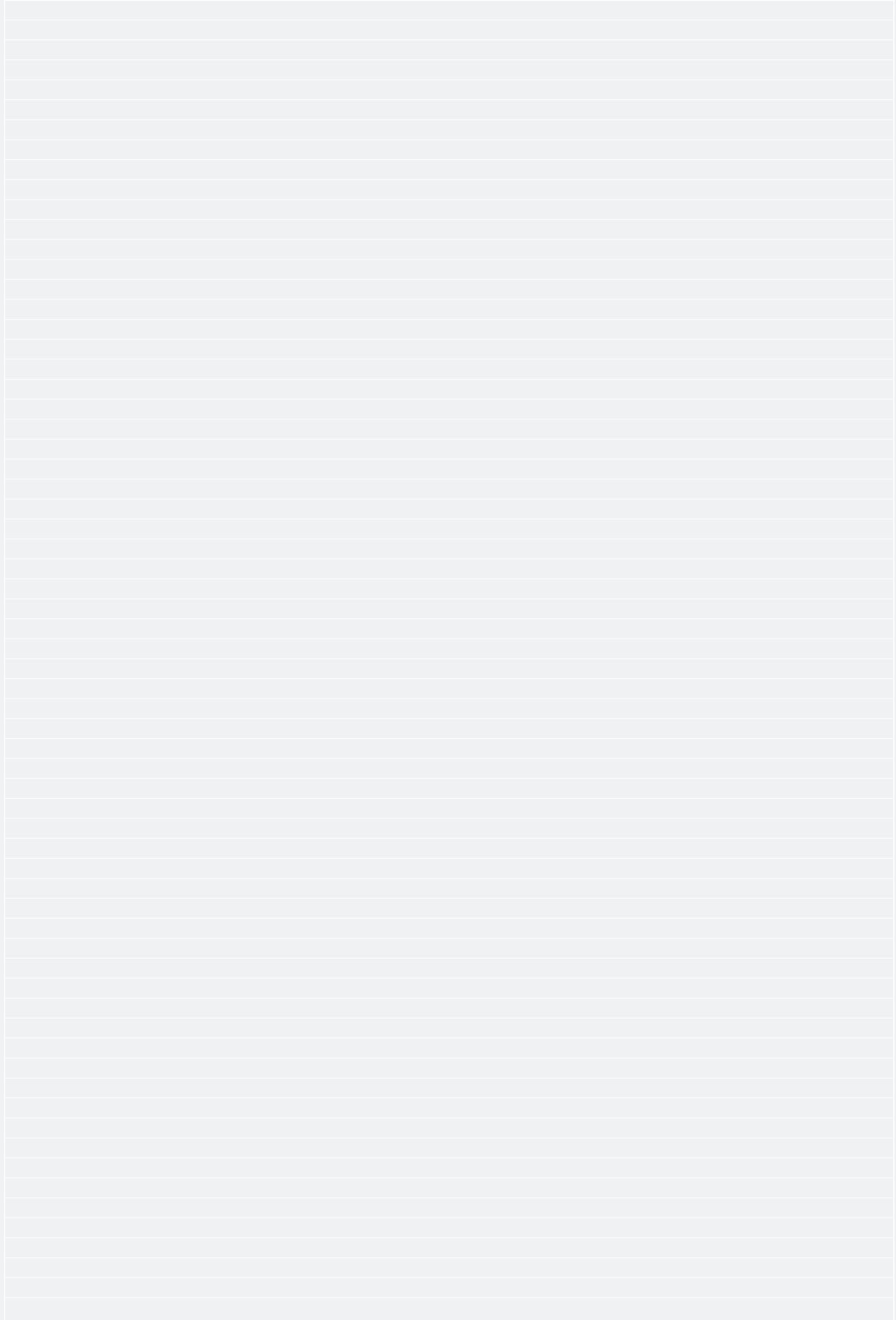
Treasury stock

At the beginning of 2003 Telefónica held treasury stock representing 1.88516% of capital stock, i.e. 91,631,076 shares with a book value of €11.65 each, giving a total of €1,067.94 million and a par value of €91.63 million.

In 2003 the Company acquired for consideration 50,792,028 shares of treasury stock (representing 1.0249% of capital stock and with a par value of €50.79 million) at an average price of €9.67 per share, and 3,918,983 shares were assigned to it in the capital increases at no cost to the stockholders. Also, 101,140,640 shares (with a par value of €101.14 million) were used to retire a portion of the capital stock pursuant to a resolution adopted by the Stockholders' Meeting on April 11, 2003, and 6,000,000 shares (representing 0.0012% of the capital stock and with a par value of €6.00 million) were sold at an average selling price of €9.63 per share, for a gain of €7.12 million.

Lastly, as a result of the completion in 2003 of the acquisition of the holding in Telefónica Holding Argentina, S.A., in the related settlement the Company received an amount equal to 1,331,422 shares of treasury stock (with a par value of €1.33 million), giving rise to an extraordinary revenue of €12.63 million.

As a result of these transactions, 40,532,869 shares (0.81787% of capital stock) of treasury stock were held at 2003 year-end, acquired at an average price of €10.39, giving a total of €421.26 million and a par value of €40.53 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, a provision of €287.80 million was recorded.



09 _ 02

Annual Financial Statement
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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.:

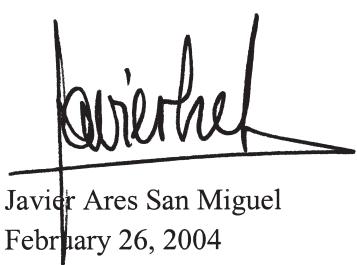
1. We have audited the financial statements of Telefónica, S.A. comprising the balance sheet as of December 31, 2003, and the related statement of operations and notes to financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's 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 2003 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 2003, on which we issued our auditors' report dated February 26, 2004, in which we expressed 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 2003 figures for each item in the balance sheet and statements of operations and of changes in financial position, the figures for 2002. Our opinion refers only to the 2003 financial statements. Our auditors' report dated February 26, 2003, on the 2002 financial statements contained an opinion qualified for an uncertainty concerning the Telefónica Group's net investment in Argentina.

In 2003 the main parameters of the Argentine economy improved, which had a favorable effect on the net worth of Telefónica's investees with investments in Argentina and, consequently, a portion of the investment valuation allowance recorded in prior years was reversed. Taking into account these effects, Telefónica S.A.'s net investment in Argentina through its direct and indirect holdings as of December 31, 2003, amounted to €1,095 million, which the Company's directors consider will be recovered, based on the results in the latest business plans prepared by them (see Note 7).

4. In our opinion, the financial statements for 2003 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, 2003, 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 applied on a basis consistent with that of the preceding year.

5. The accompanying management report for 2003 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 2003. 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 & TOUCHE ESPAÑA, S.L.
Registered in ROAC under no. S0692



Javier Ares San Miguel
February 26, 2004

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, 2003 AND 2002

(Millions of Euros)

ASSETS	2003	2002
A) FIXED AND OTHER NONCURRENT ASSETS	43,052.65	43,809.33
I. Start-up expenses	33.64	61.66
II. Intangible assets (Note 5)	40.65	38.82
Computer software	71.72	52.20
Other intangible assets	11.37	10.84
Accumulated amortization	(42.44)	(24.22)
III. Property, plant and equipment (Note 6)	28.06	22.38
Land and structures	0.81	0.81
Furniture, tools, etc.	31.70	24.35
Accumulated depreciation	(4.45)	(2.78)
IV. Long-term investments (Note 7)	42,950.30	43,686.47
Investments in Group companies	23,374.86	22,806.83
Investments in associated companies	1,005.42	408.83
Other investments	6.82	565.65
Loans to Group and associated companies	19,729.71	22,261.11
Other loans	70.26	111.60
Long-term deposits and guarantees given	3.22	86.50
Taxes receivable (Note 14.2)	5,000.10	4,932.90
Allowances	(6,240.09)	(7,486.95)
B) DEFERRED CHARGES (Note 8)	288.98	314.60
C) CURRENT ASSETS	5,847.93	6,005.79
I. Accounts receivable	111.26	159.44
Trade receivables	7.27	11.88
Receivable from Group companies	72.75	111.97
Receivable from associated companies	0.15	1.62
Sundry accounts receivable	4.87	3.35
Employee receivables	0.85	1.25
Taxes receivable (Note 14.2)	30.66	45.41
Allowance for bad debts	(5.29)	(16.04)
II. Short-term investments	5,564.55	5,472.83
Loans to Group and associated companies (Note 7.3)	3,990.10	4,141.22
Short-term investment securities (Note 7.5)	1,574.45	1,331.61
III. Short-term treasury stock (Note 9)	133.46	334.56
IV. Cash	33.73	24.37
V. Accrual accounts	4.93	14.59
TOTAL ASSETS	49,189.56	50,129.72

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, 2003 AND 2002
(Millions of euros)

STOCKHOLDERS' EQUITY AND LIABILITIES	2003	2002
A) STOCKHOLDERS' EQUITY (Note 9)	16,477.06 	17,572.26
I. Capital stock	4,955.89	4,860.66
II. Additional paid-in-capital	7,987.14	11,670.02
III. Revaluation reserves	1,368.89	2,881.94
IV. Reserves	791.43	2,638.33
Legal reserve	652.57	652.57
Reserve for treasury stock	133.46	334.56
Other reserves	5.40	1,651.20
V. Income (Loss) for the year	1,373.71	(4,478.69)
B) PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 16.7)	149.38 	138.75
C) LONG-TERM DEBT	22,957.57 	23,899.79
I. Debentures, bonds and other marketable debt securities (Note 10)	2,525.97	2,509.21
Nonconvertible debentures and bonds	2,525.97	2,509.21
II. Payable to credit institutions (Note 11)	2,665.25	3,509.89
III. Payable to Group and associated companies (Note 12)	17,577.64	17,679.63
IV. Other payables	4.24	21.22
V. Taxes payable (Note 14.2)	39.34	34.71
VI. Uncalled capital payments payable	145.13	145.13
Group companies (Note 7.4)	145.13	145.13
E) CURRENT LIABILITIES	9,605.55 	8,518.92
I. Debentures, bonds and other marketable debt securities (Note 10)	727.71	754.13
Nonconvertible debentures and bonds	69.24	—
Other marketable debt securities	606.45	699.34
Interest on debentures and other securities	52.02	54.79
II. Payable to credit institutions	865.73	1,736.36
Loans and other accounts payable (Note 11)	860.91	1,702.47
Accrued interest payable	4.82	33.89
III. Payable to Group and associated companies (Note 12)	7,935.03	5,885.29
IV. Trade accounts payable	37.42	70.50
Accounts payable for purchases and services	37.42	70.50
V. Other nontrade payables	39.66	72.32
Taxes payable (Note 14.2)	15.43	12.16
Other nontrade payables (Note 15)	24.23	60.16
VI. Accrual accounts	—	0.32
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	49,189.56 	50,129.72

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 OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Millions of euros)

DEBIT	2003	2002
A) EXPENSES		
Personnel expenses (Note 16.2)	113.07	90.06
Depreciation and amortization expense	47.91	57.09
Property, plant and equipment (Note 6)	1.67	1.57
Intangible assets (Note 5)	18.22	14.44
Amortizable expenses	28.02	41.08
Other operating expenses	209.00	241.56
Outside services provided by Group companies (Note 16.8)	51.55	46.73
Other outside services	166.36	176.59
Taxes other than income tax	5.96	9.49
Other current operating expenses	(14.87)	8.75
I. OPERATING INCOME	—	—
Other financial and similar expenses		
On debts to Group companies (Notes 16.4 and 16.8)	912.35	900.23
On debts to third parties and similar expenses (Note 16.4)	500.59	480.44
Variation in short-term investment valuation allowances	(30.80)	80.99
Amortization of deferred charges	38.23	22.07
Exchange losses (Note 16.5)	1,635.44	1,598.87
II. FINANCIAL INCOME	400.68	405.05
III. INCOME FROM ORDINARY ACTIVITIES	136.44	116.49
Variation in investment valuation allowances (Note 7.1)	(755.27)	5,484.78
Extraordinary expenses and losses (Note 16.7)	66.47	400.72
IV. EXTRAORDINARY INCOME	900.06	—
V. INCOME BEFORE TAXES	1,036.50	—
Corporate income tax accrued in Spain (Note 14)	(343.51)	(1,292.67)
Foreign taxes (Note 14)	6.30	5.06
VI. INCOME FOR THE YEAR	1,373.71	—

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these statements of operations.

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 OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Millions of euros)

CREDIT	2003	2002
B) REVENUES		
Net sales to Group companies (Note 16.1)	32.82	36.17
Other operating revenues	72.92	63.98
Non-core and other current operating revenues	72.92	63.98
I. OPERATING LOSS	264.24	288.56
Revenues from equity investments	616.59	902.20
Group companies (Note 16.8)	591.65	881.96
Associated companies	12.19	5.79
Non-Group companies	12.75	14.45
Revenues from other equity investments and loans (Note 16.4)	1,248.65	1,314.23
Group companies (Note 16.8)	1,174.51	1,285.82
Other companies	74.14	28.41
Exchange gains (Note 16.5)	1,591.25	1,271.22
II. FINANCIAL LOSS	—	—
III. LOSS ON ORDINARY ACTIVITIES	—	—
Gains on fixed asset disposals (Note 16.6)	29.44	1.17
Extraordinary revenues (Note 16.6)	181.82	1.54
IV. EXTRAORDINARY LOSS	—	5,882.79
V. LOSS BEFORE TAXES	—	5,766.30
VI. LOSS FOR THE YEAR	—	4,478.69

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these statements of operations.

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, 2003

(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 calle 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 government, 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 2003.

The financial statements for 2003 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 2002 were approved by the Stockholders' Meeting on April 11, 2003.

Comparative information

There were no changes in the structure of the balance sheet or the statement of operations with respect the previous year. Also, no changes in accounting methods with respect to 2002 with a material effect were made.

Similarly, no significant events took place preventing a comparison of the figures for 2003 with those for 2002.

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 €1,373.71 million in 2003.

The proposed distribution of 2003 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 (€137.37 million) to the legal reserve; b) to pay a fixed dividend of €0.20 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>
Distribution:	1,373.71
To legal reserve	137.37
Dividend (maximum distributable amount of €0.20/share for all the shares into which the Company's capital stock is divided (4,955,891,361 shares))	991.18
To voluntary reserve (minimum)	245.16
Total	1,373.71

(4) VALUATION STANDARDS

The main valuation methods used in preparing the 2003 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 is 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.

Upkeep and maintenance expenses are expensed currently.

Property, plant and equipment is 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, 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 Notes 7 and 16.7). 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 2003 the effect of consolidation, with respect to the accompanying individual financial statements, was to increase the following balances by the amounts shown:

Millions of euros

Assets	12,885.64
Stockholders' equity	279.50
Net sales	28,367.02
Income for the year	829.87

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.

f) Treasury stock

Treasury stock is valued at the lower of 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 operations 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 net positive 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:

- 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 has been externalized in the Fonditel B pension fund managed by the subsidiary Fonditel Entidad Gestora de Fondos de Pensiones, S.A.

As of December 31, 2003 and 2002, 767 and 746 employees, respectively, were included in the plan and the cost for the Company amounted to €2.48 million and €2.27 million in 2003 and 2002, 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) Derivatives

Transactions whose purpose and effect is 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 hedged assets or transactions.

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 operations.

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 2003 and 2002 is as follows:

	Millions of euros		
	Computer Software	Other Intangible Assets	Total
Cost:			
Balance at 12/31/01	36.87	10.13	47.00
Additions	15.33	3.24	18.57
Retirements	—	(2.53)	(2.53)
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
Accumulated amortization:			
Balance at 12/31/01	8.19	1.59	9.78
Additions	13.45	0.99	14.44
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
Intangible assets, net	33.02	7.63	40.65

(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 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, etc.	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, etc.	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

The detail of the balances of property, plant and equipment, of the related accumulated depreciation and of the variations therein in 2002 is as follows:

Millions of euros

	Balance at 12/31/01	Additions	Retirements	Transfers	Balance at 12/31/02
Cost:					
Land and structures	0.81	—	—	—	0.81
Furniture, tools, etc.	21.71	3.67	(1.17)	0.14	24.35
Property, plant and equipment, gross					
	22.52	3.67	(1.17)	0.14	25.16
Accumulated depreciation:					
Land and structures	0.14	0.02	—	—	0.16
Furniture, tools, etc.	1.07	1.55	—	—	2.62
Total accumulated depreciation	1.21	1.57	—	—	2.78
Property, plant and equipment, net	21.31	2.10	(1.17)	0.14	22.38

As of December 31, 2003, the Company's fully depreciated property, plant and equipment amounted to €0.65 million.

Telefónica, S.A. has taken out insurance policies with appropriate limits to cover the possible risks to which its property, plant and equipment is 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 2002 and 2003 is as follows:

a) Variations in long-term investments:

Millions of euros

	Balance at 12/31/01	Additions	Retire- ments	Transfers	Balance at 12/31/02	Additions	Retire- ments	Transfers	Balance at 12/31/03
Investments in Group companies	22,665.24	963.89	(1,661.72)	839.42	22,806.83	1,936.48	(1,369.36)	0.91	23,374.86
Investments in associated companies	407.86	0.97	—	—	408.83	41.91	(0.94)	555.62	1,005.42
Other investments	565.72	—	(0.07)	—	565.65	0.55	(2.81)	(556.57)	6.82
Loans to Group and associated companies	16,416.46	4,178.30	(824.90)	2,491.25	22,261.11	4,445.72	(3,043.92)	(3,933.20)	19,729.71
Other loans	0.38	—	—	111.22	111.60	257.10	(253.36)	(45.08)	70.26
Deposits and guarantees	9.81	97.56	(20.87)	—	86.50	336.57	(419.85)	—	3.22
Taxes receivable (Note 14.2)	435.28	4,669.66	(36.06)	(135.98)	4,932.90	181.58	(114.38)	—	5,000.10
Total	40,500.75	9,910.38	(2,543.62)	3,305.91	51,173.42	7,199.91	(5,204.62)	(3,978.32)	49,190.39

b) Variations in the long-term investment valuation allowances:

Millions of euros

	Balance at 12/31/01	Variation in the Allowance	Retire- ments	Transfers	Balance at 12/31/02	Variation in the Allowance	Retire- ments	Transfers	Balance at 12/31/03
Investments in Group companies	2,793.75	5,419.48	(901.08)	101.40	7,413.55	(802.31)	(493.72)	3.56	6,121.08
Investments in associated companies	2.09	65.30	—	—	67.39	46.99	(0.94)	—	113.44
Other investments	6.01	—	—	—	6.01	—	(0.44)	—	5.57
Total investment valuation allowances	2,801.85	5,484.78	(901.08)	101.40	7,486.95	(755.32)	(495.10)	3.56	6,240.09
Total investments, net	37,698.90	4,425.60	(1,642.54)	3,204.51	43,686.47	7,955.23	(4,709.52)	(3,981.88)	42,950.3

In 2003 the trend in the “Variation in Investment Valuation Allowances” caption in the statement of operations 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 (€811.44 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 Emergia Group (€184.60 million) and the Atento Group (€47.68 million).

The provisions recorded in 2002 related mainly to the investments in the Telefónica Internacional Group (€2,272.97 million), Terra Networks (€867.32 million), Telefónica de Contenidos (€625.86 million), MediaWays Germany GmbH (€574.22 million), Telefónica DataCorp, S.A. (€387.72 million) and Telefónica Móviles (€283.32 million).

In view of its international presence, the Telefónica Group, like other corporations, was affected by the effects arising from Argentina’s economic situation through the various Group

companies which operate there. As of December 31, 2003 and 2002 the exposure of Telefónica, S.A.'s direct and indirect holdings in the various companies in Argentina amounted to €1,095.30 million and €968.12 million, respectively, including the intercompany financing and the value of the investments.

In 2003 the main parameters of the Argentine economy improved, which had a favorable effect on the performance and earnings of Telefónica's companies in Argentina and on the expectations of being able to recover the investments in these companies

In these circumstances and based on the business plans prepared by Telefónica and the latest estimates made, which take into account the positive evolution of the businesses and that Telefónica will maintain its investment in Argentina long term, the investees will foreseeably report sufficient income to make it possible to recover the above-mentioned net investment. These business plans and estimates are based on assumptions and future expectations and, consequently, variances may arise. Therefore, they are updated periodically, at least once a year, in order to monitor the results obtained and to record such value adjustments as might be required.

In accordance with the above-mentioned premises, these financial statements present a positive impact of €419.37 million in 2003 (a negative impact of €1,400.03 million in 2002) on the statement of operations as a result of the variation in the investment valuation allowances for the investments in question.

The investment valuation allowances used relate to shareholdings sold, liquidated or contributed in the year, corresponding mainly to the investments in Emergia Holding, N.V. (€365.00 million) and Katalyx Inc. (€128.17 million). The investment valuation allowances used in 2002 related mainly to Mediways Germany, GmbH, which was sold to the Telefónica Data Group for its net book value at the date of the sale.

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	2003		2002	
	Long term	Short term	Long term	Short term
Telefónica Internacional, S.A.	5,556.53	1,413.69	7,096.30	1,024.68
Telefónica Móviles España, S.A.	0.94	—	0.19	32.42
Telefónica Data España, S.A.	—	64.33	—	43.48
Telefónica Publicidad e Información, S.A.	32.21	35.80	33.83	44.85
Atento, N.V.	190.73	20.91	—	—
Corporación Admira Media, S.A.	17.66	33.57	27.46	0.04
Inmobiliaria Telefónica, S.L.	3.03	27.42	13.62	28.23
Telefónica de España, S.A.U.	6,224.58	933.56	7,244.28	1,098.27
Telefónica Cable, S.A.	—	—	—	56.05
Telefónica de Contenidos, S.A.U.	2,013.23	149.10	1,088.70	920.87
Atento USA Inc.	—	—	—	17.40
Portugal Telecom, S.A.	—	21.00	21.00	—
Telefónica Móviles, S.A.	4,526.68	1,175.23	5,544.13	546.41
Telefónica Datacorp, S.A.U.	543.81	23.73	581.70	39.60
Comunicapital Inversiones, S.A.U.	64.75	—	75.36	—
Katalyx, Inc.	0.59	—	—	—
Atento Argentina, S.A.	—	—	—	2.25
Atento Maroc, S.A.	—	—	—	10.81
Emergia, S.A.	400.89	63.55	357.58	187.95
Atento Delaware	—	—	136.88	26.97
Atento México	—	—	—	10.71
Telefónica B2B Licensing Inc.	11.00	—	16.09	0.88
Telefónica Internacional Wholesale Services, S.L.	86.40	3.78	—	—
Telesp	—	0.50	—	0.57
Other	56.68	23.93	23.99	48.78
Total	19,729.71	3,990.10	22,261.11	4,141.22

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 which, arising in the unbundling of this company from Telefónica, had an outstanding balance of €6,278 million as of December 31, 2003, of which €5,580 million mature at long term and €697 million at short term. This loan earns interest at 6.8%.
- The loans to Telefónica Internacional, S.A. consist mainly of the following:
 - A subordinated long-term interest-free loan of €3,306 million, repayable in 12 equal quarterly installments from September 30, 2005 through June 30, 2008.
 - A participating loan of which as of December 31, 2003, amounted to €1,414 million, with a repayment schedule ending on, and a final maturity date of, 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 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. To date Telefónica Internacional, S.A. has drawn down US\$ 1,040 million (€823 million) against this credit line.
- The credit facilities and loans totaling approximately €1,079 million in 2002 used to refinance and restructure the debt of Telefónica Internacional, S.A. These loans earn interest at a floating rate and the latest repayment date is in December 2006.
- A loan amounting to US\$ 407 million (€322 million) maturing in 2006 and earning interest tied to the Libor plus 1.6%.
- The loans to Telefónica Móviles, S.A. relate mainly to the following:
 - Long-term credit lines, against which an amount equal to €2,243 million have been drawn down (€1,947 million and US\$ 373 million). These credit lines, each of which comprises a fixed-interest tranche and a floating-interest tranche, mature in 2004 and 2005.
 - Financing for an amount equal to €2,193 million, which earns interest at a market rate tied to Euribor or Libor plus a spread and is repayable in 2009, in order to enable it to make its investments in Mexico, Puerto Rico, Chile, Guatemala and Brazil. Approximately €490 million of this financing was granted in 2003.
- The loans granted to Telefónica de Contenidos, S.A.U. include most notably the following:
 - A ten-year participating loan of €1,141 million which had been fully drawn down as of December 31, 2003, which earns interest based on the performance of the business of Telefónica de Contenidos, S.A.U.
 - Two long-term loans of €50 million and €172 million granted to meet the financing requirements of Telefónica de Contenidos, S.A.U. in connection with the participating loan and the arrangement and disbursement of the subordinated loan in 2003 by this company to Sogecable, S.A. for the merger of DTS, Distribuidora de Televisión Digital, S.A. (Vía Digital) and Sogecable, S.A.
 - A participating loan of US\$ 536 million (€424 million) to Emergia, S.A., which earns interest on the basis of the performance of the company's operating results, with repayments from 2004 to July 31, 2007.
 - A credit facility granted to Emergia, S.A., amounting to US\$ 60 million which is repayable in 2004 and is tied to three-month Libor, the outstanding balance of which as of December 31, 2003, was US\$ 50 million (approximately €40 million).
 - As explained in note 7.4.a), the Banco Bilbao Vizcaya Argentaria, S.A. Group (BBVA) became a stockholder of Atento N.V. in 2003. The agreements entered into by BBVA

and Telefónica included most notably that relating to the 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.

- The financing received by Telefónica Datacorp, S.A.U. includes most notably the credit facilities and loans arising from the refinancing in 2002 totaling €346 million, earning floating-rate interest tied to three-month Euribor and maturing in 2005, 2006 and 2007.

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:

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	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 effective 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 NV, 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 NV 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 thousand and additional paid-in capital totaling €751 thousand. The inclusion of the BBVA Group in the stockholder structure of Atento NV reduced Telefónica, S.A.'s holding in the latter from 100% to the 91.35% it currently holds.

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., is now wholly owned by Telefónica, S.A.

In October 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.

2002

Millions of euros

Subsidiaries

Seguros de Vida y Pensiones Antares, S.A.	204.70
HighWay One Germany, GmbH	637.07
Emergia Holding, N.V.	47.09
Terra Networks, S.A.	5.53
Telefónica de Contenidos, S.A.U.	5.99
Lotca, Servicios Integrales, S.L.	16.92
Tele Leste Celular Participações	13.59
Telefónica Capital, S.A.	6.00
Other	27.00
	963.89

The main additions in 2002 were as follows.

In 2002 Telefónica, S.A. subscribed in full the capital increase of €637.07 million at HighWay One Germany GmbH, thereby increasing its ownership interest in this company to 99%. In December 2002 this shareholding was transferred to Telefónica Data Corp, S.A. for its net book value.

In March 2002, under the last part of the agreement entered into between Telefónica, S.A. and Iberdrola, S.A. for the

acquisition by the former of all the holdings which the Iberdrola Group owned in the Brazilian operators in which the two companies were direct or indirect stockholders, Telefónica, S.A. acquired a 3.38% holding in Tele Leste Celular Participações, S.A. in exchange for 799,411 Telefónica, S.A. shares hitherto held as treasury stock. This holding was subsequently contributed to Telefónica Móviles, S.A. at its book value.

In 2002 Telefónica S.A. acquired 717,465 shares of the subsidiary Terra Networks, S.A. for €5.53 million, increasing the Telefónica Group's direct and indirect holding in this company to 38.58%.

In January 2002 Telefónica, S.A. incorporated the wholly-owned subsidiary Telefónica Capital, S.A. and paid this company's initial capital stock (€6 million) in full. Subsequently, Telefónica Capital increased capital by €1 million with additional paid-in capital of €38.01 million, which was subscribed and paid in full by its sole stockholder Telefónica, S.A. through the nonmonetary contribution of 201,682 shares of Fonditel, Entidad Gestora de Fondos de Pensiones, S.A., representing 77.22% of this company's capital stock.

In September 2002 Telefónica, S.A. subscribed €32.69 million of the capital increase carried out at Seguros de Vida y Pensiones Antares, S.A. through the increase in the par value of this company's shares. As of December 31, 2003, the amount subscribed had not been paid. Additionally, in December 2002 Telefónica, S.A. acquired from its Luxembourg subsidiary Casiopea Reaseguradora, S.A. 110,000 shares of Seguros de Vida y Pensiones Antares, S.A. for a total amount of €172.01 million. The Company disbursed €59.63 million in this transaction and recorded the outstanding amount of €112.38 million relating to the last capital increase at Seguros de Vida y Pensiones Antares, S.A. as capital payments payable. As a result of this transaction, at 2002 year end Telefónica owned 142,000 shares of Seguros de Vida y Pensiones Antares, S.A., representing 94.67% of its capital stock.

In December 2002, by virtue of its agreements with the Tyco Group, Telefónica, S.A. acquired 17,872,341 shares of the Dutch company Emergia Holding, N.V. for €47.09 million. As a result of this transaction, Telefónica owned, directly or indirectly, all the shares of this company.

In November 2002 Telefónica, S.A. acquired all 3,010 shares of Gran Vía Media, S.L. from its wholly-owned subsidiary Telefónica de Contenidos, S.A. Gran Vía Media, S.L. changed its corporate name to Lotca Servicios Integrales, S.L. In December 2002 Lotca increased capital by 16,920,000 shares of €1 par value each, which the Telefónica Internacional Group subscribed in full through a nonmonetary contribution. These shares were subsequently acquired by Telefónica, S.A. for €16,920,000. As of December 31, 2002, this company was wholly owned by Telefónica, S.A.

Grupo Admira Media, S.A. and Telefónica Internet, S.A., both of which are wholly-owned subsidiaries of Telefónica, S.A., changed their corporate names in 2002 to Telefónica de Contenidos, S.A. and Corporación Admira Media, S.A., respectively. Also, Corporación Admira Media, S.A. increased capital by €5.99 million, which Telefónica, S.A. subscribed in full.

b) Disposal of investments

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. (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. 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 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 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 aimed at the divestment of the holding in Antena 3 de Televisión, S.A., gave rise to the recording of an extraordinary revenue in the statement of operations amounting to €27.18 million (see Note 16.6).

In December 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.

2002

Gross Book Value

Subsidiaries

MediaWays GmbH	1,535.58
Sao Paulo Telecomunicações Holding, S.A.	113.94
Telefónica Data Brasil Holding, S.A.	1.19
CRT Celular Participações, S.A.	11.01
	1,661.72

Telefónica, S.A. sold all the shares of MediaWays GmbH owned by it to HighWay One Germany GmbH for €634.50 million, the net value of the holding at the date of the sale.

SP Telecomunicações Holding, S.A., the majority stockholder of Telecomunicações de São Paulo, S.A. (Telesp), reduced capital in 2002 by assigning to Telefónica, S.A. 3,504,347,177 shares of the Brazilian company Telefónica Data Brasil Holding. These shares, together with the 189,278,445 shares of SP Telecomunicações Holding, S.A. owned by Telefónica, S.A., were sold to the Telefónica Internacional Group at their book value.

In 2002 Telefónica, S.A. sold to Telefónica Móviles, S.A. the 0.66% holding in Celular CRT Participações, S.A. acquired by it under the agreements entered into with Iberdrola, S.A. in 2001. This transaction was carried out at the book value of the holding.

c) Nonmonetary contributions of holdings to Group companies

2003

In 2003 there were no nonmonetary contributions of holdings to Group companies.

2002

In 2002 in line with the restructuring process carried out by Telefónica, S.A. to group together its interests by line of business, capital increases were carried out at certain Group companies through nonmonetary contributions of shares of other companies, as explained in Note 7.4.d.

The detail of these contributions is as follows:

Company	Millions of euros
Retirements:	
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	(12.12)
HighWay One GmbH	(637.07)
Zeleris España, S.A.	(3.91)
TBS Celular Participações, S.A.	(25.91)
Sudestecel Participações, S.A.	(64.06)
Tele Sudestecel Participações, S.A.	(0.01)
Iberoleste Participações, S.A.	(113.19)
Tele Leste Celular Participações, S.A.	(13.59)
Atento Holding, Inc.	(282.71)
	(1,152.57)

Additions:

Telefónica Capital, S.A.	12.12
Telefónica Datacorp, S.A.	637.07
Zeleris Soluciones Integrales, S.L.	3.91
Telefónica Móviles, S.A.	216.76
Atento Holding, N.V.	282.71
	1,152.57

The value for tax purposes of these additions may differ from that recorded for accounting purposes as a result of the application of the values for tax purposes at which the holdings contributed had been carried, which are disclosed, where appropriate, in the accompanying financial statements and in those for previous years.

d) Transfers due to conversion of loans into equity

2003

In 2003 there were no transfers due to conversion of loans into equity.

2002

In December 2002 Telefónica Datacorp, S.A. increased capital through the issuance of 200 million new shares of €1 par value each, which were subscribed in full by Telefónica, S.A. through the conversion of a €200.00 million loan into equity.

The Uruguayan company Emergia, S.A. increased capital in December by US\$ 500 million. Telefónica subscribed and paid the capital increase in full by converting loans to this company into equity.

e) Transactions protected for tax purposes

Following is a detail of the transactions protected for tax purposes carried out in 2003 and 2002, 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 2002 are duly disclosed in prior years' financial statements.

2003

In 2003 there were no transactions protected for tax purposes.

2002

- Capital increase of €39.01 million, including additional paid-in capital, authorized by the Stockholders' Meeting carried out on November 27, 2002, by Telefónica Capital, S.A. as consideration for shares representing 77.22% of the capital stock of the Spanish company Fonditel Entidad Gestora de Fondos de Pensiones, S.A., with a net book value of €12.12 million.
- Capital increase authorized by the Special Stockholders' Meeting carried out on December 23, 2002, by Telefónica Datacorp, S.A. as consideration for shares representing 99% of the capital stock of the German company HighwayOne Germany GmbH.
- Capital increase carried out by Atento N.V. as consideration for all the shares of the U.S. company Atento Holding Inc.
- Capital increase of €821,763.71 carried out by Zeleris Soluciones Integrales, S.L. as consideration for all the shares of the Spanish company Zeleris España, S.A.

This transaction was carried out under the tax neutrality regime provided for share exchanges in Article 97 of Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995.

- Capital increase authorized by the Stockholders' Meeting of Telefónica Móviles, S.A. carried out on May 23, 2002, for a par value of €6,998,086.3 and additional paid-in capital of €106,197,586.22 as consideration for shares of the Brazilian company Iberoleste Participações, S.A.

This transaction was carried out under the tax neutrality regime provided for nonmonetary contributions in Article 108 of Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995.

- Capital increase authorized by the Stockholders' Meeting of Telefónica Móviles, S.A. carried out on May 27, 2002, for a par value of €6,402,660.5 and additional paid-in capital of €97,161,858.50 as consideration for shares of the Brazilian companies TBS Celular Participações, S.A., Sudestecel Participações, S.A., Tele Leste Celular Participações, S.A. and Tele Sudeste Celular Participações, S.A.

This transaction was carried out under the tax neutrality regime provided for nonmonetary contributions in Article 108 of Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995.

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, 2003 and 2002, and the related amortization schedule are as follows:

	Maturity							
	2004	2005	2006	2007	2008	Subsequent years	Balance at 12/31/03	Balance at 12/31/02
Interest on long-term promissory notes	7.13	7.00	7.05	7.13	7.27	16.02	51.60	58.79
Debt arrangement expenses	33.50	27.90	19.94	19.92	18.44	70.17	189.87	207.82
Executive loyalty-building program costs	—	—	—	—	—	—	—	4.73
Other deferred charges	6.16	5.85	5.85	5.54	5.49	18.62	47.51	43.26
Total	46.79	40.75	32.84	32.59	31.20	104.81	288.98	314.60

(9) STOCKHOLDERS' EQUITY

The detail of the balances of equity accounts and of the variations therein in 2003 and 2002 is as follows:

	<i>Millions of euros</i>									
	Balance at 12/31/01	Allocation of 2001 loss	Capital increase	Other variations	Balance at 12/31/02	Allocation of 2002 Loss	Capital Increase	Distribution of dividends	Other variations	Balance at 12/31/03
Capital stock	4,671.92	—	188.74	—	4,860.66	—	196.37	—	(101.14)	4,955.89
Additional paid-in capital	11,670.02	—	—	—	11,670.02	(1,516.22)	—	(1,653.15)	(513.51)	7,987.14
Revaluation reserves	3,070.68	—	(188.74)	—	2,881.94	(1,316.67)	(196.37)	—	—	1,368.89
Legal reserve	652.57	—	—	—	652.57	—	—	—	—	652.57
Voluntary reserve	2,133.13	(354.18)	—	(133.15)	1,645.80	(1,645.80)	—	—	—	—
Reserve for treasury stock	260.70	—	—	73.86	334.56	—	—	—	(201.10)	133.46
Other restricted reserves	5.40	—	—	—	5.40	—	—	—	—	5.40
Income (Loss) for the year	(354.18)	354.18	—	(4,478.69)	(4,478.69)	4,478.69	—	—	1,373.71	1,373.71
Total	22,110.24	—	—	(4,537.98)	17,572.26	—	—	(1,653.15)	557.96	16,477.06

a) Capital stock

As of December 31, 2003, 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 provided by Article 153.1 b) of the Spanish Corporations Law (authorized capital) up to a maximum of €2,274,677,655, 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, 2003, the Board of Directors had not made use of this authorization.

Also, on June 15, 2001, 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 that will 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 2002, as indicated below.

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, the aforementioned Stockholders' Meeting on April 12, 2002, resolved to increase capital by €2,180,809 through the

issuance of new common shares with additional paid-in capital of €11.61 per share to cater for the needs derived from the establishment of a stock option plan for the employees of the Endemol Group. It also granted the Board of Directors the necessary powers to implement the capital increase resolution, including the express power to refrain from implementing the resolution. In a resolution dated December 18, 2002, the Board of Directors expressly decided not to implement the aforementioned resolution to increase capital, and opted to cover the stock option plan referred to above by a means other than through a capital increase with the issuance of new shares (i.e., through the prior acquisition of Telefónica, S.A. shares on the stock market).

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 total maximum amount of the issue or issues of fixed-income securities that the Board can resolve to make pursuant to the aforementioned powers, together with that of the Company's other issues outstanding on the date on which these powers are exercised, cannot exceed the maximum limit of the amount of paid-in capital stock plus the reserves recorded in the latest available approved balance sheet and the asset revaluation accounts accepted by the authorities, pursuant to Article 282.1 of the Spanish Corporations Law. 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, 2003, the Board of Directors had not exercised these powers, except in relation to the approval of a program to issue corporate promissory notes for 2004.

In addition, on April 11, 2003, the Stockholders' Meeting authorized the Board of Directors to derivatively acquire treasury stock, for 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, 2003 and 2002, Telefónica S.A. held the following shares of treasury stock:

Euros per Share (*)					
	Number of Shares	Acquisition	Market Price	Market Value	%
Treasury stock at 12/31/03	40,532,869	10.39	10.85	439.66	0.81787
Treasury stock at 12/31/02	91,631,076	11.65	8.53	781.61	1.88516

(*) As indicated in Note 4-f, a drop in the market value of the shares would lead to the recording of additional provisions with a charge to income, but would not affect the total amount of equity.

In 2003 the Company acquired for consideration 50,792,028 shares of treasury stock and 3,918,983 shares were assigned to it in the capital increases at no charge to stockholders. Also 101,140,640 shares were used to retire a portion of the capital stock and 6,000,000 shares were sold for a gain of €7.12 million (see Note 16.6). Lastly, as a result of the completion of the process of purchasing the holding in Telefónica Holding Argentina, S.A. in 2003, the settlement relating to the Company amounted to the equivalent of 1,331,422 share of treasury stock, which gave rise to an extraordinary gain of €12.63 million (see Note 16.6). The average acquisition cost of the shares of treasury stock as of December 31, 2003 and 2002, was €10.39 and €11.65 per share, respectively.

The balance sheets as of December 31, 2003 and 2002, include the acquisition cost of the shares of treasury stock (€421.26 million and €1,067.94 million, respectively) net of allowances of €287.80 million and €733.38 million, respectively, the provisions to which were recorded, in accordance with current accounting regulations (see Note 4-f), with a cumulative charge to the consolidated statement of operations in respect of the market value of these shares (€286.33 million in 2002) and with a cumulative charge to unrestricted reserves in respect of the amount by which the market value or cost in 2003 exceeds the underlying book value (€287.80 million and €447.05 million in 2003 and 2002, respectively). 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 (the provision recorded in 2002 amounted to €288.09 million) (see Note 16.6).

The Company has recorded the related restricted reserve for the amount of these shares of treasury stock. Also, in 2003 and 2002 it recorded provisions of €448.84 million and €59.29 million, respectively, with a charge to the "Unrestricted Reserves" caption on the asset side of the accompanying balance sheet to reflect the underlying book value of the treasury stock (see Note 4-f).

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)
Monetary dividend	Jul.-Oct. 2003	—	—	(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, that the Spanish National Securities Market Commission (CNMV) approved the admission to listing of the shares of the aforementioned company (see Note 7.4).

Variations in capital stock and additional paid-in capital in 2002

The variations in 2002 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, 2001		4,671,915,885	4,671.92	11,670.02
Capital increase at no cost to stockholders	02/13/02	93,438,317	93.44	—
Capital increase at no cost to stockholders	04/12/02	95,307,084	95.30	—
Balance at December 31, 2002		4,860,661,286	4,860.66	11,670.02

The capital increases carried out and formalized in 2002 were as follows:

On February 13, 2002, 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 €93,438,317, 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 26, 2002.

On April 12, 2002, the notarial deed of formalization and execution of a further capital increase at Telefónica, S.A. was executed. This capital increase, for a par value of €95,307,084, 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 April 30, 2002.

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, 2003 and 2002, of the balances of the revaluation reserves, which amounted to €1,368.89 million and €2,881.94 million, respectively, and of the variations therein in 2003 and 2002 is as follows:

	<i>Millions of euros</i>
Balance at 12/31/01	3,070.68
Capital increase on February 13, 2002	(93.44)
Capital increase on April 12, 2002	(95.30)
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	1,368.89

(10) DEBENTURES, BONDS AND OTHER MARKETABLE DEBT SECURITIES

10.1 The detail of the balances as of December 31, 2003 and 2002, 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 12/31/01	2,549.38	624.81	3,174.19
New issues	—	1,403.17	1,403.17
Redemptions	(116.09)	(1,328.64)	(1,444.73)
Adjustments and other variations	75.92	—	75.92
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
Maturity:			
Long term	2,525.97	—	2,525.97
Short term	69.24	606.45	675.69
Unmatured accrued interest	52.02	—	52.02

10.2 The detail of the debentures and bonds outstanding as of December 31, 2003, and of their main features, is as follows:

Debentures and Bonds	Type of Interest	Interest Rate %	Maturity					Subsequent Years			Total
			2004	2005	2006	2007	2008				
DEBENTURES											
FEBRUARY 1990 SERIES B	FIXED	12.6000	—	8.22	—	—	—	—	—	—	8.22
FEBRUARY 1990 SERIES C	FIXED	12.6000	—	—	—	—	—	—	3.76	3.76	3.76
FEBRUARY 1990 SERIES E	ZERO CUPON	12.8532	—	66.79	—	—	—	—	—	—	66.79
FEBRUARY 1990 SERIES F	ZERO CUPON	12.5793	—	—	—	—	—	—	7.24	7.24	7.24
DECEMBER 1990	ZERO CUPON	13.5761	—	629.77	—	—	—	—	—	—	629.77
OCTOBER 2004	FIXED	8.2500	69.24	—	—	—	—	—	—	—	69.24
APRIL 1999	FIXED	4.5000	—	—	—	—	—	—	500.00	500.00	500.00
JUNE 1999	FLOATING	2.6540	—	—	—	—	—	—	300.00	300.00	300.00
JULY 21, 1999	ZERO CUPON	6.3700	—	—	—	—	—	—	39.48	39.48	39.48
MARCH 2, 2000	FLOATING	4.5800(*)	—	—	—	—	—	—	50.00	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			69.24	704.78	—	500.00	420.71	900.48	2,595.21		

(*) The applicable interest rate (floating, set annually) is that relating to the ten-year pound sterling 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 Rate (%)	Current Value	Redemption Value
DEBENTURES				
FEBRUARY 1990 SERIES E	02/26/05	613.338%	66.79	76.79
FEBRUARY 1990 SERIES F	02/26/10	1,069.479%	7.24	15.04
DECEMBER 1990	12/28/05	675.000%	629.77	811.37
JULY 1999	07/21/29	637.638%	39.48	191.29
Total			743.28	1,094.49

10.4 As of December 31, 2003, 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
1,000 extendable to 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 30 to 750 days	Specific transactions

10.5 The average interest rate on the outstanding debentures and bonds at year-end was 6.85% in 2003 (6.81% in 2002), and the average interest rate on the corporate promissory notes was 3.416% in 2003 (3.465% in 2002).

(11) PAYABLE TO CREDIT INSTITUTIONS

11.1 The detail of the balances of this caption as of December 31, 2003 and 2002, is as follows:

	<i>Millions of euros</i>							
	Average interest rate		2003			2002		
	2003	2002	Short term	Long term	Total	Short term	Long term	Total
Promissory notes	13.52	13.52	6.92	99.64	106.56	7.09	106.56	113.65
Loans and credits	2.33	3.49	718.38	2,420.78	3,139.16	1,561.04	2,873.05	4,434.09
Foreign currency loans and credits	1.29	1.76	135.61	144.83	280.44	134.34	530.28	664.62
Total	860.91	860.91	2,665.25	3,526.16	3,526.16	1,702.47	3,509.89	5,212.36

11.2 These balances mature as follows:

	Maturity						
	2004	2005	2006	2007	2008	Subsequent Years	Balance at 12/31/03
Promissory notes	6.92	6.74	6.57	6.37	6.14	73.82	106.56
Loans and credits	718.38	872.35	672.98	157.73	31.93	685.79	3,139.16
Foreign currency loans and credits	135.61	94.68	50.15	—	—	—	280.44
Total	860.91	973.77	729.7	164.10	38.07	759.61	3,526.16

11.3 The “Loans and Credits” account includes a syndicated loan of €1,200 million arranged by the Company in 1999 with 38 financial institutions. This loan has a term to maturity of five or seven years, chosen by 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.

In relation to the issue of 42 bearer promissory notes made with La Estrella, S.A. de Seguros and maturing on February 15, 2001, which carried a commitment to issue new promissory notes, on February 15, 2001, Telefónica, S.A. issued 74 bearer promissory notes with a par value of €126.29 million and maturing in February 2011.

11.4 Credit facilities available

The “loans and credits” balances relate only the amounts drawn down.

As of December 31, 2003, the undrawn credit facility balances amounted to €6,528 million, which sufficiently covers the financing needs arising from short-term commitments.

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, 2003 and 2002, is as follows:

Millions of euros

	2003			2002		
	Long Term	Short Term	Total	Long Term	Short Term	Total
Loans	12,469.47	7,614.78	20,084.25	12,238.53	5,662.07	17,900.60
Accounts payable to Group companies for purchases and services	—	71.57	71.57	—	217.01	217.01
Accounts payable to subsidiaries due to taxation on a consolidated basis	5,108.17	248.68	5,356.85	5,441.10	6.21	5,447.31
Total	17,577.64	7,935.03	25,512.67	17,679.63	5,885.29	23,564.92

12.2 In 2003 and 2002 Telefónica Europe, BV granted the following loans to the Company:

Year		
Granted	Maturity	Millions of euros
2002	2003	96
2002	2005	50
2002	2004	80
2002	2012	2,000
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 in 2003 includes as an associated cost the commissions or premiums which are charged to the statement of operations in the period in 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 2003 was 5.87 %.
- II. The total financing received from Telefónica Europe, B.V. as of December 31, 2003, amounted to €12,559.88 million.

Additionally, the Company had been granted financing from Telefónica Finanzas, S.A. as of December 31, 2003, amounting to €6,058.51 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:

Millions of euros

	2003	2002
Telefónica de España, S.A.U.	42.11	84.93
Telefónica de Contenidos, S.A.	—	6.49
Telefónica Internacional, S.A.	—	56.04
Telefónica Móviles, S.A.	—	56.83
Telefónica Móviles España, S.A.	3.42	—
Terra Networks, S.A.	2.70	—
Terra España, S.A.	6.25	—
Educaterra	2.31	—
Telefónica Holding Argentina, S.A.	7.47	7.35
Other	7.32	5.37
Total	71.58	217.01

12.4 The long-term 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 short-term balance relates mainly to corporate income tax installment payments made by the Group companies through Telefónica.

These amounts include most notably those relating to Telefónica Internacional, S.A. (€2,941.31 million) and Telefónica Móviles Holding, S.A. (€884.80 million) for the contribution of tax losses to the tax group in prior years.

(13) DERIVATIVES

In 2003 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, 2003, the total outstanding balance of derivatives transactions was €27,158.04 million (€38,717.54 million as of December 31, 2002) of which €13,394.17 million related to interest rate risk and €12,726.29 million to exchange risk (€18,973.30 million and €19,367.19 million as of December 31, 2002, respectively).

It should be noted that as of December 31, 2003, Telefónica S.A. had arranged transactions with financial institutions to hedge interest rate and exchange risks for other Telefónica Group companies amounting to €1,846.13 million and €4,313.16 million, respectively (€8,553.30 million and €12,069.69 million, respectively, as of December 31, 2002). 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 2003 in relation to these transactions amounted to €48.33 million.

13.1 The detail of the portfolio by type of derivative as of December 31, 2003, is as follows:

Millions

Type of risk	Equivalent Euro Value	2003			
		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 transactions	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 Amounts
Interest rate options	2,242.72	
Caps & Floors	2,242.72	
US DOLLAR	158.35	200.00
EURO CURRENCY	2,084.37	2,084.37
Swaptions	—	
EURO CURRENCY	—	—
Interest rate options	529.14	
USD/EUR	529.14	668.31
Equity swaps	323.95	
Stock options	713.63	
Subtotal	3,809.44	
Total	27,158.03	

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.

13.2 The detail of the portfolio by type of derivative as of December 31, 2002, is as follows:

Millions

2002

Type of risk	Equivalent Euro Value	Telefónica Receives		Telefónica Pays	
		Value	Currency	Value	Currency
Euro interest rate swaps	5,390.62				
Fixed to floating	1,714.18	1,714.18	EUR	1,714.18	EUR
Floating to fixed	2,713.11	2,713.11	EUR	2,713.11	EUR
Floating to floating	963.33	962.95	EUR	963.33	EUR
Cross-currency swaps	10,944.10				
Fixed to floating	6,310.84				
USD/USD	6,276.44	6,582.10	USD	6,582.10	USD
MXN/MXN	34.40	372.00	MXN	372.00	MXN
Floating to fixed	4,633.26				
USD/USD	4,475.88	4,693.85	USD	4,693.85	USD
GBP/GBP	122.98	80.00	GBP	80.00	GBP
MXN/MXN	34.40	372.00	MXN	372.00	MXN
Exchange rate swaps	19,221.58				
Fixed to fixed	702.52				
USD/EUR	70.61	65.00	USD	70.61	EUR
GBP/EUR	121.49	80.00	GBP	121.49	EUR
USD/JPY	132.29	136.00	USD	16,456.00	JPY
JPY/USD	129.68	16,456.00	JPY	136.00	USD
USD/BRL	100.65	155.00	USD	372.93	BRL
BRL/USD	147.80	372.93	BRL	155.00	USD
Fixed to floating	511.84				
EUR/USD	50.73	58.41	EUR	53.20	USD
USD/EUR	119.58	109.00	USD	119.58	EUR
JPY/EUR	113.90	12,400.00	JPY	113.90	EUR
BRL/EUR	96.99	288.17	BRL	96.99	EUR
BRL/USD	40.05	108.77	BRL	42.00	USD
PEN/USD	47.68	176.13	PEN	50.00	USD
MXN/USD	42.91	450.33	MXN	45.00	USD
Floating to fixed	1,603.56				
EUR/JPY	49.84	56.95	EUR	6,200.00	JPY
EUR/BRL	77.77	96.99	EUR	288.17	BRL
USD/EUR	1,357.18	1,247.73	USD	1,357.18	EUR
USD/BRL	29.35	42.00	USD	108.77	BRL
USD/PEN	47.78	50.00	USD	176.13	PEN
USD/MXN	41.64	45.00	USD	450.33	MXN
Floating to floating	16,403.66				
EUR/USD	6,025.93	6,229.20	EUR	6,319.40	USD
USD/EUR	8,949.64	8,753.25	USD	8,949.64	EUR
EUR/GBP	384.32	387.08	EUR	250.00	GBP
GBP/EUR	265.59	170.00	GBP	265.59	EUR
JPY/EUR	282.00	30,000.00	JPY	282.00	EUR
USD/MXN	245.87	262.50	USD	2,659.03	MXN
MXN/USD	250.31	2,659.03	MXN	262.50	USD
Forward transactions	145.60				
USD/EUR	38.67	37.61	USD	38.67	EUR
EUR/USD	102.51	111.14	EUR	107.50	USD
USD/CLP	2.26	2.26	USD	1,700.00	CLP
CLP/USD	2.16	1,700.00	CLP	2.26	USD
Subtotal	35,701.90				

Notional amounts of structured products with options	Euros	Notional Amounts	
Interest rate options	2,638.57		
Caps & Floors	2,050.81		
US DOLLAR	190.71	200.00	USD
EURO CURRENCY	1,860.10	1,860.10	EUR
Swaptions	508.43		
US DOLLAR	429.10	450.00	USD
EURO CURRENCY	79.33	79.33	EUR
Interest rate options	79.33		
Equity swaps	377.05		
Subtotal	3,015.62		
Total	38,717.52		

The detail, by average maturity, of the hedging transactions in 2003 and 2002 is as follows:

	2003				
	Amount	Up to 1 year	1 to 3 years	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 transactions	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	—	—	—
Stock 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.

	2002				
	Amount	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years
With underlying instrument					
Loans	25,438.85	3,535.94	15,667.99	3,678.96	2,555.96
In national currency	12,312.63	1,601.07	6,641.76	2,270.85	1,798.95
In foreign currencies	13,126.22	1,934.87	9,026.23	1,408.11	757.01
MTN debentures and bonds	11,353.86	7,115.63	2,752.94	114.43	1,370.86
In national currency	410.83	50.73	—	—	360.10
In foreign currencies	10,943.03	7,064.90	2,752.94	114.43	1,010.76
Liabilities	1,547.78	47.78	—	—	1,500.00
Swaps	47.78	47.78	—	—	—
Interest rate options	1,500.00	—	—	—	1,500.00
Shares	377.05	377.05	—	—	—
Total	38,717.54	11,076.40	18,420.93	3,793.39	5,426.82

(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 2003.

14.1 Deferred tax assets and liabilities

The detail as of December 31, 2003 and 2002, of Telefónica's deferred tax assets and liabilities, and of the variations therein in 2003 and 2002, is as follows:

	Deferred Tax Assets	Deferred Tax Liabilities	Intercompany Deferred TaxLiabilities/(Assets)
	Long Term	Long Term	Long Term
Balance at December 31, 2001	91.03	3.87	42.39
Reversal	(36.06)	—	—
Arising in the year	20.22	—	4.78
Other variations	(16.01)	(3.87)	(12.46)
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

Telefónica's deferred tax assets relate mainly to employee long-service bonuses, and to accounting provisions recorded for investments in companies with negative underlying book values.

The deferred tax liabilities reversed in 2002 relate mainly to timing differences due to the reinvestment of extraordinary gains.

14.2 Taxes payable and taxes receivable

The detail of the "Taxes Payable" and "Taxes Receivable" captions as of December 31, 2003 and 2002, is as follows:

Millions of euros

	Balance at 12/31/03	Balance at 12/31/02
Taxes payable:		
Long-term taxes payable:	39.34	34.71
Deferred tax liabilities	39.34	34.71
Short-term taxes payable:		
Personal income tax withholdings	3.18	1.05
VAT	8.62	7.51
Withholdings from income from movable capital and other	2.87	2.32
Accrued social security taxes	0.76	1.28
Total	54.77	46.87

The tax credits taken relate basically to the reinvestment of gains and double taxation.

The income qualifying for the tax credit for reinvestment of extraordinary gains in 2003 amounted to €7.01 million, and the reinvestment commitment of the Telefónica tax group to which the company belongs were sufficiently covered in the year.

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 2003 is as follows:

Millions of euros

	Balance at 12/31/03	Balance at 12/31/02
Taxes receivable:		
Long-term taxes receivable (Note 7)	5,000.10	4,932.90
Deferred tax assets	80.18	59.18
Long-term tax loss carryforwards	4,919.92	4,873.72
Short-term taxes receivable:	30.66	45.41
Corporate income tax prepayments	11.58	6.27
Tax withholdings	0.33	2.67
Corporate income tax refundable	0.03	0.11
Taxes recoverable and other	18.72	36.36
VAT and Canary Islands general indirect tax refundable	5,030.76	4,978.31
Total	5,030.76	4,978.31

Millions of euros

	Balance at 12/31/03	Balance at 12/31/02
Timing differences:		
Long-service bonuses	(25.79)	
Period provisions for contingencies and expenses	11.44	
Total	(14.35)	

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 2001) 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). No material liabilities not recorded in the accompanying financial statements are expected to arise as a result of the reviews currently being performed by the tax inspection authorities.

14.3 Reconciliation of the income/loss per books to the tax base and determination of the corporate income tax revenue and net tax refundable.

The corporate income tax revenue and the net tax refundable for 2003 and 2002 are as follows.

Millions of euros

	2003	2002
Income (Loss) before taxes per books	1,036.50	(5,766.30)
Permanent differences	(1,962.50)	2,747.13
Timing differences		
Arising in the year	30.62	57.78
Arising in prior years	(44.97)	(103.04)
Tax base	(940.35)	(3,064.43)
Gross tax payable	(329.12)	(1,072.55)
Tax credits capitalized	(22.43)	(85.61)
Other tax credits and tax relief	—	(152.25)
Corporate income tax refundable	(351.55)	(1,310.41)
Timing differences	5.02	15.84
Corporate income tax accrued in Spain	(346.53)	(1,284.57)
Foreign taxes	6.30	5.06
Other	3.02	1.90
Total income tax	(337.21)	(1,287.61)

The balance of this caption relates mainly to compensation payable and to other payables relating to fixed asset purchases.

(15) OTHER NONTRADE PAYABLES

The balance of this caption relates mainly to compensation payable and to other payables relating to fixed asset purchases.

(16) REVENUES AND EXPENSES

16.1 Operating revenues

The revenues from sales and services in 2003 and 2002 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 2003 and 2002 amounted to €28.02 million and €29.90 million, respectively, and these amounts are recorded under the "Net Sales to Group Companies" caption in the accompanying statements of operations.

16.2 Personnel expenses

The detail of the personnel expenses is as follows:

	2003	2002
Compensation, incentive schemes, etc.	97.30	74.81
Pension plans (Note 4-h)	2.48	2.27
Employee welfare expenses and other	13.29	12.98
Total	113.07	90.06

The "Personnel Expenses" caption includes the severance paid to two senior managers who left the Company in 2003, the amount of which had been established in their respective senior management contracts.

In general, senior management contracts relating to members of the Executive Committee include indemnity clauses consisting of three years' salary plus another year's salary depending on the years of service at the Company, for cases of unilateral termination by the Company. The one-year's salary payment consists of the last year's fixed compensation and the arithmetic mean of the sum of the last two variable compensation payments received per the related contract.

The "Compensation, Incentive Schemes, etc." caption includes the period expense for 2003 and 2002 relating to the Telefónica stock option plan (TOP) allocable to Company personnel, amounting to €8.69 million and €7.09 million, respectively.

16.3 Average number of employees

Category	2003	2002
University graduates and other line personnel	611	574
Junior college graduates and technicians (draftsmen)	8	7
Supervisors and data processing assistants	167	181
Building and services personnel	5	7
Total	791	769

The total number of employees as of December 31, 2003, was 767 (791 in 2002).

Compensation systems tied to share market price

At 2003 year-end Telefónica only had one compensation system tied to the market price of its shares, namely the TIES Program, described below, 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 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.

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 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 stock or stock option plan.

The aims of the TIES Program are identical to those achieved by other similar programs implemented in the past by Telefónica, S.A. or its subsidiaries and is broadly similar to programs which have been introduced in several European countries and in the U.S. Its main purpose is to introduce a system of global incentives and to reward the past and future services of all the employees of Telefónica, S.A. and its subsidiaries in the coming years. The TIES Program will basically motivate all its beneficiaries by giving them access to Telefónica, S.A. shares under highly favorable terms and conditions.

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 pre-emptive 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.

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 no. 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 is 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 at Telefónica 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, 2003, 73,171 persons were participating in the TIES program, who held a total of 30,113,539 purchase options on Telefónica, S.A. shares. As of that date, 510 Telefónica, S.A. employees were participating in the Plan.

No Telefónica, S.A. directors, general managers or employees of a similar rank to general manager are participating in the TIES Program.

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:

	2003	2002
Debentures, bonds and other marketable debt securities	202.14	213.69
Euro loans and credits	857.93	763.63
Foreign currency loans	352.87	403.35
Total interest on accounts payable and similar expenses	1,412.94	1,380.67
Interest on loans to subsidiaries and associated companies	993.72	1,191.29
Revenues from investments in euros	46.28	18.20
Revenues from investments in foreign currencies	0.21	0.19
Revenues from financial derivatives	208.44	104.55
Total revenues from other equity investments and loans	1,248.65	1,314.23

€912.35 million and €900.23 million of the expenses related to interest on accounts payable to Group companies in 2003 and 2002, respectively (see Note 16.8).

16.5 Exchange differences

The detail of the exchange losses charged to income is as follows:

	2003	2002
Repayment of loans maturing in the year	126.90	122.46
Potential losses in 2003 and subsequent years	308.73	502.17
Recurring operations and derivatives	1,199.81	974.24
Total	1,635.44	1,598.87

The detail of exchange gains credited to income is as follows:

	2003	2002
Repayment of loans maturing in the year	42.73	21.23
Adjustment of foreign loans	959.78	1,013.88
Recurring operations and derivatives	588.74	236.11
Total	1,591.25	1,271.22

The variation in exchange gains and exchange losses in 2003 with respect to 2002 was due basically to the significant fluctuations in the US\$/euro exchange rate, 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 operations relates to nonrecurring revenues obtained by the Company. The detail of the extraordinary revenues is as follows:

	2003	2002
Gains on disposal of investments	29.44	1.17
Release of reserve for treasury stock (Note 9)	159.95	—
Other extraordinary revenues	21.87	1.54
Total	211.26	2.71

The gains on disposals of investments include 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.

The "Other Extraordinary Revenues" caption includes 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:

	2003	2002
Prior years' losses	21,72	6,21
Losses on long-term investments	10,08	—
Provision for treasury stock (Note 9)	—	288,09
Other extraordinary expenses	34,67	106,42
Total	66,47	400,72

The “Other Extraordinary Expenses” account includes most notably the provisions of €3.06 million and €34.62 million recorded by the Company in 2003 and 2002, respectively, to cover the underlying book value of certain investees that was negative as of December 31. These provisions are recorded under the “Provisions for Contingencies and Expenses” caption in the accompanying balance sheet.

Additionally, this account includes the provisions considered necessary by the Company to cover certain contingencies the amounts and probability of which were difficult to quantify or foresee as of the date of preparation of these financial statements.

16.8 Transactions with Group companies

Telefónica's main transactions with Group companies in 2003 and 2002 were as follows:

	2003	2002
Dividends received	591.65	881.96
Accrued interest	1,174.51	1,285.82
Financial expenses (Note 16.4)	(912.35)	(900.23)
Acquisitions of goods and services from the Telefónica Group	(50.15)	(45.24)
Telefónica de Argentina management fee transferred to Telefónica de España	(1.40)	(1.49)

The dividends received in 2003 include 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. Those received in 2002 included most notably that of €855.54 million paid by Telefónica de España, S.A.U. and that of €22.06 million paid by Telefónica Publicidad e Información, S.A.

The accrued interest in 2003 includes 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. (€16.52 million). The accrued interest in 2002 included most notably that relating to Telefónica de España, S.A.U. (€516.50 million), to Telefónica Móviles, S.A. (€302.29 million), to Telefónica Internacional, S.A. (€222.99 million), to Telefónica de Contenidos, S.A. (€91.83 million) and to Emergia S.A. (€59.73 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 2003 amounted to €707.07 million and €176.61 million, respectively (€613.26 million and €249.80 million, respectively, in 2002) (see Note 12.2).

(17) DIRECTORS' COMPENSATION AND OTHER BENEFITS AND OTHER DISCLOSURES

a) Directors' compensation and other benefits

The compensation of Telefónica's directors consists of a fixed monthly payment and attendance fees for attending the Board of Directors' advisory and control committee meetings. Also, the executive directors receive compensation for the executive duties discharged by them.

The directors' compensation is governed by Article 28 of the bylaws, which indicates that the amount of the compensation to be paid by the Company to its directors is set by the Stockholders' Meeting, and the Board of Directors subsequently distributes it among the directors. In this connection, on April 11, 2003, the Stockholders' Meeting set a maximum gross annual amount to be paid to the Board of Directors of €6 million, which includes a fixed payment and attendance fees for attending the Board of Directors' advisory committee or control committee meetings. It should be noted that, in line with the best practices in this field, the directors' compensation is not tied to results.

In 2003 the members of the Board of Directors of Telefónica, S.A. earned €10,900,943.98 (€3,339,958.34 fixed monthly payment, including the compensation earned as members of the Boards of Directors of other Telefónica Group companies; €120,247.86 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); €7,275,864.86 of salaries and variable compensation of the executive directors; €114,872.92 of compensation in kind paid to the executive directors, which include life insurance premiums; and €50,000 of contributions paid by the Company, as promoter and for executive directors, under pension plans).

The breakdown of the compensation and benefits received by the directors of Telefónica in 2003 is as follows:

Board of Directors: annual amount of the fixed payment received by each director (in euros):

Position	2003
Chairman	90,151.92
Deputy Chairmen	150,253.02
Directors (1):	
Executive directors	90,151.92
Nominee directors	90,151.92
Independent directors	90,151.92

(1) Additionally, one director, who is not resident in Spain, receives an additional annual payment of €60,101.21 because his experience and work in relation to Latin America is of special interest to the Company.

Standing Committee: annual amount of the fixed payment received by each director (in euros):

Position	2003
Chairman	60,101.19
Deputy Chairman	60,101.19
Directors	60,101.19

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: total annual amounts paid in 2003 for attending meetings of the advisory and control committees of the Board of Directors, received by the directors taken as a whole:

Committees	2003
Audit and Control	Attendance fee per meeting: €858.61 Number of meetings paid: 9 Total received: €26,616.91
Appointments and Compensations and Best Practice Corporate Governance	Attendance fee per meeting: €858.61 Number of meetings paid: 6 Total received: €24,899.69
Human Resources and Corporate Reputation	Attendance fee per meeting: €858.61 Number of meetings paid: 6 Total received: €20,606.64
Regulation	Attendance fee per meeting: €858.61 Number of meetings paid: 5 Total received: €12,879.15
Service Quality and Commercial Service	Attendance fee per meeting: €858.61 Number of meetings paid: 4 Total received: €8,586.1
International Matters	Attendance fee per meeting: €858.61 Number of meetings paid: 2 Total received: €7,727.49

Executive directors: total amounts received by the executive directors taken as a whole for the items indicated below (in euros):

	2003
Salaries	3,811,030.07
Variable compensation	3,464,834.79
Compensation in kind	114,872.92
Contributions to pension plans	50,000

The executive directors César Alierta Izuel, Fernando Abril-Martorell Hernández (who resigned from his post as the Company's Chief Executive Officer on September 24, 2003), Antonio J. Alonso Ureba and Luis Lada Díaz, in their capacity as directors of the Telefónica Group, were beneficiaries of the compensation plan linked to the share market price of the shares of Telefónica, S.A. targeted at the Telefónica Group's executives (the "TOP Plan") which came to an end in 2003. The options on Telefónica shares forming the subject matter of the Plan were not exercised and, accordingly, expired. The cost for Telefónica of the aforementioned compensation plan, in

relation to the executive directors participating in the Plan, amounted to €1.02 million in 2003.

Additionally, it should be noted that the nonexecutive directors do not receive and did not receive in 2003 any compensation in the form of pensions or life insurance, and they do not participate in the compensation plans linked to share market price.

Lastly, the Company does not grant and did not grant in 2003 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.

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 (1)	Functions
Isidro Fainé Casas	Terra Networks, S.A.	Telecommunications	< 0.01%	—
Maximino Carpio García	Telefónica Móviles, S.A.	Telecommunications	< 0.01%	Director
Miguel Horta e Costa	Portugal Telecom, SGPS, S.A.	Telecommunications	< 0.01%	Executive Chairman
Luis Lada Díaz	Telefónica Móviles S.A. Sogecable S.A.	Telecommunications Television, telecommunications and audiovisual production services	< 0.01%	Director
Antonio Massanell Lavilla	Telefónica Móviles S.A.	Telecommunications	< 0.01%	Director
Enrique Used Aznar	Amper, S.A.	Telecommunications equipment provider	0.39%	Chairman
Antonio Viana Baptista	Portugal Telecom SGPS, S.A. Telecom Italia Hellenic Telecom	Telecommunications Telecommunications Telecommunications	< 0.01% < 0.01% < 0.01%	Director — —
	PT Multimédia- Serviços de Telecomunicações e Multimédia, SGPS, S.A. Telefónica Móviles, S.A.	Internet Telecommunications	< 0.01% < 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
José Antonio Fernández Rivero	Internet and e-commerce	For account of others	Adquira España, S.A.	Chairman
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
Maximino Carpio García	Telecommunications equipment provider	For own account		Advisory Director of Abengoa, S.A.
	Wireless telecommunications	For account of others	Telefónica Móviles, S.A.	Director
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
Miguel Horta Costa	Telecommunications	For account of others	Portugal Telecom, SGPS S.A.	Executive Chairman
	Telecommunications	For account of others	PT Comunicações, S.A.	Chairman
	Telecommunications	For account of others	PT Multimédia-Serviços de Telecomunicações e Multimédia, SGPS, S.A.	
	Telecommunications	For account of others	PT Móveis-Serviços de Telecomunicações, SGPS, S.A.	Chairman
	Telecommunications	For account of others	TMN-Telecomunicações Móveis Nacionais, S.A.	Chairman
	Telecommunications	For account of others	PT Ventures, SGPS, 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
Luis Lada Díaz	Telecommunications	For account of others	Telefónica Móviles, S.A.	Chairman
	Television, telecommunications and audiovisual production services			Director
Antonio Massanell Lavilla	Telecommunications	For account of others	Sogecable, S.A.	Director
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
Mario Eduardo Vázquez	Telecommunications	For account of others	Telefónica de Argentina, S.A.	Chairman
	Telecommunications	For account of others	Telefónica Holding de Argentina, S.A.	Deputy Chairman
	Telecommunications	For account of others	Compañía Internacional de Telecomunicaciones, S.A.	Deputy Chairman
	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	Atento Argentina, 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.	Owner/Manager
	Telecommunications	For account of others	Katalyx Cataloguing Argentina, S.R.L.	Owner/Manager
	Telecommunications	For account of others	Katalyx Construction Argentina, S.R.L.	Owner/Manager
	Telecommunications	For account of others	Katalyx Transportation Argentina, S.R.L.	Owner/Manager
	Telecommunications	For account of others	Altocity.com, S.A.	Deputy Chairman
	Telecommunications	For account of others	E-Commerce Latina, S.A.	Deputy Chairman
	Internet and e-commerce	For account of others	Adquira Argentina, S.A.	Chairman
Antonio Viana Baptista	Information technology	For account of others	Indra SI, S.A.	Director
	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	Compañía de Telecomunicaciones de Chile, 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

(2) Only shown if the activity is carried on for the account of others 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 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

Financial guarantees

	2003	2002
Guarantees provided for financial transactions	14,284.93	14,292.94

The "Guarantees Provided for Financial Transactions" account relates mainly to guarantees provided by Telefónica to third parties to secure the transactions of its subsidiaries and investees, mainly Telefónica Europe, B.V.

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.

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 10, 2003, Telefónica, S.A. filed a reply brief contesting the appeal.

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 and it states that the complaint filed did not in any way signify holding in abeyance the implementation of the corporate resolutions approved by the Stockholders' Meeting and contested in that court proceeding.

- 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 also be wholly satisfactory for the Company.

Also, it should be noted that the complaint filed against the aforementioned resolutions adopted by the Stockholders' Meeting on June 15, 2001, did not in any way signify holding in abeyance the implementation of those resolutions.

- 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 issuance 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.

In May 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.

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 which are currently before the Court. The defendants have filed an answer and, in turn, Terra Networks S.A. has filed a counterclaim.

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.

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 €22,867,892, which represents the total amount paid for Sintel, since they consider null and void as a matter of law the involvement of Sintel in the contract dated December 30, 1998, in which a debt of €21,347,528 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 is currently the subject of an appeal to a superior court.

Based on the opinion of its legal counsel, the Company considers that the Order approving the arrangement is correct and that the appeal filed at the Madrid Provincial Appellate Court should not succeed.

Notwithstanding the foregoing, the liquidation process has commenced, for which purpose the Liquidation Committee was formed on July 20, 2003, and the Control body on October 15, 2003.

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, although no decision on the petition for dismissal of the proceeding has been rendered.

5) Complaint filed by Bidland Systems, Inc. against Katalyx Inc. and Telefónica, S.A.

In December 2000, Bidland Systems, Inc. ("Bidland") filed a complaint at a California State Court against Telefónica B2B, Inc, now called Katalyx Inc., and Telefónica, S.A. based mainly on a monetary claim by virtue of purported contractual obligations based on a joint venture project that had not been formalized. Bidland alleges that it suffered loss and damage quantified at US\$ 150 million.

The discovery phase in the proceeding took place during 2002 and 2003, and included the taking of witness statements and the adducing of independent experts' reports for appraising the damage alleged by Bidland.

At the end of this phase, Telefónica and Katalyx filed at court on August 21, 2003, applications for summary judgment against all Bidland's claims contested by the latter. In October 2003, the case file was transferred to a new District Judge who has not yet set down a date for trial.

Based on the opinion of its legal counsel, the Company considers that it has reasonable legal arguments and that, although there are uncertainties in the outcome of any litigation, it should not be adverse for Telefónica, but that if it were, its economic and financial impact should not be material.

6) 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, in the alternative, 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.

7) 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 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 Spanish National Securities Market Commission to authorize the tender offer made to Terra 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 Spanish National Securities Market Commission.

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.

At present, a brief has already been filed by the Government Legal Service in reply to the application filed by ACCTER for judicial review.

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.

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 Networks, S.A. 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 Lycos Group on-line advertising space by Telefónica Group companies.

3. Exclusive acquisition of connectivity and wholesale Internet access services by Terra Lycos Group companies from Telefónica Group companies under the legally permitted most-favored-customer conditions.

4. Outsourcing by Terra Lycos 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 Lycos 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 Lycos Group of a minimum annual value 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 value was generated for the Terra Lycos Group in 2003.

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 the 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 one 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 of Portugal Telecom'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 February 4, 1999, Telefónica Larga Distancia de Puerto Rico (TLD) and ClearCom, L.P. entered into a joint venture agreement to carry on the cellular telephony business in Puerto Rico through a new company (Newcomm Wireless Services, Inc.). Under these agreements between the parties, TLD was granted an option to acquire a 50.1% holding in Newcomm Wireless Services, Inc. by converting promissory notes into shares representing 49.9% of the latter's capital stock and entering into a share purchase agreement for shares representing the remaining 0.2%.

In line with the process of reorganization by line of business carried out by the Telefónica Group, in September 2003 TLD transferred to Telefónica Móviles, S.A. the convertible promissory notes and the right to acquire the additional 0.2% of the capital stock. The actual conversion of the aforementioned promissory notes and the exercise of the option right have not yet received the required approval of the U.S. Federal Communications Commission (FCC).

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 consists of the initial contribution by Telefónica S.A. of all its contact center business (now carried on by Atento Holding Inc.) 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 had not yet been made as of that date.

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 the company GPE, became a stockholder of Atento N.V. by contributing all the shares of Procesos Operativos, S.A. As a result of the execution 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. (Sole-Stockholder Company) and Sogecable, S.A., relating to the merger of Via Digital with 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 shortfall 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 shortfalls 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 acquired a commitment, up to a maximum of €80 million, to either 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 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.

Other commitments acquired by Telefónica de Contenidos as a result of the aforementioned agreements entered into by Telefónica, Telefónica de Contenidos and Sogecable, such as the grant of a participating loan of €50 million, the grant of €172.49 million to guarantee the subscription in full of a subordinated loan of €175 million and the acquisition from Vía Digital of the rights for the 2006 Soccer World Cup, were met in full by Telefónica de Contenidos in the second half of 2003.

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 de España, S.A. (Sole-Stockholder Company), a subsidiary of Telefónica, S.A., has provided counter-guarantees for 43 guarantees provided by Banco Santander Central Hispano and by the insurance company Zurich totaling approximately €100 million, relating to definitive

guarantees provided by Telefónica Cable, S.A. (Sole-Stockholder Company), a subsidiary of Telefónica de España, S.A. (Sole-Stockholder Company), in relation to 43 concession contracts with the Spanish State for the provision of cable telecommunications services in 43 franchise areas.

These guarantees ensure performance by the concession-holder company of the obligations assumed under the concession contracts, in particular in relation to coverage of the services and the timetable for their implementation. The aforementioned guarantees were maintained after the concession deeds were converted into 19 individual B1-type licenses and 43 concession contracts for the provision of broadcasting services.

Through a Telecommunications Market Commission Resolution dated January 7, 2003, it was decided to propose to the Ministry of Science and Technology that 90% of the amount of the final guarantees provided by Telefónica Cable, S.A. for the formalization of the aforementioned 43 contracts be reimbursed. The Secretary of State for Telecommunications and for the Information Society issued a Resolution dated June 17, 2003, rejecting the proposed reimbursement of guarantees, and an appeal for judicial review was filed against the resolution.

On December 1, 2003, on the basis of the new legal framework created by the General Telecommunications Law of November 3, 2003, Telefónica applied to the Ministry of Science and Technology for the cancellation of all the guarantees provided, and on January 28, 2004, the Ministry issued a report proposing the cancellation of 90% of the guarantees relating to B1-type licenses and rejecting the cancellation of the remaining 10% of the guarantees relating to the provision of broadcasting services.

2. Telefónica Móviles, S.A.U., a subsidiary of Telefónica Móviles, S.A., in turn a subsidiary of Telefónica, S.A., has provided certain financial guarantees to the Spanish State amounting to €1,100 million, in relation to the grant to Telefónica Móviles España, S.A. (Sole-Stockholder Company) 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 31, 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., 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 October 2003, Telefónica Móviles España, S.A. cancelled the released guarantees at the respective banks.

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 is expected to complete the verification of the PCS network coverage obligations in the aforementioned cities and in area II in 2004.

Telefónica, S.A. performs various equity investment purchase and sale transactions in the course of its business activities, in which it is standard practice to receive or provide guarantees regarding the nonexistence of liabilities, contingencies, etc. in the equity investments forming the subject matter of the related transactions.

The contingencies arising from the guarantees, lawsuits and commitments described above were evaluated when the financial statements as of December 31, 2003, were prepared, and the provisions recorded with respect to the commitments taken as a whole are not representative. Also, these commitments are not expected to give rise to additional material contingencies.

Fees paid to auditors

The fees paid in 2003 to the various member firms of the Deloitte Touche Tohmatsu international organization, to which Deloitte & Touche España, S.L., the auditors of Telefónica, S.A. in 2003 and 2002 amounted to €2.07 million and €1.92 million, respectively.

The detail of the foregoing amount is as follows:

Millions of euros

	2003	2002
Audit of financial statements	0.67	0.41
Other audit services	0.66	0.84
Work additional to or other than audit services	0.74	0.67
Total	2.07	1.92

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 2003 financial statements.

(19) SUBSEQUENT EVENTS

In the period from December 31, 2003, through the date of preparation of these financial statements no events worthy of mention took place at Telefónica, S.A. or at the Telefónica Group.

(20) STATEMENTS OF CHANGES IN FINANCIAL POSITION

Application of funds	2003	2002	Source of funds	2003	2002
— Funds applied in operations	—	—	— Funds obtained from operations	187.82	182.42
— Start-up and debt arrangement expenses	21.30	187.04			
— Fixed asset additions:					
a) Intangible assets	20.05	18.57	— Long-term deferred tax assets	4.63	—
b) Tangible fixed assets	7.35	3.67	— Long-term debt	—	5,136.29
c) Long-term investments	7,199.91	8,452.53	— Fixed asset disposals:		
— Long-term deferred tax liabilities	—	11.55	a) Intangible assets	—	2.53
— Deferred revenues	—	0.91	b) Tangible fixed assets	—	2.20
— Transfer to long term of short term loans	—	3,438.55	c) Long-term investments	5,048.72	1,642.54
— Dividends	1,653.15	—	— Transfer to short term of loans to		
			Group companies	3,981.83	—
— Long-term debt	951.48	—			
Total funds applied	9,853.24	12,112.82	Total funds obtained	9,223.00	6,965.98
Funds obtained in excess of funds applied	—	—	Funds applied in excess of funds obtained	630.24	5,146.84
(increase in working capital)	9,853.24	12,112.82	(Decrease in working capital)		
				9,853.24	12,112.82

Variations in working capital

Increase in working capital	2003	2002
Short-term investments	60.92	—
Treasury stock	454.70	421.24
Cash	9.36	—
Accrual accounts	—	4.47
Accounts payable	—	3,204.76
Total	524.98	3,630.47
Variation in working capital	630.24	5,146.84
	1,155.22	8,777.31

Decrease in working capital	2003	2002
Accounts receivable	58.93	503.09
Short-term investments	—	8,119.66
Cash	—	154.56
Accounts payable	1,086.63	—
Accrual accounts	9.66	—
Total	1,155.22	8,777.31
Variation in working capital	—	—
	1,155.22	8,777.31

The reconciliation of the balances in the statements of operations to the funds obtained from operations is as follows:

Millions of euros

	2003	2002
Income (Loss)	1,373.71	(4,478.69)
Add:		
Depreciation and amortization expense	47.91	57.09
Amortization of debt arrangement expenses	38.23	22.07
Investment valuation provisions	—	5,484.78
Period provisions	42.70	378.86
Amortization of executive loyalty-building expenses	8.69	7.09
Less:		
Gain on disposal of long-term investments	29.44	1.17
Short-term investment valuation provisions	30.80	—
Investment valuation provisions	755.27	—
Reversal of provisions	170.70	—
Corporate income tax	337.21	1,287.61
Funds obtained from operations	187.82	182.42

(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.

EXHIBIT I
Detail of subsidiaries, associated companies and investees as of December 31, 2003
(amounts in millions of euros)

Subsidiaries	% of Ownership	Capital	Reserves	Interim Dividend	Income (loss)	Gross book value
Telefónica de Contenidos, S.A. (SPAIN) (1) (6) <i>Organization and operation of activities and businesses relating to multimedia services Paseo de la Castellana, 141 - 28046 Madrid</i>	100,00%	3.024,82	(2.612,77)	—	93,44	2.241,88
Telefónica Datacorp, S.A.U. (SPAIN) (1) (6) <i>Provision and operation of telecommunications services Gran Vía, 28 - 28013 Madrid</i>	100,00%	1.226,24	(468,62)	—	15,01	1.335,29
Telefónica de España, S.A.U. (SPAIN) (1) (6) <i>Provision of telecommunications services in Spain Gran Vía, 28 - 28013 Madrid</i>	100,00%	1.023,68	2.272,21	—	178,08	3.033,86
Emergia, S.A. (URUGUAY) (1) (6) <i>Provision of high bandwidth communications services Luis A. de Herrera, 1248 Piso 4 - Montevideo</i>	100,00%	30,29	328,23	—	(94,11)	499,04
Taetel, S.L. (SPAIN) (1) <i>Acquisition, holding and disposal of shares and other equity interests in other companies Beatriz de Bobadilla, 3 - 28040 Madrid</i>	100,00%	28,25	10,40	—	0,70	28,25
Telefónica Media Internacional y de Contenidos USA, Inc. (USA) <i>Operation of media services in the U.S. 1221 Brickell Av. - Miami</i>	100,00%	17,89	(17,79)	—	0,36	0,33
Lotca Servicios Integrales, S.L. (SPAIN) (4) <i>Ownership and operation of aircraft and the lease thereof Gran Vía, 28 - 28013 Madrid</i>	100,00%	16,93	—	—	(0,01)	16,93
Inmobiliaria Telefónica, S.L. (SPAIN) (1) <i>Purchase, sale and lease of real estate Gran Vía, 28 - 28013 Madrid</i>	100,00%	10,04	102,62	—	10,02	103,44
Telefónica Capital, S.A. (SPAIN) (3) <i>Financial company Gran Vía, 28 - 28013 Madrid</i>	100,00%	7,00	39,16	—	1,12	18,12
Atento Servicios Corporativos, S.A. (SPAIN) (1) <i>Holding company C/ Gran Vía, 28 - 28.013 Madrid</i>	100,00%	6,12	36,56	—	3,48	107,57
Corporación Admira Media, S.A. (SPAIN) (1) <i>Organization and management of media-related activities and businesses Jorge Manrique 12, Madrid</i>	100,00%	6,01	(1,19)	—	9,23	6,05

Subsidiaries	% of Ownership	Capital	Reserves	Interim Dividend	Income (loss)	Gross book value
Telefónica Investigación y Desarrollo, S.A. (TIDSA) (SPAIN) (3) <i>Telecommunications research activities and projects</i> <i>Emilio Vargas, 6 - 28043 Madrid</i>	100,00%	6,01	48,90	—	6,26	6,01
Communicapital Inversiones, S.A.U. (SPAIN) (1) <i>Global telecommunications fund</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	6,00	(73,19)	—	8,01	6,00
Compañía Española de Tecnología, S.A. (SPAIN) (3) <i>Promotion of business initiatives and disposition of marketable securities</i> <i>Villanueva, 2 duplicado planta 1º Oficina 23 - 28001 Madrid</i>	100,00%	3,99	(0,29)	—	(0,04)	10,11
Casiopea Reaseguradora, S.A. (LUXEMBOURG) (3) <i>Reinsurance activities</i> <i>6D, route de Trèves, L-2633 Senningerberg, Luxembourg</i>	100,00%	3,60	48,18	—	15,94	2,99
Zeleris Soluciones Integrales, S.L. (SPAIN) (3) <i>Provision of national and international mail, directory and parcel distribution services</i> <i>Paseo de Gracia, 81 1º - Barcelona</i>	100,00%	3,40	(1,27)	—	0,57	6,49
Telefónica Finanzas, S.A. (TELFISA) (SPAIN) (3) <i>Integrated cash management, counseling and financial support for Group companies</i> <i>Gran Vía, 30 - 4º Plta. - 28013 Madrid</i>	100,00%	3,01	7,76	—	2,17	12,61
Fisatel Mexico, S.A. de C.V. (MEXICO) (1) <i>Integrated cash management, counseling and financial support for Group companies</i> <i>Boulevard Manuel Avila Camacho, 24 - 16º Plta. - Lomas de Chapultepec - 11000 Mexico City</i>	100,00%	0,42	(0,03)	—	(0,24)	0,42
Venturini España, S.A. (SPAIN) (2) <i>Printing, graphic arts and direct marketing</i> <i>Avda. de la Industria, 17 Tres Cantos - 28760 Madrid</i>	100,00%	3,01	0,30	—	(0,37)	3,60
Telefónica Procesos y Tecnología de la Información, S.A. (SPAIN) (3) <i>IT services</i> <i>José Abascal, 4 - 28003 Madrid</i>	100,00%	3,00	4,79	—	0,74	3,01
Telefónica Gestión de Servicios Compartidos, S.A. (SPAIN) (1) <i>Provision of management and administration services</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	2,11	4,13	—	(4,09)	14,61
Telefónica Ingeniería de Seguridad, S.A. (SPAIN) (2) <i>Security services and systems</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i>	100,00%	0,90	(0,35)	—	(2,26)	3,58

Subsidiaries	% of Ownership	Capital	Reserves	Interim Dividend	Income (loss)	Gross book value
Communicapital Gestión, S.A.U. (SPAIN) (1) <i>Global telecommunications fund</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	0,06	(0,02)	—	—	0,06
Telefónica Europe, BV. (NETHERLANDS) (1) <i>Fund raising in capital markets</i> <i>Strawinskylaan 1259 ; tower D, 12th floor 1077 XX - Amsterdam</i>	100,00%	0,05	4,74	—	1,18	0,05
Telefónica USA, Inc. (U.S.A.) (5) <i>E-commerce</i> <i>1221 Brickell Avenue - Miami - Florida 33131</i>	100,00%	0,01	N/D	N/D	N/D	0,01
Telefónica B2B, Inc. (U.S.A.) <i>B2B e-commerce</i> <i>1001 Brickell Bay Drive - Miami, Florida 33131</i>	100,00%	0,01	N/D	N/D	N/D	0,01
Telefónica B2B Licencing, Inc. (U.S.A.) (1)	100,00%	0,01	(2,42)	—	(6,45)	0,01
Telefónica Internacional USA Inc. (U.S.A.) (1) <i>1221 Brickell Avenue suite 600 - 33131 Miami - Florida</i>	100,00%	0,50	(0,11)	—	0,22	0,01
Telefonica Gestao de Serviços Compartilhados <i>do Brasil, Ltda. (BRAZIL) (1)</i> <i>Provision of management and administration services</i> <i>Rua Do Livramento, 66 Bolo Ibirapuera - Sao Paulo</i>	99,99%	8,45	(5,72)	—	0,69	5,00
Telefónica Gestión de Servicios <i>Compartidos, S.A. de C.V. (MEXICO) (1) (6)</i> <i>Provision of management and administration services</i> <i>Bvd. Díaz Ordaz Pte N 123 2º, Col. Santamaría - 6465 Monterrey</i>	99,99%	6,75	(3,32)	—	(0,37)	6,76
Telefónica Gestión de Servicios Compartidos, S.A.C. (PERU) (1) (6) <i>Provision of management and administration services</i> <i>Shell, 310 - Miraflores</i>	99,99%	3,91	0,63	—	0,72	3,91
Telefónica Gestión de Servicios Compartidos, S.A. (ARGENTINA) (1) <i>Provision of management and administration services</i> <i>Tucuman 1, Piso 18 Ciudad de Buenos Aires</i>	99,99%	0,01	(0,84)	—	0,28	0,01

Subsidiaries	% of Ownership	Capital	Reserves	Interim Dividend	Income (loss)	Gross book value
Telefónica Internacional, S.A. (SPAIN) (1) (6) <i>Investment in the telecommunications industry abroad</i> <i>C/ Gran Vía, 28 - 28013 Madrid</i>	99,88%	7.381,66	(1.310,65)	—	404,02	8.131,75
Endemol Entertainment Holding, N.V. (NETHERLANDS) (3) (6) <i>Production of audiovisual content</i> <i>Bonairelaan, 4 - 1213 Vh Hilversum - Netherlands</i>	99,49%	0,69	101,35	—	61,50	840,34
Seguros de Vida y Pensiones Antares, S.A. (SPAIN) (3) <i>Life insurance, pensions and health insurance</i> <i>Avda. General Perón, 38 Master II - 17º P. - 28020 Madrid</i>	94,67%	204,33	(0,50)	—	7,96	206,62
Atento N.V. (NETHERLANDS) (1) (6) <i>Provision of telecommunication services</i> <i>Locatellikade, 1 - 1076 AZ Amsterdam</i>	91,35%	0,12	14,75	—	(16,25)	302,71
Terra Networks, S.A. (SPAIN) (1) (6) <i>Provision and operation of telecommunications services</i> <i>Nicaragua, 54 - 08029 Barcelona</i>	75,29%	1.202,94	1.690,31	—	(172,71)	3.755,96
Telefónica Móviles, S.A. (SPAIN) (1) (6) <i>Holding company</i> <i>Goya, 24 - 28001 Madrid</i>	71,01%	2.165,28	267,32	—	1.607,84	2.654,50
Telefónica Publicidad e Información, S.A. (SPAIN) (2) (6) <i>Publishing of directories and advertising in media of all types</i> <i>Avda. de Manoteras, 12 - 28050 MADRID</i>	59,90%	18,41	102,45	—	90,06	4,06
Pléyade Peninsular, Correduría de Seguros y Reaseguros del Grupo Telefónica, S.A. (SPAIN) (3) <i>Distribution, promotion or preparation of insurance contracts, operating as a broker</i> <i>Avda. General Perón, 38 Master II - 17º P. - 28020 Madrid</i>	16,67%	0,36	1,28	—	2,23	0,06
Telefónica del Perú, S.A.A. (PERU) (1) <i>Operator of local, long-distance and international telephony services in Peru</i> <i>Avda. Arequipa, 1155 Santa Beatriz - Lima</i>	0,14%	675,08	111,88	(37,93)	5,61	2,89

Associated Companies	% of Ownership	Capital	Reserves	Interim Dividend	Income (loss)	Gross book value
Telefónica Factoring Do Brasil, Ltd. (BRAZIL) (1) <i>Development of the factoring business Avda. Paulista, 1106</i>	40,00%	2,41	(0,78)	(0,23)	0,74	0,97
Telefónica Factoring Establecimiento Financiero de Crédito, S.A. (SPAIN) (1) <i>Loans and credits (consumer and mortgage loans and commercial transactions) Pedro Teixeira, 8 - 28020 Madrid</i>	50,00%	5,11	1,68	-	2,77	2,64
Aliança Atlântica Holding B.V. (NETHERLANDS) <i>Holder of 5,225,000 Portugal Telecom, S.A. shares Strawinskyalaan 1725, 1077 XX Amsterdam</i>	50,00%	40,00	1	-	0,80	21,97
Torre de Collcerola, S.A. (SPAIN) (2) <i>Operation of a telecommunications mast and provision of technical assistance and consulting services Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona</i>	42,00%	12,02	0,56	-	-	5,08
Sistemas Técnicos de Loterías del Estado, S.A. (SPAIN) (2) <i>Operation of a gaming terminal system for the Spanish State Gaming Organization Manuel Tovar, 9 - 28034 Madrid</i>	31,75%	12,02	52,66	-	12,94	3,82
Amper, S.A. (SPAIN) (1) (6) <i>Development, manufacture and repair of telecommunications systems and equipment and related components Torrelaguna, 75 - 28027 Madrid</i>	6,10%	27,91	33,47	-	(7,93)	11,83
Portugal Telecom, S.G.P.S., S.A. (PORTUGAL) (1) <i>Holding company Avda. Fontes Pereira de Melo, 40 - 1089 Lisbon</i>	3,74%	1.254,29	1.753,51	-	348,96	361,59
Sogecable, S.A. (SPAIN) (1) (6) <i>Indirect management of public TV Service Gran via, 32 - 3^a Pta. - 28013 Madrid</i>	1,60%	252,01	492,93	-	(329,54)	41,91
Banco Bilbao Vizcaya Argentaria, S.A. (SPAIN) (1) (6) <i>Banking Plaza de San Nicolás, 4 - 48013 Bilbao (Vizcaya)</i>	1,13%	1.565,97	6.936,51	(862,88)	1.460,34	555,63

Investees	% of Ownership	Capital	Reserves	Interim Dividend	Income (loss)	Gross book value
I-CO Global Communications (HOLDINGS) Limited (U.K.)	N/D	N/D	N/D	—	N/D	6,03
Other holdings	N/A	N/A	N/A	—	N/A	0,79
Total subsidiaries (Note 7)			23.374,86			
Total associated companies (Note 7)			1.005,42			
Total investees (Note 7)			6,82			

(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) Inactive company.

Provisional figures for associated companies and investees.

N/D No data.

N/A Not applicable.

MANAGEMENT REPORT TELEFÓNICA, S.A. 2003

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 significantly in 2003 despite the adverse effect of exchange rates (as a result of the drop in the value of the U.S. dollar with respect to the euro), the greater pressure brought to bear by competition and the commercial drive associated with the attraction of wireless and ADSL customers.

The Telefónica Group had to manage its business in a difficult scenario characterized by a slowdown in the growth of the market for traditional services, the economic and social situation in certain of the countries in which it operates, the higher pressure exerted by competitors and certain decisions taken by the regulator. In order to address this situation, Telefónica focused its management priorities on strengthening its position in the key markets in order to take advantage of the increase in the number of customers (centering itself mainly on wireless telephony and broadband services), proactively manage the situation in Latin America, reinforce a more commercial corporate model, improve operating efficiency, continue with the expense and investment containment policy and restructure the businesses that had not achieved the level of development foreseen, focusing mainly on the key businesses.

This strategy enabled Telefónica to achieve a prominent position in the industry, where it remained leader in the Spanish- and Portuguese-speaking wireline and wireless telephony markets, with almost 99 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. As a result of this situation, the Company can make a greater commitment to its stockholders by improving their returns and establishing an attractive remuneration policy for the coming years.

In the future, the Group's strategy will continue to focus on achieving sustainable cash flow growth and increasing the returns on capital invested, for the purpose of being able to apply as basic action principles the implementation of a corporate model that is more commercial and more customer-oriented, the shifting of the Company towards a more flexible and less complex business model as a result of greater operating efficiency and lower capital intensiveness by optimizing investments and, lastly, growth based mainly on three cornerstones, namely wireless telephony, broadband services and wireline telephony in Latin America.

ORGANIZATION BY LINE OF BUSINESS

The Group's strategy described in the preceding section requires an organization that places greater emphasis on the key businesses, thereby enabling the Group to attain a more flexible asset and cost structure.

To this end, certain measures were implemented in 2003 with a view to having the new organizational model (whereby the Lines of Business are simplified) fully operational in 2004. The measures taken in 2003 include most notably the approval in September of the inclusion of the business of Telefónica Empresas (Data, TIWS and Solutions) in the wireline businesses in Spain and Latin America, together with the restructuring of Telefónica de Contenidos and Admira. December saw the completion of this new organization, which also entails a greater involvement of Terra in the wireline telephony businesses, a new Subsidiaries unit encompassing TPI, Endemol and Contenidos and a Corporate Center with a more streamlined structure.

EARNINGS

In 2003 the Company obtained income of €1,373.71 million, as compared with the loss of €4,478.69 million reported in 2002.

The most salient events reflected in the 2003 statement of operations are as follows:

- An operating loss of €264.24 million, 8.42% lower than in 2002, as a result of the 4.89% decrease in expenses and a 5.58% increase in revenues. This decrease in expenses was due mainly to the effect of Telefónica's cost containment drive in 2003.
- Financial income of €400.68 million, slightly lower (1.08%) than that obtained in 2002, due mainly to the effect of the exchange differences recorded in the statement of operations.
- The combination of the two aforementioned effects gave rise to income from ordinary activities of €136.44 million in 2003, a figure which was higher than the €116.49 million reported in 2002.
- The Company obtained extraordinary income of €1,036.50 million in 2003, as compared with the extraordinary loss of €5,882.79 million in 2002. This difference was due largely to the investment valuation provisions recorded for subsidiaries which passed on to Telefónica, S.A. the improvements in their earnings with respect to 2002.

INVESTMENT ACTIVITY

The most significant investments made by Telefónica, S.A. in 2003 were as follows:

- Acquisition of 33.6% of the capital stock of Terra Networks, S.A. for €1,070.21 million, as a result of the tender offer launched in 2003.
- Acquisition of 59.24% of the capital stock of Antena 3 de Televisión, S.A. from other Group companies for €829.31 million, in order to centralize the divestment of holding, which took place in 2003.

FINANCING

The principal financing transactions in 2003 were as follows:

- On February 14, 2003, Telefónica Europe B.V. issued notes under its EMTN program underwritten by Telefónica S.A. in two tranches: (i) for a face value of €1,500 million, maturing at ten years from the issue date, and with a fixed-rate coupon of 5.125%; and (ii) for a face value of €500 million, maturing at 30 years from the issue date, and with a fixed-rate coupon of 5.875%. Telefónica Europe B.V. applied for the admission to listing on these notes on the London Stock Exchange.
- On February 3, 2003, Telefónica Europe B.V. issued notes under the documentation of the EMTN program underwritten by Telefónica S.A., for a total face value of €100 million, maturing at two years from the issue date. The notes were issued under the FRN format and bear floating interest tied to EONIA with a spread of 0.47%.
- In July 2003 Telefónica Europe B.V. updated the EMTN program (which is listed on the London Stock Exchange) and increased the issue limit to €10,000 million.
- Also, in October 2003 Telefónica Europe B.V. launched two floating-rate issues under the documentation of its EMTN program underwritten by Telefónica S.A., each for a total face value of €100 million and with the following characteristics: (i) maturity of a total face value of €100 million on October 17, 2005, at a rate tied to EONIA plus a spread of 0.23%; and (ii) maturity on October 27, 2005, at an interest rate tied to three-month Euribor plus a spread of 0.14%.
- In November Telefónica Europe B.V. launched two floating-rate notes issues under its EMTN program underwritten by Telefónica S.A. with the following characteristics: (i) issue date November 5, 2003, and maturing on May 5, 2005, for a total face value of €50 million and bearing interest tied to EONIA plus a spread of 0.17%; and (ii) issue date November 27, 2003, maturing three years after the issue date and bearing interest tied to three-month Euribor plus a spread of 0.18%. The total face value of this issue was €100 million.
- Lastly, Telefónica Europe B.V. issued notes under its EMTN program underwritten by Telefónica S.A. on December 11, 2003, the total face value of which is €200 million. These notes mature three years from the issue date and bear floating interest tied to three-month Euribor plus a spread of 0.18%.
- As regards commercial paper, in 2003 Telefónica Europe continued to make issues under its ECP (Euro Commercial Paper) program underwritten by Telefónica S.A. As of December 31, 2003, the final balance of outstanding ECP issues totaled €595,383,029 (at the initial issue price).

TREASURY STOCK

At the beginning of 2003 Telefónica held treasury stock representing 1.88516% of capital stock, i.e. 91,631,076 shares with a book value of €11.65 each, giving a total of €1,067.94 million and a par value of €91.63 million.

In 2003 the Company acquired for consideration 50,792,028 shares of treasury stock (representing 1.0249% of capital stock and with a par value of €50.79 million) at an average price of €9.67 per share, and 3,918,983 shares were assigned to it in the capital increases at no cost to the stockholders. Also, 101,140,640 shares (with a par value of €101.14 million) were used to retire a portion of the capital stock pursuant to a resolution adopted by the Stockholders' Meeting on April 11, 2003, and 6,000,000 shares (representing 0.0012% of the capital stock and with a par value of €6.00 million) were sold at an average selling price of €9.63 per share, for a gain of €7.12 million.

Lastly, as a result of the completion in 2003 of the acquisition of the holding in Telefónica Holding Argentina, S.A., in the related settlement the Company received an amount equal to 1,331,422 shares of treasury stock (with a par value of €1.33 million), giving rise to an extraordinary revenue of €12.63 million.

As a result of these transactions, 40,532,869 shares (0.81787% of capital stock) of treasury stock were held at 2003 year-end, acquired at an average price of €10.39, giving a total of €421.26 million and a par value of €40.53 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 €287.80 million was recorded.

EVENTS SUBSEQUENT TO DECEMBER 31, 2003

There were no significant events worthy of mention at Telefónica, S.A. or at the Telefónica Group in the period from December 31, 2003, through the date of preparation of these financial statements.

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TELEFÓNICA S. A.

Annual Report 2003

This Report is also available
at Telefonica's Internet website:
www.telefonica.com/home_eng.html

Shareholders may request copies
of this Report from Telefonica'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
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