



09\_01

# Consolidated annual financial statement and management report

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



Raimundo Fdez. Villaverde, 65  
28003 Madrid  
España

Tel.: +34 915 14 50 00  
Fax: +34 915 14 51 80  
+34 915 56 74 30  
www.deloitte.es

*Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.*

## AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Stockholders of Telefónica, S.A.:

1. We have audited the consolidated financial statements of Telefónica, S.A. and companies composing the Telefónica Group (see Note 1) comprising the consolidated balance sheet as of December 31, 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
<b>A) DUE FROM STOCKHOLDERS FOR UNCALLED CAPITAL</b>	—	<b>292.49</b>
<b>B) FIXED AND OTHER NONCURRENT ASSETS</b>	<b>45,003.93</b>	<b>50,008.83</b>
<b>I. Start-up expenses</b>	<b>543.59</b>	<b>496.48</b>
<b>II. Intangible assets</b> (Note 6)	<b>7,673.16</b>	<b>7,629.57</b>
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)
<b>III. Property, plant and equipment</b> (Note 7)	<b>24,315.78</b>	<b>27,099.65</b>
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)
<b>IV. Long-term investments</b> (Note 8)	<b>12,471.40</b>	<b>14,783.13</b>
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)
<b>C) CONSOLIDATION GOODWILL</b> (Note 5)	<b>6,053.87</b>	<b>6,364.02</b>
<b>D) DEFERRED CHARGES</b> (Note 9)	<b>535.04</b>	<b>802.28</b>
<b>E) CURRENT ASSETS</b>	<b>10,482.36</b>	<b>10,573.67</b>
<b>I. Inventories</b>	<b>400.97</b>	<b>449.83</b>
Inventories	451.17	498.64
Advances	1.38	14.81
Allowances	(51.58)	(63.62)
<b>II. Accounts receivable</b>	<b>6,218.26</b>	<b>6,029.15</b>
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)
<b>III. Short-term investments</b> (Note 8)	<b>3,199.64</b>	<b>3,031.67</b>
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)
<b>IV. Short-term treasury stock</b> (Note 11)	<b>133.46</b>	<b>334.56</b>
<b>V. Cash</b>	<b>336.42</b>	<b>543.91</b>
<b>VI. Accrual accounts</b>	<b>193.61</b>	<b>184.55</b>
<b>TOTAL ASSETS (A+B+C+D+E)</b>	<b>62,075.20</b>	<b>68,041.29</b>

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

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
<b>A) EXPENSES</b>		
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
<b>I. OPERATING INCOME</b>	<b>6,327.90</b>	<b>5,031.75</b>
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
<b>II. FINANCIAL INCOME</b>	<b>—</b>	<b>—</b>
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
<b>III. INCOME FROM ORDINARY ACTIVITIES</b>	<b>4,612.16</b>	<b>1,616.82</b>
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
<b>IV. EXTRAORDINARY INCOME</b>	<b>—</b>	<b>—</b>
<b>V. CONSOLIDATED INCOME BEFORE TAXES</b>	<b>3,362.50</b>	<b>—</b>
Corporate income tax (Note 18)	(2.07)	(3,340.59)
Foreign taxes (Note 18)	915.50	111.94
<b>VI. CONSOLIDATED INCOME FOR THE YEAR</b>	<b>2,449.07</b>	<b>—</b>
Income attributed to minority interests (Note 12)	420.25	182.39
<b>VII. INCOME FOR THE YEAR ATTRIBUTED TO THE PARENT COMPANY</b>	<b>2,203.58</b>	<b>—</b>

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>B) REVENUES</b>		
<b>Net sales and services</b> (Note 20)	<b>28,399.84</b>	<b>28,411.30</b>
Variation in work-in-process	0.80	31.12
Capitalized expenses of Group work on fixed assets	530.32	496.71
<b>Other operating revenues</b>	<b>288.94</b>	<b>297.57</b>
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
<b>I. OPERATING LOSS</b>	<b>—</b>	<b>—</b>
<b>Revenues from equity investments</b>	<b>14.58</b>	<b>17.43</b>
Other companies	14.58	17.43
<b>Other financial revenues</b> (Note 20)	<b>369.77</b>	<b>320.37</b>
Associated companies	33.00	31.07
Other companies	336.77	289.30
<b>Exchange gains</b> (Note 20)	<b>834.91</b>	<b>1,612.85</b>
<b>II. FINANCIAL LOSS</b>	<b>1,060.70</b>	<b>2,221.62</b>
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
<b>III. LOSS ON ORDINARY ACTIVITIES</b>	<b>—</b>	<b>—</b>
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
<b>IV. EXTRAORDINARY LOSS</b>	<b>1,249.66</b>	<b>16,217.88</b>
<b>V. CONSOLIDATED LOSS BEFORE TAXES</b>	<b>—</b>	<b>14,601.06</b>
<b>VI. CONSOLIDATED LOSS FOR THE YEAR</b>	<b>—</b>	<b>11,372.41</b>
Loss attributed to minority interests (Note 12)	174.76	5,978.00
<b>VII. LOSS FOR THE YEAR ATTRIBUTED TO THE PARENT COMPANY</b>	<b>—</b>	<b>5,576.80</b>

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

<p>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.</p>	<p>satisfying the corporate segment's communications needs on an integral basis.</p>
<p><b>Telefónica, S.A. and Subsidiaries composing the Telefónica Group</b></p>	<ul style="list-style-type: none"> <li>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).</li> </ul>
<p><b>Notes to Consolidated Financial Statements for the year ended December 31, 2003</b></p>	
<p><b>(1) INTRODUCTION AND GENERAL INFORMATION</b></p>	
<p><b>Telefónica Group companies</b> 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.</p>	<p>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.</p>
<p>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).</p>	<p>Also, certain wireline and wireless telephony services, are provided under regulated rate and price systems.</p>
<p>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.</p>	<p>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.</p>
<p><b>Corporate structure of the Group</b> 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.</p>	<p>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.</p>
<p>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:</p>	<p>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.</p>
<ul style="list-style-type: none"> <li>The wireline telephony business and the related supplementary services provided in Spain centered at the Telefónica de España Group.</li> <li>The cellular telephony business is centralized in Spain and abroad at the Telefónica Móviles Group.</li> <li>The main business activity of the Telefónica Internacional Group is to make and manage investments in the wireline telephony industry in the Americas.</li> </ul>	<p>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.</p>
<ul style="list-style-type: none"> <li>Telefónica Empresas is the line of business which includes Telefónica Data, Telefónica Soluciones and Telefónica International Wholesale Services and is responsible for</li> </ul>	<p>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</p>

<p>contracts entered into with the public authorities, including public service contracts, were rendered null and void.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p><b>(2) BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS</b></p> <p><b>a) True and fair view</b> 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.</p> <p><b>b) Accounting policies</b> The consolidation methods applied were as follows:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The companies which are managed jointly with third parties were proportionally consolidated.</li> <li>• 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.</li> <li>• 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.</li> </ul> <p>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.</p>	
<p>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).</p> <p>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.</p> <p><b>c) Comparative information and changes in the scope of consolidation</b></p> <p><b>Comparative information</b> The figures in these consolidated financial statements and in the consolidated management report are expressed in millions of euros unless indicated otherwise.</p> <p>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.</p> <p><b>Changes in the scope of consolidation</b> 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):</p> <p><b>Telefónica</b> 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.</p> <p>On January 7, 2003, Telefónica, S.A. and its subsidiary Telefónica de Contenidos exercised vis-à-vis Banco Santander</p>	

<p>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.</p>	
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>On December 23, 2003, Telefónica Móviles España, S.A. and Mobilkom Austria Aktiengesellschaft &amp; 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.</p>
<p>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.</p>	<p><b>Telefónica de Contenidos Group</b> 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%.</p> <p>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.</p>
<p><b>Telefónica Móviles Group</b> 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.</p> <p>In October 2003, pursuant to Brazilian legislation, TCP launched a tender offer for TCO's remaining common voting</p>	<p>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.</p>

**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.

*Millions of euros*

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
<b>Total</b>	<b>1,373.71</b>

**(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:

*Millions of euros*

<b>Balance at 12/31/01</b>	<b>9,128.94</b>
Additions	1,121.54
Amortization	(667.49)
Write-offs	(2,259.81)
Net retirements	(277.64)
Net transfers	(236.94)
Translation differences	(444.58)
<b>Balance at 12/31/02</b>	<b>6,364.02</b>
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)
<b>Balance at 12/31/03</b>	<b>6,053.87</b>

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:

### Millions of euros

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
<b>Total</b>	<b>1,135.82</b>

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:

### Millions of euros

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
<b>Total</b>	<b>1,121.54</b>

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
<b>Cost:</b>								
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
<b>Total intangible assets, gross</b>	<b>11,935.58</b>	<b>809.88</b>	<b>(1,030.73)</b>	<b>41.66</b>	<b>(29.85)</b>	<b>(142.21)</b>	<b>608.40</b>	<b>12,192.73</b>
<b>Accumulated amortization:</b>								
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
<b>Total accumulated amortization</b>	<b>4,265.68</b>	<b>1,205.41</b>	<b>(897.76)</b>	<b>7.49</b>	<b>(5.23)</b>	<b>(92.59)</b>	<b>8.42</b>	<b>4,491.42</b>
<b>Allowances for decline in value</b>	<b>40.33</b>	<b>0.80</b>	<b>(4.89)</b>	<b>—</b>	<b>(0.08)</b>	<b>(3.02)</b>	<b>(4.99)</b>	<b>28.15</b>
<b>Intangible assets, net</b>	<b>7,629.57</b>	<b>(396.33)</b>	<b>(128.08)</b>	<b>34.17</b>	<b>(24.54)</b>	<b>(46.60)</b>	<b>604.97</b>	<b>7,673.16</b>

*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
<b>Cost:</b>								
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
<b>Total intangible assets, gross</b>	<b>20,286.04</b>	<b>1,106.58</b>	<b>(9,608.12)</b>	<b>1,190.04</b>	<b>(494.26)</b>	<b>(588.85)</b>	<b>44.15</b>	<b>11,935.58</b>
<b>Accumulated amortization:</b>								
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
<b>Total accumulated amortization</b>	<b>3,307.25</b>	<b>1,134.08</b>	<b>(99.79)</b>	<b>151.71</b>	<b>(47.34)</b>	<b>(164.17)</b>	<b>(16.06)</b>	<b>4,265.68</b>
<b>Allowances for decline in value</b>	<b>19.65</b>	<b>27.56</b>	<b>(4.78)</b>	<b>2.68</b>	<b>—</b>	<b>(6.60)</b>	<b>1.82</b>	<b>40.33</b>
<b>Intangible assets, net</b>	<b>16,959.14</b>	<b>(55.06)</b>	<b>(9,503.55)</b>	<b>1,035.65</b>	<b>(446.92)</b>	<b>(418.08)</b>	<b>58.39</b>	<b>7,629.57</b>

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
<b>Cost:</b>								
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
<b>Total property, plant and equipment in service</b>	<b>66,789.92</b>	<b>490.81</b>	<b>(1,513.71)</b>	<b>226.12</b>	<b>(22.82)</b>	<b>(1,086.77)</b>	<b>2,289.53</b>	<b>67,173.08</b>
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
<b>Property, plant and equipment, gross</b>	<b>68,004.85</b>	<b>2,956.43</b>	<b>(1,541.63)</b>	<b>235.50</b>	<b>(23.03)</b>	<b>(1,123.21)</b>	<b>(68.96)</b>	<b>68,439.95</b>
<b>Accumulated depreciation:</b>								
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
<b>Total accumulated depreciation</b>	<b>40,819.83</b>	<b>4,941.97</b>	<b>(1,181.68)</b>	<b>96.75</b>	<b>(13.38)</b>	<b>(610.18)</b>	<b>(12.58)</b>	<b>44,040.73</b>
<b>Allowances for decline in value</b>	<b>85.37</b>	<b>19.84</b>	<b>(10.36)</b>	<b>—</b>	<b>—</b>	<b>(10.34)</b>	<b>(1.07)</b>	<b>83.44</b>
<b>Property, plant and equipment, net</b>	<b>27,099.65</b>	<b>(2,005.38)</b>	<b>(349.59)</b>	<b>138.75</b>	<b>(9.65)</b>	<b>(502.69)</b>	<b>(55.31)</b>	<b>24,315.78</b>

*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
<b>Cost:</b>								
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
<b>Total property, plant and equipment in service</b>	<b>77,290.83</b>	<b>546.29</b>	<b>(1,478.42)</b>	<b>1,610.27</b>	<b>(605.56)</b>	<b>(13,774.40)</b>	<b>3,200.91</b>	<b>66,789.92</b>
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
<b>Property, plant and equipment, gross</b>	<b>80,533.04</b>	<b>2,819.65</b>	<b>(1,555.45)</b>	<b>1,656.75</b>	<b>(645.15)</b>	<b>(14,607.28)</b>	<b>(196.71)</b>	<b>68,004.85</b>
<b>Accumulated depreciation:</b>								
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
<b>Total accumulated depreciation</b>	<b>43,831.95</b>	<b>5,369.82</b>	<b>(1,289.21)</b>	<b>525.48</b>	<b>(304.31)</b>	<b>(7,399.92)</b>	<b>86.02</b>	<b>40,819.83</b>
<b>Allowances for decline in value</b>	<b>95.00</b>	<b>51.94</b>	<b>(52.60)</b>	<b>0.53</b>	<b>—</b>	<b>(8.63)</b>	<b>(0.87)</b>	<b>85.37</b>
<b>Property, plant and equipment, net</b>	<b>36,606.09</b>	<b>(2,602.11)</b>	<b>(213.64)</b>	<b>1,130.74</b>	<b>(340.84)</b>	<b>(7,198.73)</b>	<b>(281.86)</b>	<b>27,099.65</b>

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:

*Millions of euros*

	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
<b>Total</b>	<b>21,301.82</b>	<b>17,085.88</b>

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:

*Millions of euros*

Cost	27,051.00
Accumulated depreciation	(14,958.67)
<b>Total</b>	<b>12,092.33</b>

**(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
<b>Balance at 12/31/01</b>	<b>3,099.14</b>	<b>870.78</b>	<b>2,038.12</b>	<b>232.98</b>	<b>3,757.78</b>	<b>(318.73)</b>	<b>9,680.07</b>
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)
<b>Balance at 12/31/02</b>	<b>2,081.19</b>	<b>932.03</b>	<b>2,225.26</b>	<b>160.77</b>	<b>9,679.42</b>	<b>(295.54)</b>	<b>14,783.13</b>
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)
<b>Balance at 12/31/03</b>	<b>1,507.40</b>	<b>492.37</b>	<b>1,212.53</b>	<b>582.39</b>	<b>9,029.48</b>	<b>(352.77)</b>	<b>12,471.40</b>

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:

*Millions of euros*

	Percentage of Capital Stock Sold	Gain (Loss)
<b>Subsidiaries and associated companies:</b>		
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)
<b>Net gain</b>		<b>368.30</b>

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						Balance at 31-12-03	Balance at 31-12-02
	2004	2005	2006	2007	2008	Subsequent Years		
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
<b>Total</b>	<b>141.89</b>	<b>117.22</b>	<b>99.66</b>	<b>61.21</b>	<b>26.46</b>	<b>88.60</b>	<b>535.04</b>	<b>802.28</b>

**(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)
<b>Net total</b>	<b>4,580.42</b>	<b>4,259.32</b>

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
<b>Total</b>	<b>25,861.62</b>	<b>—</b>	<b>(8,865.62)</b>	<b>—</b>	<b>16,996.00</b>	<b>—</b>	<b>1,780.62</b>	<b>(1,653.15)</b>	<b>(366.91)</b>	<b>16,756.56</b>

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.:

	Number of Shares	Euros per Share (*)		Market Value	%
		Acquisition	Market Price		
<b>Treasury stock at 12/31/03</b>	<b>40,532,869</b>	<b>10.39</b>	<b>10.85</b>	<b>439.66</b>	<b>0.81787</b>
<b>Treasury stock at 12/31/02</b>	<b>91,631,076</b>	<b>11.65</b>	<b>8.53</b>	<b>781.61</b>	<b>1.88516</b>

(\*) 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:

Millions of euros				
	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>				
	<b>Date of Share Issue</b>	<b>Number of Shares</b>	<b>Capital Stock</b>	<b>Additional Paid-in Capital</b>
<b>Balance at December 31, 2001</b>		<b>4,671,915,885</b>	<b>4,671.92</b>	<b>11,670.02</b>
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	—
<b>Balance at December 31, 2002</b>		<b>4,860,661,286</b>	<b>4,860.66</b>	<b>11,670.02</b>

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:

#### *Millions of euros*

Revaluations made from 1946 to 1987	4,478.76
Revaluation made pursuant to Royal Decree-Law 7/1996	1,357.40
<b>Amounts used:</b>	
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)
<b>Balance at 12/31/00</b>	<b>3,235.66</b>
Capital increase on January 25, 2001	(86.82)
Capital increase on April 3, 2001	(89.20)
<b>Balance at 12/31/01</b>	<b>3,059.64</b>
Capital increase on February 13, 2002	(93.44)
Capital increase on April 12, 2002	(95.30)
<b>Balance at 12/31/02</b>	<b>2,870.90</b>
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)
<b>Balance at 12/31/03</b>	<b>1,357.86</b>

**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)
<b>Total</b>	<b>3,870.14</b>	<b>808.10</b>	<b>(7,234.85)</b>	<b>(2,556.61)</b>

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)
<b>Total</b>	<b>3,332.87</b>	<b>3,286.42</b>	<b>(2,749.15)</b>	<b>3,870.14</b>

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:

### Millions of euros

<b>Balance at 12/31/01</b>	<b>7,433.55</b>
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)
<b>Balance at 12/31/02</b>	<b>5,612.93</b>
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)
<b>Balance at 12/31/03</b>	<b>4,426.22</b>

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; and
  - 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
<b>Balance at 12/31/01</b>	<b>301.11</b>	<b>1.55</b>	<b>101.92</b>	<b>741.17</b>	<b>1,145.75</b>
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)
<b>Balance at 12/31/02</b>	<b>238.07</b>	<b>3.46</b>	<b>157.06</b>	<b>481.87</b>	<b>880.46</b>
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)
<b>Balance at 12/31/03</b>	<b>186.44</b>	<b>2.10</b>	<b>140.11</b>	<b>329.32</b>	<b>657.97</b>

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
<b>Total</b>	<b>186.44</b>	<b>238.07</b>

**(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
<b>Total</b>	<b>5,862.70</b>	<b>3,010.51</b>	<b>(863.53)</b>	<b>60.46</b>	<b>(55.23)</b>	<b>8,014.91</b>	<b>2,000.09</b>	<b>(1,379.68)</b>	<b>18.27</b>	<b>(965.36)</b>	<b>7,688.23</b>

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:

*Millions of euros*

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
<b>Total</b>	<b>2,850.45</b>

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
<b>Balance at 12/31/01</b>	<b>6,012.89</b>	<b>9,312.09</b>	<b>1,680.27</b>	<b>17,005.25</b>
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)
<b>Balance at 12/31/02</b>	<b>6,161.50</b>	<b>7,246.20</b>	<b>1,898.20</b>	<b>15,305.90</b>
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)
<b>Balance at 12/31/03</b>	<b>8,602.19</b>	<b>5,459.03</b>	<b>1,275.39</b>	<b>15,336.61</b>
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 ¥100,000,000 £100,000	Specific transactions Specific transactions Specific transactions 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
<b>Total</b>	<b>2,659.20</b>	<b>4,932.56</b>	<b>7,591.76</b>	<b>4,072.67</b>	<b>6,912.94</b>	<b>10,985.61</b>

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:

*Millions of euros*

	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
<b>Total</b>	<b>2,659.20</b>	<b>1,734.45</b>	<b>1,057.30</b>	<b>507.93</b>	<b>684.31</b>	<b>948.57</b>	<b>7,591.76</b>

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
<b>Total for the Group</b>			<b>3,680.46</b>	<b>5,104.13</b>

### (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
<b>Balance at December 31, 2001</b>	<b>275.27</b>	<b>3,757.78</b>	<b>240.17</b>	<b>1,482.45</b>	<b>58.63</b>
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)
<b>Balance at December 31, 2002</b>	<b>310.10</b>	<b>9,336.43</b>	<b>131.56</b>	<b>1,584.07</b>	<b>45.39</b>
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
<b>Balance at December 31, 2003</b>	<b>518.51</b>	<b>8,825.10</b>	<b>162.67</b>	<b>669.49</b>	<b>48.48</b>

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
<b>Taxes payable:</b>		
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
<b>Total</b>	<b>1,181.09</b>	<b>1,048.52</b>

*Millions of euros*

	Balance at 12/31/03	Balance at 12/31/02
<b>Taxes receivable:</b>		
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
<b>Total</b>	<b>1,122.84</b>	<b>1,055.37</b>

### 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
<b>Total income tax</b>	<b>913.43</b>	<b>(3,228.65)</b>

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 scanty 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:

*Millions of euros*

	Balance at 12/31/03	Balance at 12/31/02
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
<b>Total</b>	<b>935.93</b>	<b>1,240.85</b>

## (20) REVENUES AND EXPENSES

### Sales and services

The detail, by business line, of net sales and services is as follows:

*Millions of euros*

	12/31/03	12/31/02
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
<b>Group revenues before the elimination of intercompany sales</b>	<b>32,396.36</b>	<b>31,840.96</b>
Intercompany sales	(3,996.52)	(3,429.66)
<b>Total revenues from Group operations</b>	<b>28,399.84</b>	<b>28,411.30</b>

### Personnel expenses

The detail of the personnel expenses is as follows:

*Millions of euros*

	12/31/03	12/31/02
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
<b>Total</b>	<b>4,641.32</b>	<b>4,793.77</b>

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
<b>Total</b>	<b>149,465</b>	<b>148,288</b>	<b>157,504</b>	<b>152,845</b>

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.	Program and who are not participating in any other similar stock or stock option plan.
<p><b>Compensation systems tied to share market price</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Lastly, there is a program of options on Telefónica, S.A. shares targeted at the employees of Endemol (the EN-SOP Program).</p> <p>Following is a detailed account of the main features of each of the aforementioned compensation systems currently in force:</p> <p><b>a) Telefónica, S.A. stock option plan targeted at all the employees of certain Telefónica Group companies ("TIES Program")</b></p> <p>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</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>The main features of the TIES Program are as follows:</p> <ol style="list-style-type: none"> <li>1. Number of shares offered for initial acquisition by the beneficiaries: 1,197,880.</li> <li>2. Issue price: €5.</li> <li>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.</li> <li>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.</li> <li>5. Exercise price: €5.</li> </ol> <p>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.</p> <p>Subsequently, on November 29, 2000, the Board of Directors of Telefónica, S.A. adapted to the date on which the Program</p>

<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>2. There are three types of option:</p> <ul style="list-style-type: none"> <li>• Type-A options, with an exercise price of €11.</li> <li>• Type-B options, with an exercise price of €16.5.</li> <li>• Type-C options, with an exercise price of €7.235.</li> </ul>
<p>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%).</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p><b>b) Telefónica Móviles, S.A. stock option plan (“MOS Program”)</b></p> <p>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.</p>	<p>4. Each option, regardless of type, will entitle its holder to receive one share of Telefónica Móviles, S.A.</p> <p>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.</p>
<p>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.</p>	<p>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.</p>
<p>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:</p>	<p>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.</p>
<p>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.</p>	<p>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%).</p>
<p>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</p>	<p>On September 27, 2001, Telefónica Móviles, S.A., on the one hand, and BBVA and La Caixa, on the other, entered into the</p>

<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>The main features established by the Board of Directors for this assignment were as follows:</p>
<p>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.</p>	<p>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.</p>
<p><b>c) Terra Networks, S.A. stock option Plan</b> 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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>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:</p>	<p>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.</p>
<p>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.</p>	<p>Also, in 2002, at the recommendation of the Appointments and Compensation Committee, the Board of Directors</p>
<p>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.</p>	
<p>3. The exercise of the options is conditional upon the beneficiary remaining a Terra-Lycos Group employee.</p>	

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.	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.
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, 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, 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 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.
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.	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.
<b>d) Terra Networks, S.A. stock option Plan resulting from the acquisition of the stock option plans of Lycos, Inc.</b> 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.	<b>e) Telefónica, S.A. stock option plan aimed at executives of Endemol ("EN-SOP Program")</b> 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.
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.	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.
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.	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.
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.	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.
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,	

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
<b>Total financial expenses</b>	<b>1,946.50</b>	<b>1,784.14</b>
Associated companies	33.00	31.07
Other companies	336.77	289.30
<b>Total other financial revenues</b>	<b>369.77</b>	<b>320.37</b>

#### 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
<b>Exchange differences</b>	<b>495.17</b>	<b>(632.32)</b>

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:

*Millions of euros*

	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
	<b>481.20</b>	<b>255.96</b>

The "Other Extraordinary Revenues Earned in the Year" account includes the extraordinary revenues earned by all the Group companies, the amounts of which taken individually were not material.

**Extraordinary expenses and losses**

*Millions of euros*

	12/31/03	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
	<b>2,221.60</b>	<b>6,735.04</b>

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.	Telecommunications	< 0.01%	Director
	Sogetecable S.A.	Television, telecommunications and audiovisual production services		
		Telecommunications	< 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.	Telecommunications	< 0.01%	Director
	Telecom Italia	Telecommunications	< 0.01%	—
	Hellenic Telecom	Telecommunications	< 0.01%	—
	PT Multimedia-Serviços de Telecomunicações e Multimedia, SGPS, S.A.	Internet	< 0.01%	—
	Telefónica Móviles, S.A.	Telecommunications	< 0.01%	Executive Chairman

(1) If the holding is less than 0.01% of the capital stock, "< 0.01%" 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	Telecomunicações 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 Multimedia-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.	Director
	Television, telecommunications and audiovisual production services			
	Telecommunications	For account of others	Sogecable, S.A.	Director
Antonio Massanell Lavilla	Telecommunications	For account of others	Telefónica Móviles, S.A.	Director
Enrique Used Aznar	Telecommunications equipment provider	For account of others	Amper, S.A.	Chairman
	Telecommunications	For account of others	Telecomunicações 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	Telecomunicações 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.

<p>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.</p>	<p>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.</p> <p>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.</p>
<p><b>(22) OTHER INFORMATION</b></p>	
<p><b>a) Litigation</b> 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.</p>	<p>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.</p>
<p>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:</p>	<p>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.</p>
<p>1) A proceeding contesting the resolutions adopted by the Special Stockholders' Meeting of Telefónica, S.A. on February 4, 2000.</p>	<p>3) Complaint filed by IDT against Telefónica, S.A., Terra Networks, S.A. and Lycos, Inc.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p> <p>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.</p>
<p>2) A proceeding contesting certain resolutions adopted by the Annual Stockholders' Meeting of Telefónica, S.A. on June 15, 2001.</p>	<p>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.</p>
<p>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.</p>	<p>The defendants have filed an answer and, in turn, Terra Networks S.A. has filed a counterclaim.</p> <p>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.</p>

<p>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.</p>	
<p>4) Sistemas e Instalaciones de Telecomunicación, S.A.U. (Sintel)</p>	
<p>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.</p>	<p>5) Complaint filed by Bidland Systems, Inc. against Katalyx Inc. and Telefónica, S.A.</p>
<p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p>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).</p>	<p>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.</p>
<p>The arrangement proposed by the bankrupt company and approved by the Court is currently the subject of an appeal to a superior court.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>The two criminal proceedings are as follows:</p>	<p>It should be noted that since the filing of the complaints, the related proceedings have remained inactive.</p>
<p>"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.</p>	<p>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.</p>
<p>Preliminary proceeding no. 362/2002, which was commenced on October 23, 2002, by Central Examining</p>	<p>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.	segments, for the Telefónica Group companies' connectivity and ISP services.
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.	Preferential provider of consulting, management and maintenance services for the country portals of the Telefónica Group companies.
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.	Exclusive provider of Telefónica Group employee on-line training services.
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.	Preferential provider of on-line integral marketing services with the Telefónica Group companies.
At present, a brief has already been filed by the Government Legal Service in reply to the application filed by ACCTER for judicial review.	2. Guaranteed minimum volume of acquisitions of Terra Lycos Group on-line advertising space by Telefónica Group companies.
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.	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.
<b>b) Commitments</b>	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.
<b>Strategic alliance between Telefónica and Terra</b> 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).	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.
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 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.
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.	<b>Agreements with Portugal Telecom (Brazil)</b> 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.
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	

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.	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.
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.	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.
<b>Médi Telecom (Morocco)</b> 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.	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%.
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.	Subsequently, on December 1, 2003, the Atento Group company Atento Teleservicios España, S.A. acquired all the shares of Leader Line, S.A.
<b>Guarantees provided for Ipse 2000 (Italy)</b> 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.	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.
<b>Atento</b> 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.	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.
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.	<b>Commitments in relation to Sogecable</b> 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 scanty 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
<b>Total</b>	<b>14.82</b>	<b>15.92</b>

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
<b>Total</b>	<b>7.78</b>	<b>12.51</b>

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
<b>Funds applied in operations</b>	<b>—</b>	<b>—</b>	<b>Funds obtained from operations</b>	<b>10,635.10</b>	<b>8,719.49</b>
Start-up and debt arrangement expenses	144.99	468.96			
Fixed asset additions			Stockholder contributions		
a) Intangible assets	809.88	1,106.58	a) Capital increase	—	—
b) Property, plant and equipment	2,973.30	2,819.65	b) Additional paid-in capital	—	—
c) Long-term investments	4,322.56	2,176.48	c) Minority interests	301.99	5,294.95
Deferred tax assets	—	92.04	Deferred tax assets	818.90	—
Deferred tax liabilities	—	—	Deferred revenues	1.81	229.09
Dividends	2,070.18	108.63	Long-term deferred tax liabilities	—	436.61
			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
			c) Long-term investments	1,944.42	784.16
Decrease in working capital due to disposal of equity investments	—	1,060.54	Transfer to short term of long-term loans	1,783.38	403.05
Decrease in working capital due to inclusion of subsidiaries	—	—	Increase in working capital due to disposal of equity investments	100.39	—
Variation in working capital due to translation differences	581.25	714.95	Increase in working capital due to inclusion of subsidiaries	46.10	495.50
			Variation in working capital due to translation differences	—	—
<b>Total funds applied</b>	<b>18,806.40</b>	<b>16,158.01</b>	<b>Total funds obtained</b>	<b>20,060.21</b>	<b>18,461.32</b>
Funds obtained in excess of funds applied (Increase in working capital)	1,253.81	2,303.31	Funds applied in excess of funds obtained (Decrease in working capital)	—	—
	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
<b>Total</b>	<b>1,510.16</b>	<b>4,810.27</b>	<b>Total</b>	<b>256.35</b>	<b>2,506.96</b>
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:

*Millions of euros*

	12/31/03	12/31/02
Income (Loss)	<b>2,203.58</b>	(5,576,80)
Income (Loss) attributable to minority interests	<b>245.49</b>	(5,795,61)
Income of associated companies	<b>212.58</b>	527,88
	<b>2,661.65</b>	(10,844,53)
<b>Add:</b>		
Dividends of companies accounted for by the equity method	—	58,16
Depreciation and amortization expense	<b>6,283.70</b>	6,692,42
Provisions for property, plant and equipment	<b>35.69</b>	37,88
Amortization of debt arrangement expenses	<b>41.70</b>	43,23
Amortization of consolidation goodwill	<b>442.46</b>	665,43
Amortization of other deferred charges	<b>140.45</b>	240,98
Write-down of consolidation goodwill	<b>6.48</b>	2,259,81
Investment valuation provisions	—	117,63
Exchange differences	—	(316,72)
Undepreciated plant dismantled	<b>38.68</b>	33,85
Provisions for inventory adjustment	<b>1.81</b>	23,32
Period provisions	<b>1,986.78</b>	3,281,40
Provisions to technical reserves of insurance companies	<b>13.30</b>	17,24
Deferred interest	<b>26.55</b>	5,10
Deferred tax liabilities and other	<b>787.05</b>	—
Property, plant and equipment and intangible assets	<b>16.52</b>	9,597,77
Financial provision and supplementary pension payments to retired employees	<b>5.17</b>	61,62
Losses on disposal of consolidated companies	<b>39.74</b>	209,25
<b>Less:</b>		
Gain on disposal of property, plant and equipment and intangible assets	<b>221.83</b>	16,28
Capital subsidies	<b>12.93</b>	63,79
Exchange differences	<b>882.97</b>	—
Long-term deferred tax assets and liabilities	—	3,228,65
Gain on disposal of consolidated companies	<b>407.96</b>	101,78
Fixed asset allowances used	<b>0.07</b>	36,83
Other allowances used	<b>356.53</b>	17,02
Results on financial investments	<b>10.34</b>	—
Funds obtained from operations	<b>10,635.10</b>	<b>8,719,49</b>

**(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)
<b>Total Telefónica Group</b>	<b>16,039.25</b>	<b>(6,395.99)</b>	<b>24,155.65</b>	<b>(6,507.82)</b>
Intercompany fixed asset transactions	(46.17)	—	64.31	—
<b>Total contribution</b>	<b>15,993.08</b>	<b>(6,395.99)</b>	<b>24,219.96</b>	<b>(6,507.82)</b>

## 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)			
<b>Telefónica de Contenidos, S.A. (SPAIN) (*) (**) (1) (6)</b>	<b>100.00%</b>		<b>100.00%</b>	<b>3,024.82</b>	<b>(2,612.77)</b>	—	<b>93.44</b>	<b>2,241.88</b>	<b>F.C.</b>	—
<i>Organization and operation of activities and businesses relating to multimedia services</i>										
<i>Paseo de la Castellana, 141 - 28046 Madrid</i>										
Telefónica Media Argentina, S.A. (ARGENTINA) (1)		100.00%	100.00%	257.60	(736.20)	—	—	532.02	F.C.	—
<i>Holdings in businesses in areas related to the media</i>										
<i>Tucumán, 1 Pta. 17º - Buenos Aires</i>										
Atlántida Comunicaciones, S.A. (ARGENTINA) (1) (6)		100.00%	100.00%	492.27	(966.88)	—	28.96	—	F.C.	—
<i>Free-to-air television and radio</i>										
<i>Tucumán, 1 Pta. 20 - Buenos Aires</i>										
Other holdings		N/A	N/A	N/A	N/A	N/A	N/A	N/D	E.M.	0.16
Fieldy, B.V. (NETHERLANDS) (6)		51.00%	51.00%	0.03	(5.57)	—	—	42.44	E.M.	(2.77)
<i>Record label, audiovisual distribution and organization of events</i>										
<i>Locatellikade, 1 1076 A-Z - Amsterdam</i>										
Lideres Entertainment Group, Inc. (USA)		49.00%	49.00%	0.01	(3.83)	—	—	19.96	E.M.	(1.91)
<i>Management and marketing of artists' rights</i>										
<i>3191 Coral Way - Miami</i>										
Telefónica Media Internacional y de Contenidos, S.A. (SPAIN) (*) (**) (1)		100.00%	100.00%	0.60	(3.50)	—	1.25	16.02	F.C.	—
<i>Operation of media services in Latin America</i>										
<i>Gran Vía, 28 - 28013 Madrid</i>										
Torneos y Competencias, S.A. (ARGENTINA) (3) (6)		20.00%	20.00%	15.68	(6.81)	—	—	81.81	E.M.	—
<i>Television producer and advertising agency</i>										
<i>Balcarce 510 - Buenos Aires</i>										
Telefónica Servicios Audiovisuales, S.A. (SPAIN) (*) (**) (1)		100.00%	100.00%	6.01	23.40	—	(5.30)	8.37	F.C.	—
<i>Provision of all manner of audiovisual telecommunications services</i>										
<i>Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*)</i>										
<i>28223 Madrid</i>										
Andalucía Digital Multimedia, S.A. (SPAIN)		24.00%	24.00%	2.69	(0.20)	—	(0.62)	0.60	E.M.	0.45
<i>Development of the audiovisual industry in Andalucía</i>										
<i>Edificio Azul, Parque Tecnológico de Andalucía - Málaga</i>										
Telefónica Medios de Comunicación, S.A. (SPAIN) (*) (**) (1)		100.00%	100.00%	21.20	(18.90)	—	(8.18)	100.37	F.C.	—
<i>Holding of shares of companies in the media industry</i>										
<i>Paseo de la Castellana, 141 - 28046 Madrid</i>										
Telefónica Sport, S.A. (SPAIN) (*) (**) (1)		100.00%	100.00%	1.00	(0.74)	—	(0.61)	2.33	F.C.	—
<i>Management and exploitation of audiovisual rights in any medium</i>										
<i>Paseo de la Castellana, 141 - 28046 Madrid</i>										
Gestora de Medios Audiovisuales de Fútbol, S.L. (SPAIN) (*) (**) (1)		100.00%	100.00%	50.33	(25.68)	—	(6.91)	278.43	F.C.	—
<i>Exploitation of rights to broadcast soccer matches</i>										
<i>Paseo de la Castellana, 141 - 28046 Madrid</i>										
Hispasat, S.A. (SPAIN) (2)		13.23%	13.23%	121.95	149.14	—	5.81	17.59	E.M.	36.64
<i>Operation of a satellite telecommunications system</i>										
<i>Gobelas, 41 - 28023 Madrid</i>										

(\*) 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> <i>Luchana, 23, 1º - 28010 Madrid</i>		100.00%	100.00%	1.26	2.67	—	0.85	1.79	F.C.	—
Sogetecable, S.A. (SPAIN) (1) (6) <i>Indirect management of public T.V. service</i> <i>Gran Vía, 32 - 3ª Pta. - 28013 Madrid</i>	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> <i>Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid</i>		100.00%	100.00%	12.02	(4.40)	—	(4.20)	22.38	F.C.	—
Lola Films, S.A. (SPAIN) (1) (6) <i>Film production</i> <i>Velázquez, 12 - Madrid</i>		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	N/A	11.30	I	11.33
Patagonik Film Group, S.A. (ARGENTINA) (2) <i>Production of audiovisual content</i> <i>Godoy Cruz, 1540 - 1414 Buenos Aires</i>		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> <i>Pol.Ind., nº 1 c/Bullidor S/N - 08960 Sant Just Desvern - Barcelona</i>		7.40%	7.40%	45.24	(0.10)	—	31.94	63.11	I	10.13
Pearson Plc. (U.K.) (2) (6) <i>Publishing</i> <i>3 Burlington Gardens, London W1X 1LE</i>		4.85%	4.85%	283.77	4,305.26	—	(227.01)	757.10	E.M.	211.40
<b>Corporación Admira Media, S.A. (SPAIN) (*) (**) (1)</b> <i>Organization and operation of activities and businesses relating to media</i> <i>Jorge Manrique 12, Madrid</i>	100.00%		100.00%	6.01	(1.19)	—	9.23	6.06	F.C.	—
<b>Endemol Entertainment Holding, N.V. (NETHERLANDS) (3) (6)</b> <i>Production of audiovisual content</i> <i>Bonairelaan, 4 - 1213 Vh Hilversum - Netherlands</i>	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
<b>Telefónica Datacorp, S.A.U. (SPAIN) (*) (**) (1) (6)</b> <i>Provision and exploitation of telecommunications services</i> <i>Gran Vía, 28 - 28013 Madrid</i>	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> <i>Gran Vía, 28 - 28013 Madrid</i>		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> <i>Mexico</i>		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> <i>Sierra Santa Rosa, 61 - Lomas de Chapultepec</i> <i>11.650 Mexico City</i>		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> <i>Santa Fé de Bogotá</i>		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	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						Income (Loss)	Gross book value	Consoli- dation method	Value in consoli- dation (10)
	Direct	Indirect	Telefónica Group	Capital	Reserves	Interim dividend				
Telefónica Data do Brasil, Ltda. (BRAZIL) (1) <i>Telecommunication services</i> <i>Rua da Consolação, 247 - 6 - Sao Paulo</i>		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> <i>Avda. Brig. Faria Lima, 1188 plta. 7ª andar-parte - Sao Paulo</i>		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> <i>Avda. Tamboaré, 341/371 - Barueri - Sao Paulo</i>		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> <i>Avda. Las Palmas, 3º - 1050 Caracas</i>		100.00%	100.00%	0.02	0.25	—	(0.00)	0.02	F.C.	—
Telefónica Data Canadá, Inc. (CANADA) <i>Telecommunications services</i> <i>44 Chipman Hill, 10th Floor - P.O. Box 7289 New Brunswick ESL 4S6</i>		100.00%	100.00%	0.01	—	—	—	—	I	—
Telefónica Data Caribe (SPAIN) <i>Telecommunications services</i> <i>1221 Brickell Avenue - 33131 Miami - Florida</i>		100.00%	100.00%	0.00	22.33	—	(18.00)	80.36	F.C.	—
Telefónica Data Caribe (*) (**) (SPAIN) (1) <i>Global telecommunication services</i> <i>Beatriz de Bobadilla, 14 - 28040 Madrid</i>		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> <i>Ave, 47 s/n entre 18ª y 20 - Miramar Playa - La Habana</i>		50.00%	50.00%	N/D	N/D	—	N/D	7.63	I	7.63
Ipsel - 2000 (ITALY) (1) <i>Exploitation of a UMTS license</i> <i>Piazza dei Caprettari, 70 - 00186 Roma</i>		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> <i>Jorge Basadre, 592 7º - San Isidro - Lima</i>		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> <i>Los Sauces, 374, Torre Roja, oficina 1002 - San Isidro - Lima</i>		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> <i>Tucumán, 1 plta. 18º - 1049 Buenos Aires</i>		97.92%	97.92%	108.79	(94.52)	—	15.04	97.49	F.C.	—
Intelsat		0.09%	0.09%	N/D	N/D	N/D	N/D	1.52	I	1.52
Telefónica Soluciones de Informática y Comunicaciones, S.L. (SPAIN) (*) (**) (1) <i>Granting of loans, guarantees and financial assistance to the Telefónica Group</i> <i>Alcalde Mandillo Tejero, 8 - Edificio Simón Bolívar - Santa Cruz de Tenerife</i>		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)		100.00%	100.00%	8.43	(3.37)	—	(21.78)	15.85	F.C.	—
<i>Systems engineering, networks and telecommunications infrastructure</i>										
<i>Sor Angela de la Cruz, 3 - Pl. 9º - 28020 Madrid</i>										
Telefónica Sistemas El Salvador, S.A. de C.V. (EL SALVADOR)		100.00%	100.00%	0.04	(0.05)	—	(0.20)	0.03	F.C.	—
<i>Provision of engineering and systems services</i>										
<i>San Salvador</i>										
Telefónica Sistemas Ingeniería de Productos Guatemala, S.A. (GUATEMALA)		100.00%	100.00%	—	(0.19)	—	(0.03)	—	F.C.	—
<i>Telecommunications systems and equipment engineering</i>										
<i>Guatemala</i>										
Telefónica Ingeniería de Comunicaciones, S.A. (SPAIN) (*) (**) (3)		100.00%	100.00%	1.00	(0.20)	—	(0.10)	0.56	F.C.	—
<i>Management and marketing of networks</i>										
<i>Goya, 4 - 28001 Madrid</i>										
Telefónica Mobile Solutions, S.A.U. (SPAIN) (*) (**) (3)		100.00%	100.00%	7.06	(3.83)	—	(0.47)	1.13	F.C.	—
<i>Systems engineering, networks and telecommunications infrastructure</i>										
<i>Gran Vía, 28 - 28013 Madrid</i>										
Telefónica Mobile Solutions Chile, S.A.C. (CHILE) (1)		N/D	N/D	0.19	(0.96)	—	(0.40)	0.19	F.C.	—
<i>Engineering activities relating to hardware and systems</i>										
<i>Avda. Seminario, 15 - Providencia - Santiago de Chile</i>										
Telefónica Mobile Solutions Perú, S.A.C. (PERU) (1)		N/D	N/D	—	0.22	—	(0.10)	—	F.C.	—
<i>Advisory and other services relating to communications</i>										
<i>Avda. Camino Real, 155 4º - San Isidro - Lima</i>										
Telefónica Mobile Solutions Brasil, Ltda. (BRAZIL) (1)		N/D	N/D	0.01	(0.94)	—	0.10	0.01	F.C.	—
<i>Engineering activities relating to hardware and systems</i>										
<i>Na de Botafogo, 501 2º andar, sales 202 y 203 - Rio de Janeiro</i>										
Telefónica Mobile Solutions Argentina, S.A. (ARGENTINA) (1)		N/D	N/D	0.01	(0.26)	—	0.07	0.01	F.C.	—
<i>Engineering activities relating to hardware and systems</i>										
<i>Carlos Pellegrini, 1149 10º - Buenos Aires</i>										
Soluciones Tecnológicas para la Alimentación, S.L. (SPAIN)		49.00%	49.00%	4.73	4.01	—	(3.44)	2.47	E.M.	0.50
<i>E-commerce</i>										
<i>C/Roselló, 515.08025-Barcelona</i>										
Telefónica Data España, S.A.U. (SPAIN) (*) (**) (1)		100.00%	100.00%	39.27	8.93	(100.00)	116.80	130.81	F.C.	—
<i>Data transmission</i>										
<i>Beatriz de Bobadilla, 18 - 28040 Madrid</i>										
Agencia de Certificación Electrónica, S.A. (SPAIN) (**) (2)		100.00%	100.00%	0.94	(3.74)	—	(0.54)	—	F.C.	—
<i>Development of "electronic notary" business using SET technology</i>										
<i>Sor Angela de la Cruz, 3 - 28020 Madrid</i>										
Segurvirtual MVS, S.A. (SPAIN) (3)		49.00%	49.00%	3.49	(6.82)	—	(0.05)	1.59	E.M.	—
<i>Virtual insurance market research</i>										
<i>Plaza de la Lealtad, 4 - 28014 Madrid</i>										
Euroinformarket, S.A. (SPAIN)(1)		5.00%	5.00%	2.05	0.27	—	(1.66)	0.24	I	0.24
Servicios On Line Para Usuarios Múltiples, S.A. (SPAIN)		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> <i>Landshuter Allee, 8 - 80637 Munich</i>		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> <i>2nd Floor, 33-34 Alfred Place - WC1E 7DP London</i>		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> <i>Tour Brnce, Rond Point Hassan II - Casablanca</i>		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> <i>1221 Brickell Avenue - Miami, Florida</i>		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> <i>Bouchard, 680 - Buenos Aires</i>		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> <i>Boulevard Avila Camacho, 24 - Mexico City</i>		100.00%	100.00%	0.53	(2.57)	—	(2.65)	0.01	F.C.	—
Katalyx Brasil, Ltd. (BRAZIL) (1) <i>Administrative management services</i> <i>Rua Joaquim Floriano, 1052 - Sao Paulo</i>		100.00%	100.00%	0.44	(1.63)	—	0.08	0.44	F.C.	—
Adquira Mexico, Ltd. (MEXICO) (1) <i>E-commerce</i> <i>Boulevard Avila Camacho, 24 - Mexico City</i>		50.00%	50.00%	9.84	(5.75)	—	(1.56)	5.42	E.M.	1.27
Adquira, Inc. (USA) (1) <i>E-commerce</i> <i>1221 Brickell Avenue - Miami, Florida</i>		100.00%	100.00%	—	(17.90)	—	(0.95)	—	F.C.	—
Adquira Argentina, S.L. (ARGENTINA) (1) <i>E-commerce</i> <i>Bouchard, 680 - Buenos Aires</i>		100.00%	100.00%	0.91	(2.86)	—	0.33	0.91	F.C.	—
Adquira Brasil, Ltd. (BRAZIL) (1) <i>E-commerce</i> <i>Rua Joaquim Floriano, 1052 - Sao Paulo</i>		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> <i>Bouchard, 680 - Buenos Aires</i>		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> <i>Boulevard Avila Camacho, 24 - Mexico City</i>		100.00%	100.00%	—	(1.51)	—	(0.10)	—	F.C.	—
Katalyx Transportation, LLC. (USA) (1) <i>E-commerce</i> <i>1221 Brickell Avenue - Miami, Florida</i>		100.00%	100.00%	—	(2.95)	—	(1.34)	—	F.C.	—
Katalyx Transportation Argentina, S.R.L. (ARGENTINA) (1) <i>E-commerce</i> <i>Bouchard, 680 - Buenos Aires</i>		100.00%	100.00%	—	(0.01)	—	—	—	F.C.	—
Katalyx Transportation Mexico, LLC. (MEXICO) (1) <i>E-commerce</i> <i>Boulevard Avila Camacho, 24 - Mexico City</i>		100.00%	100.00%	—	(2.42)	—	0.16	—	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)			
Katalyx Transportation Brasil, Ltd. (BRAZIL) (1) <i>E-commerce</i> <i>Rua Joaquim Floriano, 1052 - Sao Paulo</i>		100.00%	100.00%	—	(1.20)	—	(0.19)	—	F.C.	—
Katalyx Cataloguing Argentina, S.R.L. (ARGENTINA) (1) <i>E-commerce and cataloging</i> <i>Boulevard, 680 - Buenos Aires</i>		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> <i>Boulevard Avila Camacho, 24 - Mexico City</i>		100.00%	100.00%	—	(0.08)	—	(0.00)	—	F.C.	—
Katalyx Cataloguing Brasil, Ltd. (BRAZIL) (1) <i>E-commerce and cataloging</i> <i>Rua Joaquim Floriano, 1052 - Sao Paulo</i>		100.00%	100.00%	—	(0.18)	—	(0.07)	—	F.C.	—
Katalyx Construction Argentina (ARGENTINA) (1) <i>E-commerce</i> <i>Boulevard, 680 - Buenos Aires</i>		100.00%	100.00%	—	(0.01)	—	(0.01)	—	F.C.	—
Mercador, S.A. (BRAZIL) (1) <i>E-commerce</i> <i>Rua Joaquim Floriano, 1052 - Sao Paulo</i>		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
<b>Telefónica de España, S.A.U. (SPAIN) (*) (**) (1) (6)</b> <b><i>Provision of telecommunications services in Spain</i></b> <b><i>Gran Vía, 28 - 28013 Madrid</i></b>	<b>100.00%</b>		<b>100.00%</b>	<b>1,023.68</b>	<b>2,272.21</b>	<b>—</b>	<b>178.08</b>	<b>3,033.86</b>	<b>F.C.</b>	<b>—</b>
Telefónica Soluciones Sectoriales, S.A. (SPAIN) (*) (**) (4) <i>Consulting services for companies in the communications and IT industries</i> <i>Av. Burgos, 17-10.º-28036 Madrid</i>		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> <i>Fernando El Santo, 15 - 28010 Madrid</i>		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> <i>Parque industrial y de servicios de Mairena del Aljarafe - Sevilla</i>		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> <i>Avda. de Partenón, 10 Campo de las Naciones - 28042 Madrid</i>		49.00%	49.00%	3.01	0.66	—	0.09	1.35	E.M.	1.55
Instituto de Comunicaciones 7 (I7) (SPAIN) <i>Provider of multimedia services</i> <i>Cebrián, 3 - 35003 Las Palmas de Gran Canaria</i>		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> <i>Paseo Marítimo, 38 A - 07005 Palma de Mallorca</i>		39.00%	39.00%	1.51	0.07	—	0.29	0.69	E.M.	0.73

(\*) 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	Consoli- dation method	Value in consoli- dation (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> <i>Correos, 1 - 46002 Valencia</i>		30.77%	30.77%	0.78	2.30	—	0.01	0.17	E.M.	0.95
SEMCA (SPAIN) <i>Emergency telephone service in the Autonomous Community of Cantabria</i> <i>Casimiro Sainz, 4 - Santander</i>		16.00%	16.00%	0.75	(0.10)	—	(0.03)	0.12	I	0.12
ATENET (SPAIN) <i>Teaching via computer systems</i> <i>C/ Jorge Juan, 32 - Madrid</i>		8.68%	8.68%	0.33	(0.23)	—	—	0.12	I	0.12
Barcelona Emprend, S.A. (SPAIN) <i>Promotion of non-financial companies</i> <i>C/ Llacuna, 162 - Barcelona</i>		6.92%	6.92%	6.50	(0.21)	—	(0.04)	0.45	I	0.45
Foment Ciutat Vella, S.A. (SPAIN) <i>Performance of urban projects</i> <i>C/ Pintor Fortuny, 17-19 - Barcelona</i>		5.00%	5.00%	6.01	0.30	—	—	0.30	I	0.30
Teleinformática y Comunicaciones, S.A. (TELYCO) (SPAIN) (*) (**) (3) <i>Promotion, marketing and distribution of telephone and telematic equipment and services</i> <i>Plaza del Descubridor Diego de Ordás, 3 - 28003 Madrid</i>		100.00%	100.00%	2.77	12.44	—	(1.02)	12.47	F.C.	—
Telyco Marruecos, S.A. (MOROCCO) (3) <i>Promotion, marketing and distribution of telephone services</i> <i>Boulevard Abdelmoumen, 88 - Casablanca</i>		54.00%	54.00%	0.60	(0.03)	—	0.10	0.32	F.C.	—
Telefónica Telecomunicaciones Públicas, S.A. (SPAIN)(*) (**) (1) <i>Installation of public telephones</i> <i>Plaza de Carlos Trias Bertrán, 7 - 28020 Madrid</i>		100.00%	100.00%	1.20	73.73	—	4.93	64.12	F.C.	—
Adquira Spain, S.A. (SPAIN) (2) <i>Development of e-commerce platform</i> <i>Pl. Pablo Ruiz Picaso, s/n. Edif. Torre Picaso - Madrid</i>		20.00%	20.00%	0.45	17.22	—	(4.73)	7.64	E.M.	1.64
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> <i>Virgilio, 2 - Edificio 2 - Ciudad de la Imagen (*) - 28223 Madrid</i>		100.00%	100.00%	26.81	(23.76)	—	(5.11)	29.58	F.C.	—
Telefónica Cable Menorca, S.A. (SPAIN)(*) (**) (7) <i>Cable television systems and value-added services</i> <i>Santiago Ramón y Cajal, 13 - Mahón - Menorca</i>		100.00%	100.00%	0.60	(0.13)	—	0.00	0.56	F.C.	—
Telefónica Cable Asturias, S.A. (SPAIN) (*) (**) (7) <i>Cable television systems and value-added services</i> <i>Gral. Elorza, 8 - 33001 Oviedo</i>		100.00%	100.00%	0.60	0.07	—	0.01	0.61	F.C.	—
Telefónica Cable Galicia, S.A. (SPAIN) (**) (7) <i>Cable television systems and value-added services</i> <i>Ronda de Outeiro, 1-3 - A Coruña</i>		85.00%	85.00%	0.60	0.09	—	0.01	0.53	F.C.	—
Telefónica Cable Valencia, S.A. (SPAIN) (*) (**) (7) <i>Cable television systems and value-added services</i> <i>San Vicente, 148 - 46007 Valencia</i>		100.00%	100.00%	0.06	0.56	—	0.00	1.16	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 Cable Balears, S.A. (SPAIN) (*) (**) (7) <i>Cable television systems and value-added services</i> <i>Federico García Lorca, 2 - 07014 Palma de Mallorca</i>		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> <i>Plza. de la Soledad, 2 - 06001 Badajoz</i>		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> <i>Alcalde Mandillo Tejera, 8 - 38007 Santa Cruz de Tenerife</i>		100.00%	100.00%	1.23	(1.16)	—	(0.00)	1.17	F.C.	—
<b>Telefónica Media Internacional y de Contenidos USA, Inc. (USA)</b> <i>Operation of media services in USA</i> <i>1221 Brickell Av. - Miami</i>	100.00%		100.00%	17.89	(17.79)	—	0.36	0.33	F.C.	—
<b>Taetel, S.L. (SPAIN) (*) (**) (1)</b> <i>Acquisition, holding and disposal of shares and ownership interests in other companies</i> <i>Beatriz de Bobadilla, 3 - 28040 Madrid</i>	100.00%		100.00%	28.25	10.40	—	0.70	28.25	F.C.	—
<b>Lotca Servicios Integrales, S.L. (SPAIN) (*) (**) (4)</b> <i>Holding and operation of aircraft and the lease thereof</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%		100.00%	16.93	—	—	(0.01)	16.93	F.C.	—
<b>Telefónica Ingeniería de Seguridad, S.A. (SPAIN) (*) (**) (2)</b> <i>Security services and systems</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i>	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> <i>Rua Haddock Lobo, 337 2º andar, conjunto 21 - 01414-001 - Sao Paulo</i>		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> <i>Ciudad de México, Distrito Federal</i>		65.00%	65.00%	0.52	(0.42)	—	(0.35)	0.34	F.C.	—
<b>Inmobiliaria Telefónica, S.L. (SPAIN) (*) (**) (1)</b> <i>Purchase, sale and lease of real estate</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%		100.00%	10.04	102.62	—	10.02	103.44	F.C.	—
<b>Telefónica Capital, S.A. (SPAIN) (*) (**) (3)</b> <i>Financial institution</i> <i>Gran Vía, 28 - 28013 Madrid</i>	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> <i>Pedro Teixeira nº 8 - 3º P. - 28020 Madrid</i>		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) (**) (3) <i>Administration and representation of collective investment institutions</i> <i>Pedro Teixeira nº 8 - 3º P. - 28020 Madrid</i>		100.00%	100.00%	1.50	—	—	0.21	1.50	F.C.	—
Fonditel Valores, Agencia de Valores, S.A. (SPAIN) (**) (3) <i>Investment services</i> <i>Pedro Teixeira nº 8 - 3º P. - 28020 Madrid</i>		100.00%	100.00%	3.00	—	—	(0.11)	3.00	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)			
Catalana D'Iniciatives, C.R., S.A. (SPAIN) <i>Promotion of non-finance companies</i> <i>Passeig de Gràcia, 2 - 2ºB - 08007 Barcelona.</i>		5.99%	5.99%	30.86	17.49	—	2.78	3.77	I	3.77
<b>Atento Servicios Corporativos, S.A. (SPAIN) (*) (**) (1)</b> <i>Holding company</i> <i>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) <b>Atento N.V. (NETHERLANDS) (1) (6)</b> <i>Provision of telecommunications services</i> <i>Locatellikade, 1 - 1076 AZ Amsterdam</i>	91.35%	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)</i> <i>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</i> <i>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</i> <i>Santiago de Compostela, 94 - 7ª - 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</i> <i>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</i> <i>Santiago de Compostela, 94 - 7ª - 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</i> <i>Santiago de Compostela, 94 - 7ª - 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 telematics techniques</i> <i>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</i> <i>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</i> <i>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</i> <i>Santa Fé de Bogotá</i>		35.84%	91.35%	1.55	1.87	—	0.78	7.60	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)			
Atento Maroc, S.A. (MOROCCO) (1) <i>Provision of call-center services</i> <i>Bd Abdelmoumen, Angle rue Errazi et Charles Lebrun - Casablanca</i>		100.00%	91.35%	2.52	(0.23)	—	(1.17)	1.83	F.C.	—
Atento Argentina, S.A. (ARGENTINA) (1) <i>Provision of call-center services</i> <i>Avda. de Mayo, 645 P. 1º - Buenos Aires</i>		0.47%	91.35%	18.05	(22.98)	—	1.84	18.96	F.C.	—
Atento Uruguay, S.A. (URUGUAY) <i>Provision of call-center services</i> <i>Montevideo</i>		100.00%	91.35%	0.26	(0.71)	—	(0.30)	0.69	F.C.	—
Atento USA, Inc. (USA) (1) <i>Provision of call-center services</i> <i>1001 Brickell Bay Drive P. 32º - Miami - Florida 33131</i>		100.00%	91.35%	—	(1.94)	—	(2.04)	18.47	F.C.	—
Atento Colombia, S.A. (COLOMBIA) (1) <i>Provision of call-center services</i> <i>Caracas</i>		64.16%	91.35%	11.19	(10.62)	—	1.34	8.30	F.C.	—
Atento Centroamérica, S.A. (GUATEMALA) (1) <i>Provision of call-center services</i> <i>14 Calle 3-51 Zona 10 Edificio Murano Center 18 Nivel - Departamento de Guatemala</i>		100.00%	91.35%	15.95	(6.37)	—	(0.37)	11.57	F.C.	—
Atento El Salvador, S.A. de C.V. (EL SALVADOR) (1) <i>Provision of call-center services</i> <i>San Salvador</i>		7.41%	91.35%	4.40	(3.54)	—	0.50	3.19	F.C.	—
Atento de Guatemala, S.A. (GUATEMALA) (1) <i>Provision of call-center services</i> <i>Guatemala City</i>		100.00%	91.35%	19.40	(13.39)	—	(0.93)	14.43	F.C.	—
Atento El Salvador, S.A. de C.V. (EL SALVADOR) (1) <i>Provision of call-center services</i> <i>Guatemala City</i>		92.59%	91.35%	0.01	0.10	—	(0.10)	0.01	F.C.	—
Atento Holding Chile, S.A. (CHILE) (1) <i>Holding company</i> <i>Ciudad y Comuna de Santiago</i>		99.98%	91.35%	38.85	(9.24)	—	(0.18)	28.50	F.C.	—
Atento Argentina, S.A. (ARGENTINA) (1) <i>Provision of call-center services</i> <i>Diagonal Paraguay, 386 - Santiago de Chile</i>		70.00%	82.77%	21.72	(9.45)	—	1.44	14.00	F.C.	—
Nexcom (CHILE) (1) <i>Provision of call-center services</i> <i>Santiago de Chile</i>		100.00%	63.95%	1.73	(0.90)	—	(0.12)	0.86	F.C.	—
Atento Educación, Ltda. (CHILE) (1) <i>Provision of call-center services</i> <i>Santiago de Chile</i>		100.00%	63.95%	0.01	0.01	—	0.05	0.01	F.C.	—
Atento Recursos, Ltda. (CHILE) (1) <i>Provision of call-center services</i> <i>Santiago de Chile</i>		100.00%	63.95%	0.01	(0.22)	—	(0.03)	0.01	F.C.	—
Atento Perú, S.A.C. (PERU) (1) <i>Provision of call-center services</i> <i>C/ Jiron Camaná, 654 - 01 Lima</i>		70.00%	99.15%	8.90	(7.42)	—	2.33	14.22	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)			
Atento Italia, S.R.L. (ITALY) (5) <i>Provision of call-center services</i> <i>Via Lamaro, edif. D/2 - Roma</i>		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> <i>Mexico City</i>		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> <i>Mexico City</i>		100.00%	100.00%	0.02	(0.07)	—	0.06	0.01	F.C.	—
<b>Telefónica Investigación y Desarrollo, S.A. (TIDSA) (SPAIN) (*) (**) (3)</b> <i>Telecommunications research activities and projects</i> <i>Emilio Vargas, 6 - 28043 Madrid</i>	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> <i>Sao Paulo</i>		99.99%	99.99%	N/D	N/D	N/D	N/D	0.21	I	0.21
<b>Comunicapital Inversiones, S.A.U. (SPAIN) (1)</b> <i>Global telecommunications fund</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%		100.00%	6.00	(73.19)	—	8.01	6.00	I	6.00
<b>Compañía Española de Tecnología, S.A. (SPAIN) (*) (**) (3)</b> <i>Promotion of business initiatives and holding of marketable securities</i> <i>Villanueva, 2 duplicado planta 1ª Oficina 23 - 28001 Madrid</i>	100.00%		100.00%	3.99	(0.29)	—	(0.04)	10.11	F.C.	—
Cleon, S.A. (SPAIN) (3) <i>Property development</i> <i>Villanueva, 2 duplicado planta 1ª Oficina 23 - 28001 Madrid</i>		50.00%	50.00%	8.23	(0.68)	—	(0.03)	4.12	F.C.	—
<b>Casiopea Reaseguradora, S.A. (LUXEMBOURG) (3)</b> <i>Reinsurance</i> <i>6D, route de Trèves, L-2633 Senningerberg, Luxembourg</i>	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> <i>Avda. General Perón, 38 Master II - 17ª P.- 28020 Madrid</i>	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> <i>Lima</i>		99.93%	100.00%	0.01	0.02	—	—	0.01	F.C.	—
Pléyade Argentina, S.A. (ARGENTINA) <i>Insurance broker</i> <i>Buenos Aires</i>		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> <i>Rua do Livramento, 66 - Bloco A, 1º andar - 04008-030 - Sao Paulo</i>		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> <i>San Pedro Garza García - Nuevo León</i>		99.50%	99.50%	0.02	(0.01)	—	0.10	0.02	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)			
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 - 17ª P. - 28020 Madrid</i>	94.67%	5.33%	100.00%	204.33	(0.50)	—	7.96	216.48	F.C.	—
Other holdings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6.52	I	6.52
<b>Zeleris Soluciones Integrales, S.L. (SPAIN) (*) (**) (3)</b> <i>Provision of mail, directory, and domestic and international parcel distribution services</i> <i>Paseo de Graça, 81 1º - Barcelona</i>	100.00%		100.00%	3.40	(1.27)	—	0.57	6.49	F.C.	—
Zeleris España, S.A. (SPAIN) (*) (**) (3) <i>Provision of mail, directory and parcel distribution services</i> <i>C/ Gran Vía, 28 - 28013 Madrid</i>		100.00%	100.00%	2.38	(0.77)	—	1.90	0.82	F.C.	—
<b>Telefónica Finanzas, S.A. (TELFISA) (SPAIN) (*) (**) (3)</b> <i>Integrated cash management, counseling and financial support for Group companies</i> <i>Gran Vía, 30 - 4ª Plta. - 28013 Madrid</i>	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> <i>Boulevard Manuel Avila Camacho, 24 - 16ª Plta. - Lomas de Chapultepec - 11000 Mexico City</i>	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> <i>Avda. de la Industria, 17 Tres Cantos - 28760 Madrid</i>	100.00%		100.00%	3.01	0.30	—	(0.37)	3.60	F.C.	—
Venturini, S.A. (SPAIN) (*) (**) (2) <i>Direct marketing</i> <i>Vía Augusta, 117, 2ª 1ª - 08006 Barcelona</i>		100.00%	100.00%	0.18	0.03	—	(0.01)	0.21	F.C.	—
<b>Telefónica Procesos y Tecnología de la Información, S.A. (SPAIN) (*) (**) (3)</b> <i>Provision of IT related services</i> <i>José Abascal, 4 - 28003 Madrid</i>	100.00%		100.00%	3.00	4.79	—	0.74	3.01	F.C.	—
<b>Communicapital Gestión, S.A.U. (SPAIN) (*) (**) (1)</b> <i>Global telecommunications fund</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100.00%		100.00%	0.06	(0.02)	—	—	0.06	F.C.	—
<b>Telefónica Europe, B.V. (NETHERLANDS) (1)</b> <i>Fund raising in capital markets</i> <i>Strawinskylaan 1259, tower D, 12th floor 1077 XX - Amsterdam</i>	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> <i>Corporation Trust Center, 1209 Orange street - Wilmington/New Castle County - Delaware</i>		0.01%	0.01%	2,000.00	0.47	(84.15)	83.69	0.01	F.C.	—
<b>Telefónica Internacional USA Inc. (U.S.A.) (1)</b> <i>1221 Brickell Avenue suite 600 - 33131 Miami - Florida</i>	100.00%		100.00%	0.50	(0.11)	—	0.22	0.01	F.C.	—
<b>Telefónica USA, Inc. (U.S.A.) (8)</b> <i>E-commerce</i> <i>1221 Brickell Avenue - Miami - Florida 33131</i>	100.00%		100.00%	0.01	N/D	N/D	N/D	0.01	I	0.01

(\*) 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 B2B, Inc. (U.S.A.) <i>B2B e-commerce</i> <i>1001 Brickell Bay Drive - Miami, Florida 33131</i>	100.00%		100.00%	0.01	N/D	N/D	N/D	0.01	F.C.	—
Telefónica B2B Licencing, 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)	100.00%		100.00%	2.11	4.13	—	(4.09)	14.61	F.C.	—
<i>Provision of management and administration services</i> <i>Gran Vía, 28 - 28013 Madrid</i>										
Telefónica Gestión de Servicios Compartidos, S.A. de C.V. (MEXICO) (1) (6)	99.99%	0.01%	100.00%	6.75	(3.32)	—	(0.37)	6.76	F.C.	—
<i>Provision of management and administration services</i> <i>Blvd. Díaz Ordaz Pte N 123 2º, Col. Santamaría -</i> <i>6465 Monterrey</i>										
Telefónica Gestión de Servicios Compartidos El Salvador, S.A. (EL SALVADOR) (1)		99.20%	99.20%	0.02	0.01	—	—	0.02	F.C.	—
<i>Provision of management and administration services</i> <i>63 Avda. Sur y Alameda Roosevelt-Ctro F Gigante Torre B n 10,</i> <i>San Salvador</i>										
Telefónica Gestión de Servicios Compartidos Guatemala, S.A. de C.V. (GUATEMALA) (1)		100.00%	100.00%	0.01	0.01	—	0.02	0.01	F.C.	—
<i>Provision of management and administration services</i> <i>18 Calle 5-56, Zona 10, Edif. Unicentro Nivel 10,</i> <i>Guatemala</i>										
Telefonica Gestao de Serviços Compartilhados do Brasil, Ltda. (BRAZIL) (1)	99.99%		99.99%	8.45	(5.72)	—	0.69	5.00	F.C.	—
<i>Provision of management and administration services</i> <i>Rua Do Livramento, 66 Bolco Ibirapuera - Sao Paulo</i>										
Telefónica Gestión de Servicios Compartidos, S.A.C. (PERU) (1) (6)	99.99%	0.01%	100.00%	3.91	0.63	—	0.72	3.91	F.C.	—
<i>Provision of management and administration services</i> <i>Shell, 310 - Miraflores</i>										
Telefónica Centro de Cobros Perú, S.A.C. (PERU) (1)		100.00%	100.00%	0.01	0.28	—	0.27	0.53	F.C.	—
<i>Provision of management and administration services</i>										
Telefónica Gestión de Servicios Compartidos, S.A. (ARGENTINA) (1)	99.99%		99.99%	0.01	(0.84)	—	0.28	0.01	F.C.	—
<i>Provision of management and administration services</i> <i>Tucuman 1, Piso 18 Ciudad de Buenos Aires</i>										
Emergia, S.A. (URUGUAY) (1) (6)	100.00%		100.00%	30.29	328.23	—	(94.11)	499.05	F.C.	—
<i>Supplier of broadband communication services</i> <i>Luis A. de Herrera, 1248 Piso 4 - Montevideo</i>										
Emergia Argentina, S.A. (ARGENTINA) (1)		99.99%	99.99%	12.74	0.66	—	(6.22)	7.19	F.C.	—
<i>Provision of high bandwidth communications services</i> <i>Paraguay, 1345 Piso 6 - Buenos Aires</i>										
Emergia Participacoes, Ltd. (BRAZIL) (1)		99.99%	99.99%	N/D	N/D	N/D	N/D	N/D	F.C.	—
<i>Provision of high bandwidth communications services</i> <i>Rua Martiniano de Carvalho, n° 851, 16° andar, Bela Vista</i>										
Emergia Brasil, Ltd. (BRAZIL) (1)		99.99%	99.99%	58.38	(22.45)	—	(5.72)	30.22	F.C.	—
<i>Provision of high bandwidth communications services</i> <i>Av. Brigadeiro Faria Lima, 1188 Piso 8º - San Pablo</i>										

(\*) 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)			
Emergia Chile, S.A. (CHILE) (1) <i>Provision of high bandwidth communications services</i> <i>Ricardo Lyon, 222 Piso 14 - Santiago de Chile</i>		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> <i>Av. de la Floresta, 497 Piso 5 - San Borge</i>		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> <i>1221 Brickell Avenue, Piso 6 - 33131 Miami (Florida)</i>		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> <i>Blvd. Los Próceres, 5-56 Piso 11, zona 10 - Guatemala City</i>		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> <i>Metro Office Park Edificio 17, Calle 2, Suite 600 - Guaynabo</i>		100.00%	100.00%	4.00	(1.72)	—	(1.83)	0.45	F.C.	—
<b>Telefónica Internacional, S.A. (SPAIN) (*) (**) (1) (6)</b> <b><i>Investment in the telecommunications industry abroad</i></b> <b><i>C/ Gran Vía, 28 - 28013 Madrid</i></b>	<b>99.88%</b>	<b>0.12%</b>	<b>100.00%</b>	<b>7,381.66</b>	<b>(1,310.65)</b>	<b>—</b>	<b>404.02</b>	<b>8,141.40</b>	<b>F.C.</b>	<b>—</b>
Sao Paulo Telecomunicações Holding, Ltda. (BRAZIL) (1) <i>Holding company</i> <i>Sao Paulo</i>		100.00%	100.00%	1,251.17	5.43	(28.07)	59.01	2,882.52	F.C.	—
Telecomunicações de Sao Paulo, S.A. - TELES P (BRAZIL) (1) <i>Wireline telephony operator in Sao Paulo</i> <i>Sao Paulo</i>		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> <i>Avda. Arequipa, 1155 Santa Beatriz - Lima</i>		97.07%	97.21%	675.08	111.88	(37.93)	5.61	750.89	F.C.	—
Atento Perú, S.A.C. (PERU)		30.00%								
Telefonica International Holding, B.V. (NETHERLANDS) (1) <i>Holding company</i>		100.00%	100.00%	434.20	100.88	—	16.03	N/D	F.C.	—
Telefónica Chile Holding, B.V. (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.), (CHILE) (1) <i>Operator of telecommunications services in Chile</i> <i>Avenida Providencia, 111 piso 29</i> <i>Santiago de Chile</i>		43.64%	43.64%	1,098.84	602.37	—	15.10	N/D	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 Gestión de Servicios Compartidos Chile, S.A. (CHILE)		99.90%	43.60%	N/D	N/D	N/D	N/D	N/D	F.C.	—
<i>Provision of management and administration services</i>										
Impresora y Comercial Publiciguías, S.A. (CHILE) (1)		9.00%								
Atento Chile, S.A. (CHILE) (1) (6)		30.00%								
Compañía Internacional de Telecomunicaciones, S.A. (ARGENTINA) (1)		99.98%	99.98%	143.39	(4.32)	—	83.33	372.57	F.C.	—
<i>Holding company</i>										
<i>Tucumán, 1 P-18 Buenos Aires</i>										
Telefónica Holding de Argentina, S.A. (ARGENTINA) (1)		99.96%	99.96%	109.37	(394.07)	—	65.28	998.90	F.C.	—
<i>Holding company</i>										
<i>Tucumán, 1 P-17 Buenos Aires</i>										
Telefónica de Argentina, S.A. (ARGENTINA) (1)		98.03%	98.03%	471.84	157.03	—	121.83	866.22	F.C.	—
<i>Provision of telecommunications services</i>										
<i>Presidente Perón, 949 - piso 7 - 1038 Buenos Aires</i>										
Telefónica Venezuela Holding, B.V. (NETHERLANDS) (1)		100.00%	100.00%	0.01	48.76	—	(38.05)	—	F.C.	—
<i>Holding company</i>										
Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) (VENEZUELA) (1)		6.92%	6.92%	1,922.27	(4.53)	(31.24)	41.50	N/D	E.M.	89.39
<b>PROVISION OF TELECOMMUNICATIONS SERVICES</b>										
<i>Avenida Libertador, Centro Nacional de Telecomunicaciones, Piso 1 - 1226 Caracas</i>										
Telefónica Larga Distancia de Puerto Rico, INC. (PUERTO RICO) (1)		98.00%	98.00%	88.54	(34.29)	—	(7.14)	N/D	F.C.	—
<i>Telecommunications operator</i>										
<i>Calle 1, Edificio n° 8. Metro Office Park. Sector de Buchanan. Guaynabo - Puerto Rico</i>										
Infonet Services Corporation (U.S.A.) (1)		14.53%	14.53%	999.38	(313.51)	—	(15.23)	N/D	E.M.	97.69
<i>Telecommunications operator</i>										
<i>2100 East. Crand Avenue. El Segundo, California 90245 - 1022 USA</i>										
Telefónica Móviles, S.A. (*) (**) (SPAIN)		21.43%								
Fandem, Ltd. (IRELAND) (1)		100.00%	100.00%	1.00	N/D	—	N/D	N/D	I	0.08
<i>Holding company</i>										
<i>2 Harbour Master Place, Custom House Dock - Dublin</i>										
Communication Technology, Inc. (U.S.A.) (4)		100.00%	100.00%	—	(1.32)	—	(4.67)	18.66	F.C.	—
<i>Provider of long distance telecommunications services</i>										
<i>Delaware</i>										
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
<b>Telefónica Móviles, S.A. (SPAIN) (*) (**) (1) (6)</b>	<b>71.01%</b>	<b>21.43%</b>	<b>92.44%</b>	<b>2,165.28</b>	<b>267.32</b>	<b>—</b>	<b>1,607.84</b>	<b>3,045.00</b>	<b>F.C.</b>	<b>—</b>
<i>Holding company</i>										
<i>Goya, 24 - 28001 Madrid</i>										
Brasilcel, N.V. (NETHERLANDS) (1)		50.00%	46.22%	0.10	3,796.44	—	1.08	1,899.42	P.C.	—
<i>Joint Venture</i>										
<i>Strawinskylaan 3105 - 1077ZX - Amsterdam</i>										

(\*) 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)			
Tagilo Participações, S.A. (BRAZIL) (1) <i>Ownership of intellectual property</i> <i>Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, Sao Paulo</i>		50.00%	46.22%	96.53	5.51	(1.24)	4.25	—	P.C.	—
Sudestecel Participações, S.A. (BRAZIL) (1) <i>Holding company</i> <i>Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, Sao Paulo</i>		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> <i>Prai de Botafogo 501,20 andar, parte bela Vista, Sao Paulo</i>		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> <i>Praia de Botafogo, 501-5º a 8º Andares, Botafogo - Rio de Janeiro</i>		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> <i>Avda. Nossa Senhora da Penha, 275 - Praia de Santa Elena, Vitoria - Espiritu Santo</i>		41.94%	38.77%	41.64	18.67	—	12.33	—	P.C.	—
Portelcom Fixa, S.A. <i>Holding company</i> <i>Av Brigadeiro Faria Lima, 2277, 15º andar, Conj1503, Jardim Paulistano, Sao Paulo</i>		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> <i>Avda. Martiniano de Carvalho, 851, 20 andar, parte Sao Paulo, Sao Paulo</i>		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> <i>Rua José Bonifacio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul</i>		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> <i>Rua José Bonifacio, 245, Bon Fim, Porto Alegre - Rio Grande Do Sul</i>		25.08%	23.18%	138.08	67.93	—	55.53	—	P.C.	—
Iberoleste Participações, S.A. (BRAZIL) (1) <i>Holding company</i> <i>Rua Martiniano de Carvalho, 851, 20 andar, Parte, Bela Vista, Sao Paulo.</i>		50.00%	46.22%	130.85	(9.75)	—	(3.55)	—	P.C.	—
Tele Leste Celular Participações, S.A. (BRAZIL) (1) <i>Holding company</i> <i>Rua Silveria Martins, n 1036, Cabula, Salvador- Bahia</i>		13.85%	12.80%	83.69	37.71	—	(12.08)	—	P.C.	—
Telebahia Celular, S.A. (BRAZIL) (1) <i>Provision of wireless communications services</i> <i>Rua Silveria Martins, n 1036, Cabula, Salvador- Bahia</i>		13.85%	12.80%	98.06	10.16	—	(11.88)	—	P.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)			
Telergipe Celular, S.A. (BRAZIL) (1) <i>Provision of wireless communications services</i> <i>Avda. Francisco Porto, 686, 13 de julho -</i> <i>Aracaju, Sergipe</i>		13.85%	12.80%	9.50	1.64	—	(0.49)	—	P.C.	—
Intertelecom, Ltda. (BRAZIL) <i>Holding company</i> <i>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</i> <i>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</i> <i>Av Brigadeiro Faria Lima, 2277, 15ª andar, Conj1503, Jardim 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</i> <i>Av. Roque Petroni Júnior, nº 1464, 6 andar-parte, 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</i> <i>Av. Roque Petroni Júnior, nº 1464, 6 andar-parte, 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</i> <i>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</i> <i>Sector Comercial Sul, Quadra 2, Bloco C, nº 226, Edif Telebrasil Celular, 7 andar, Brasília</i>		9.40%	8.69%	156.23	215.89	—	83.43	—	P.C.	—
Telegoiás Celular, S.A. (BRAZIL) <i>Wireless operator</i> <i>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</i> <i>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</i> <i>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</i> <i>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</i> <i>Rua Minas Gerais, nº 64, Ivete Vargas, Rio Branco-Acre</i>		9.24%	8.55%	4.01	4.80	—	2.14	—	P.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)			
Norte Brasil Telecom, S.A. (BRAZIL)		9.40%	8.69%	49.33	4.61	—	4.08	—	P.C.	—
Wireless operator										
Travessa Padre Eutíquio, nº 1, 226, Barrio Batista Campos, Belém, Para										
Tele Centro Oeste IP, S.A. (BRAZIL)		9.40%	8.69%	0.27	(0.68)	—	(0.99)	—	P.C.	—
Wireless operator										
AC/ Sul Quadra 02, Bloco C, nº 256, 3º Pavimento, Ed Toufic, Plano Piloto, Brasília										
Telefónica Móviles El Salvador Holding, S.A. de C.V. (EL SALVADOR) (3)		100.00%	92.44%	124.56	(3.67)	—	(1.31)	136.64	F.C.	—
Holding company										
Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador										
Telefónica Móviles El Salvador, S.A. de C.V. (EL SALVADOR) (3)		90.30%	83.47%	94.18	(62.50)	—	(11.88)	101.23	F.C.	—
Provision of wireless and international long distance communications services										
Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 - San Salvador										
TCG Holdings, S.A. (GUATEMALA) (1)		100.00%	92.44%	206.68	(0.92)	—	(0.40)	238.54	F.C.	—
Holding company										
Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City										
Telefónica Centroamérica Guatemala, S.A. (GUATEMALA) (1)		100.00%	92.44%	201.36	(91.81)	—	(21.83)	201.35	F.C.	—
Provision of wireless, wireline and radio paging communications services										
Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City										
Telesuchua, S.A. (GUATEMALA) (1)		100.00%	92.44%	2.49	(1.54)	—	(0.13)	2.49	F.C.	—
Provision of telecommunications and paging services										
Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City										
Infraestructura Internacional, S.A. (GUATEMALA)		70.00%	64.71%	0.43	(0.11)	—	(0.04)	0.30	F.C.	—
Provision of telecommunications and paging services										
Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City										
Telefónica Móviles España, S.A.U. (SPAIN) (*) (**) (1)		100.00%	92.44%	423.34	(2,868.33)	—	1,856.63	933.21	F.C.	—
Provision of wireless communications services										
Plaza de la Independencia, 6 - Pta. 5 - 28001 MADRID										
Spiral Investment, B.V. (NETHERLANDS) (1)		100.00%	92.44%	38.54	(132.39)	—	0.25	42.69	F.C.	—
Strawinskyiaan 3105 - 1077ZX - Amsterdam										
3G Mobile AG (SWITZERLAND) (9)		100.00%	92.44%	35.37	(73.99)	—	(4.06)	90.87	F.C.	—
MobiPay España, S.A. (SPAIN)		13.33%	12.32%	15.05	—	—	(5.75)	3.24	E.M.	1.24
Provision of payment services through wireless telephony										
Avda. Europa, 20 - Alcobendas - Madrid										
Mediaways UK (U.K.)		100.00%	92.44%	—	—	—	—	—	I	—
Solvella Investment, B.V. (NETHERLANDS) (1)		100.00%	92.44%	880.70	(1,497.29)	—	(55.93)	891.79	F.C.	—
Strawinskyiaan 3105 - 1077ZX - Amsterdam										

(\*) 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)			
Ipse 2000, S.p.A. (ITALY) <i>Installation and operation of third-generation wireless communications systems</i> <i>Piazza dei Capprettari, 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</i> <i>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</i> <i>Munich</i>		57.20%	52.87%	250.03	(250.03)	—	(41.49)	—	F.C.	—
Opco Mobile Services GmbH (GERMANY) (1) <i>Provision of UMTS services</i> <i>Munich</i>		57.20%	52.87%	0.05	—	—	—	—	F.C.	—
Médi Telecom, S.A. (MOROCCO) <i>Provision of wireless communications services</i> <i>Twin Center, Tour A. Angle Bd Zertouni et El Massira</i> <i>El Kadra Casablanca</i>		32.18%	29.75%	796.97	(551.75)	—	(123.79)	274.65	E.M.	38.62
Telefónica Móviles Interacciona, S.A. (SPAIN) (1) <i>Engineering consultancy services in wireless environments.</i> <i>Gran Via, 28 - 28013 Madrid</i>		100.00%	92.44%	4.00	(56.57)	—	(22.84)	—	F.C.	—
Terra Mobile Brasil, Ltd. (BRAZIL) (1) I.O.Box Deutschland, GmbH (GERMANY) (1)		100.00%	92.44%	5.60	(5.61)	—	0.03	7.51	F.C.	—
Gruppo 3G, SRL (ITALY) <i>Via Lepetit, 4 - Milan</i>		100.00%	92.44%	0.03	(0.19)	—	0.18	5.86	F.C.	—
Tempos 21 Innovación en Aplicaciones Móviles, S.A. (SPAIN) <i>Research, development and commercial operation of wireless services and applications</i> <i>Avda. Diagonal, 640 - Barcelona</i>		100.00%	92.44%	0.07	(0.01)	—	—	0.10	I	0.10
Main Instituto Superior de Tecnología y Empresa, S.L. (SPAIN) <i>Teaching relating to new corporate technologies</i> <i>Españoleto, 19 - Madrid</i>		38.50%	35.59%	13.22	(0.98)	—	(5.30)	5.09	I	5.09
Simpay, Ltd. (U.K.) <i>Wireless means of payment</i> <i>62-65 Chandos Place, London WC2N 4LP</i>		20.00%	18.49%	0.75	(0.74)	—	(0.04)	0.15	I	0.15
Omicron Ceti, S.L. (SPAIN) <i>Holding company</i> <i>José Abascal - Madrid</i>		25.00%	23.11%	—	—	—	—	—	I	—
Telefónica Móviles Puerto Rico, Inc. (PUERTO RICO) <i>Ownership of wireless operators in Puerto Rico</i> <i>Metro Office Park Calle Edificio #17, Suite 600 - 00968 Guaynabo</i>		100.00%	92.44%	—	—	—	—	—	I	—
Telefónica Móviles USA, Inc. (U.S.A.) <i>Telecommunications consultancy services</i> <i>1221 Brickell Avenue - Miami - Florida</i>		100.00%	92.44%	0.60	0.01	—	(0.10)	0.64	F.C.	—
		100.00%	92.44%	—	(0.92)	—	(0.08)	0.75	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)			
TELCA Gestión, S.A. de C.V. (EL SALVADOR)		100.00%	92.44%	0.02	—	—	—	0.02	I	0.02
Management of and counseling on telecommunications services										
63 Avda. Sur y Alameda Roosevelt, Torre B nivel 10 - San Salvador										
MobiPay Internacional, S.A. (SPAIN)		36.05%	33.32%	32.26	(12.62)	—	(7.90)	12.17	E.M.	4.23
Provision of payment services through wireless telephony										
Telefónica Móviles Perú Holding, S.A.A. (PERU) (1)		97.97%	90.56%	184.00	20.16	—	14.68	254.46	F.C.	—
Holding company										
Avda. Arequipa, 1155 Lima, 01										
Telefónica Móviles, S.A.C. (PERU) (1)		97.97%	90.56%	196.25	8.13	—	14.78	—	F.C.	—
Provision of wireless communications services										
Avda. Arequipa, 1155 Lima, 01										
Telefónica Móviles Argentina, S.A. (ARGENTINA) (1)		97.93%	90.53%	141.15	(674.64)	—	56.97	495.79	F.C.	—
Holding company										
Ing Huergo 723, piso 17 - Buenos Aires										
Telefónica Comunicaciones Personales, S.A. (ARGENTINA) (1)		97.93%	90.53%	144.58	(677.71)	—	57.04	—	F.C.	—
Provision of wireless communications services										
Ing Huergo 723, piso 17 - Buenos Aires										
Radio Servicios, S.A. (ARGENTINA) (7)		97.92%	90.52%	0.27	(0.31)	—	—	—	I	(0.05)
Inactive company										
Ing Huergo 723, piso 17 - Buenos Aires										
Radio Móvil Digital Argentina, S.A. (ARGENTINA) (5)		97.92%	90.52%	1.69	(3.21)	—	(0.11)	—	I	(1.62)
Telecommunications under SRCE license (trunking)										
Ing Huergo 723, piso 17 - Buenos Aires										
Telefónica de Centroamérica, S.L. (SPAIN)) (1) (7)		100.00%	92.44%	0.50	0.01	—	(0.13)	1.33	I	1.33
Inactive company										
Gran Vía, nº 28, Madrid										
Telefónica Móviles Holding Uruguay, S.A. (URUGUAY) (7)		100.00%	92.44%	0.02	(0.01)	—	—	0.05	I	0.05
Inactive company										
Plza de la Independencia 8, planta baja, Montevideo										
Telefónica Móviles Uruguay, S.A. (URUGUAY) (7)		100.00%	92.44%	0.02	(0.01)	—	—	—	I	—
Inactive company										
Plza de la Independencia 8, planta baja, Montevideo										
Paging de Centroamérica, S.A. (GUATEMALA)		100.00%	92.44%	—	—	—	—	—	I	—
Provision of telecommunications and paging services										
Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City										
Telefónica Soporte y Tecnología, S.A. (GUATEMALA)		99.99%	92.43%	—	—	—	—	—	I	—
Provision of telecommunications and paging services										
Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 11 - Guatemala City										
Telefónica Móviles México, S.A. de C.V. (MEXICO) (1)		92.00%	85.04%	1,483.31	(131.22)	—	(530.03)	998.99	F.C.	—
Holding company										
Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120										

(\*) 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 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.	—
Telefonía Celular del Norte, S.A. de C.V. (MEXICO) (1) <i>Provision of wireless local loop services</i> Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120		92.00%	85.04%	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.	—

(\*) 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)			
Grupo Corporativo del Norte, S.A. de C.V. (MEXICO) (1) <i>Acquisition, disposal and custodianship of securities</i> <i>Paseo de los Tamarindos No. 400-A, piso 4,</i> <i>Col. Bosques de las Lomas, Mexico City 05120</i>		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> <i>Paseo de los Tamarindos No. 400-A, piso 4,</i> <i>Col. Bosques de las Lomas, Mexico City 05120</i>		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> <i>Paseo de los Tamarindos No. 400-A, piso 4,</i> <i>Col. Bosques de las Lomas, Mexico City 05120</i>		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> <i>Paseo de los Tamarindos No. 400-A, piso 4,</i> <i>Col. Bosques de las Lomas, Mexico City 05120</i>		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> <i>Paseo de los Tamarindos No. 400-A, piso 4,</i> <i>Col. Bosques de las Lomas, Mexico City 05120</i>		89.61%	82.83%	0.01	11.00	—	2.46	—	F.C.	—
Pegaso Telecomunicaciones, S.A. de C.V. (MEXICO) (1) <i>Installation, maintenance and operation of public or private telecommunications networks</i> <i>Paseo de los Tamarindos No. 400-A, piso 4,</i> <i>Col. Bosques de las Lomas, Mexico City 05120</i>		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> <i>Paseo de los Tamarindos No. 400-A, piso 4,</i> <i>Col. Bosques de las Lomas, Mexico City 05120</i>		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> <i>Paseo de los Tamarindos No. 400-A, piso 4,</i> <i>Col. Bosques de las Lomas, Mexico City 05120</i>		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> <i>Paseo de los Tamarindos No. 400-A, piso 4,</i> <i>Col. Bosques de las Lomas, Mexico City 05120</i>		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> <i>Paseo de los Tamarindos No. 400-A, piso 4,</i> <i>Col. Bosques de las Lomas, Mexico City 05120</i>		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> <i>Paseo de los Tamarindos No. 400-A, piso 4,</i> <i>Col. Bosques de las Lomas, Mexico City 05120</i>		92.00%	85.04%	—	—	—	—	—	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)			
Activos Para Telecomunicación, S.A. de C.V. (MEXICO) (1) <i>Provision of handsfree wireless telecommunications services</i> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>		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> <i>Paseo de los Tamarindos No. 400-A, piso 4, Col. Bosques de las Lomas, Mexico City 05120</i>		92.00%	85.04%	—	—	—	—	—	F.C.	—
Telefónica Móviles Soluciones y Aplicaciones, S.A. (1) Other holdings		100.00%	92.44%	9.16	0.53	—	1.33	9.50	F.C.	—
		N/A	N/A	N/A	N/A	N/A	N/A	1.84	I	1.83
<b>Terra Networks, S.A. (SPAIN) (1) (6)</b> <b><i>Provision and operation of telecommunications services</i></b> <b><i>Nicaragua, 54 - 08029 Barcelona</i></b>	<b>71.97%</b>	<b>3.32%</b>	<b>75.29%</b>	<b>1,202.94</b>	<b>1,690.31</b>	<b>—</b>	<b>(172.71)</b>	<b>3,755.96</b>	<b>F.C.</b>	<b>—</b>
Terra Lycos, S.A. (SPAIN) <i>Internet services provider</i> <i>Paseo de la Castellana, 92 - 28046 Madrid</i>		100.00%	75.29%	0.06	(0.01)	—	—	0.06	F.C.	—
Terra Lycos Holding, B.V. (NETHERLANDS) <i>Marketing of software licenses</i> <i>Koningslaan, 34. 1075 AD Amsterdam</i>		100.00%	75.29%	0.02	—	—	—	0.02	I	0.02
Terra Lycos Intangibles, S.A. (SPAIN) (1) <i>Internet services provider</i> <i>Paseo de la Castellana, 92 - 28046 Madrid</i>		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> <i>100 Fifth Avenue, Waltham, Massachusetts</i>		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> <i>1201 Brickell Avenue, Suite 700, Miami - Florida 33131</i>		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> <i>1018 Centre Road, Wilmington - Delaware</i>		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> <i>Via de Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Plta. Pozuelo de Alarcón - 28224 Madrid</i>		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> <i>Claudio Coello, 32, 1º ext. - Madrid</i>		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> <i>Julián Camarillo, 4 Edificio C, 28037 - Madrid</i>		33.00%	24.85%	80.32	36.21	—	(5.07)	189.83	I	189.83

(\*) 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)			
Terra Networks Asociadas, S.L. (SPAIN) <i>Portfolio company</i> <i>Paseo de la Castellana, 92 - 28046 Madrid</i>		100.00%	75.29%	6.11	6.08	—	(14.52)	61.12	F.C.	—
Maptel Networks, S.A.U. (SPAIN) (1) <i>Design of digital cartography</i> <i>Plaza Santa María Soledad Torres Acosta, 15º - 28004 Madrid</i>		100.00%	75.29%	1.50	(0.68)	—	(0.80)	1.37	F.C.	—
Ifigenia Plus, S.L. (SPAIN) (1) <i>Education and cultural portal</i> <i>Plaza Alonso Martínez, 3 - 28004 Madrid</i>		100.00%	75.29%	0.14	(1.00)	—	(0.52)	10.11	F.C.	—
Educaterria, S.L. (SPAIN) (1) <i>Vertical education Internet portal</i> <i>Vía de Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Plta. Pozuelo de Alarcón - 28224 Madrid</i>		100.00%	75.29%	0.06	(2.19)	—	(1.29)	0.06	F.C.	—
Emplaza, S.A. (SPAIN) (5) <i>Intranet development portal</i> <i>Centro Europa Empresarial, Rozabella 8, 28230 Las Rozas, Madrid</i>		80.00%	60.23%	1.20	(2.15)	—	0.95	6.37	I	—
Azeler Automoción, S.A. (SPAIN) (6) <i>Motoring portal</i> <i>Vía de Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Plta. Pozuelo de Alarcón - 28224 Madrid</i>		50.00%	37.65%	1.80	0.47	—	(1.09)	5.22	E.M.	0.59
Red Universal de Marketing y Bookings Online, S.A. (SPAIN) (6) <i>Travel booking portal</i> <i>Proción 1 y 3 La Florida - 28023 Madrid</i>		50.00%	37.65%	9.00	(9.48)	—	(5.89)	7.50	E.M.	—
Inversis Networks, S.A. (SPAIN) <i>Telematic and computer systems and applications</i> <i>C/ Arrastacia, 13. Polígono de las Mercedes - Madrid</i>		9.13%	6.87%	69.05	(10.02)	—	(25.95)	10.09	I	10.09
A Tu Hora, S.A. (SPAIN) <i>E-commerce</i> <i>Isla Graciosa, 7 - San Sebastián de los Reyes - 28700 Madrid</i>		50.00%	37.65%	7.18	(3.37)	—	(0.13)	6.59	E.M.	0.00
One Travel.com, Inc. (USA) (1) (6) <i>Travel booking portal</i> <i>258 Main Street, 3rd floor - East Greenville</i>		54.15%	40.77%	0.01	8.05	—	(1.48)	29.64	F.C.	—
11th Hour Vacations, Inc. (USA) <i>Travel booking portal</i> <i>15 Century Drive, Greenville - South Carolina</i>		100.00%	75.29%	N/D	N/D	—	N/D	—	F.C.	—
Iniciativas Residenciales en Internet, S.A. (ATREA) (SPAIN) <i>Real estate portal</i> <i>Pº de Recoletos, 10 Ala Norte 1ª pta. - 28001 Madrid</i>		50.00%	37.65%	1.42	2.38	—	(2.02)	3.85	E.M.	0.89
Terra Networks España, S.A. (SPAIN) (4) <i>ISP and portal</i> <i>Vía Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Plta. Pozuelo de Alarcón - 28224 Madrid</i>		100.00%	75.29%	8.12	(404.63)	—	(4.90)	76.47	F.C.	—
Ordenamiento de Links Especializados, S.L. (SPAIN) <i>Internet browser</i> <i>Nicaragua, 54 - Barcelona</i>		100.00%	75.29%	6.00	(7.92)	—	(0.03)	18.03	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)			
OLE de Contenidos Interactivos, S.A. (SPAIN) (5) <i>Gathering, preparation and dissemination of information of all kinds</i> <i>Paseo de la Castellana, 210 - 28046 Madrid</i>		100.00%	75.29%	0.09	(0.08)	—	—	6.01	F.C.	—
ADQ Advertising Quality, S.L. (SPAIN) (5) <i>Computerized advertising services</i> <i>Paseo de la Castellana, 210 - 28046 Madrid</i>		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> <i>Paseo de la Castellana, 92 - 28046 Madrid</i>		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> <i>Avda. Francisco de Miranda, Centro Plaza, Torre A, Piso 11, Los Palos Grandes - Caracas</i>		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> <i>Los Sauces, 374 - Torre Roja - San Isidro - Lima</i>		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> <i>Antonio L. Rodríguez 1884, Monterrey - Nuevo León</i>		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> <i>Col. Santa María Monterrey, Ciudad de Monterrey - Nuevo Leon</i>		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> <i>Rua de Consolação, 247, 6° - Sao Paulo</i>		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> <i>Rua General Joao Manoel, 90 - Porto Alegre - Rio Grande do Sul - Brasil</i>		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> <i>Avda. Vitacura, 2736 - Santiago de Santiago</i>		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> <i>Avda. Vitacura, 2736 - Santiago de Santiago</i>		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> <i>Diagonal, 6 Edificio Las Margaritas II - Guatemala City</i>		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> <i>63 Ave. Sur y Alameda Roosevelt, Centro Fin. Gigante Torre de San Salvador</i>		99.99%	75.28%	1.69	N/D	—	N/D	N/D	F.C.	—
Terra Networks Honduras, S.A. (HONDURAS) <i>Internet portal</i> <i>14 Av. Circunvalación N.O. San Pedro Sula-Cortez</i>		99.99%	75.28%	0.03	N/D	N/D	N/D	N/D	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)			
Terra Networks Costa Rica, S.A. (COSTA RICA) (3) <i>Internet portal</i> <i>Escurridabat, Edificio Domus Plaza, 2ª Planta Oficina 2 - San José</i>		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> <i>Harry Eno y Piloto, Posada Edificio El Educador - Coopeduc - Bethania</i>		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> <i>Avda. Winston Churchill, Pza. Fernández II, Local 18 B - Ensanche Paraíso - Santo Domingo</i>		99.98%	75.28%	1.29	(1.26)	—	(0.28)	—	F.C.	—
Terra Networks Argentina, S.A. (ARGENTINA) (1) <i>ISP and portal</i> <i>Avda. Leandro N. Alem., 712 Piso 11 - Buenos Aires</i>		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> <i>332 Boulevard Brahim Roudani - Casablanca</i>		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> <i>Avda. 100 nº 7-33 Torre 11 Of:301 - Santa Fé de Bogotá</i>		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> <i>Avda. 100 nº 7-33 Torre 11 Of:301, Santa Fé de Bogotá</i>		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> <i>Avda. Arriaga, 73-2ª andar, sala 212 - Freguesia de Se, Concelho do Funchal (Madeira)</i>		100.00%	75.29%	0.01	N/D	—	N/D	0.01	I	0.01
<b>Aliança Atlântica Holding B.V. (NETHERLANDS)</b> <i>Holder of 5,225,000 Portugal Telecom, S.A. shares</i> <i>Strawinskylaan 1725, 1077 XX Amsterdam</i>	50.00%	43.76%	93.76%	40.00	1.00	—	0.80	21.97	F.C.	—
<b>Telefónica Factoring Establecimiento Financiero de Crédito, S.A. (SPAIN) (1)</b> <i>Loans and credits (consumer and mortgage loans and commercial transactions)</i> <i>Pedro Teixeira, 8 - 28020 Madrid</i>	50.00%		50.00%	5.11	1.68	—	2.77	2.64	E.M.	4.80
<b>Torre de Collçerola, S.A. (SPAIN) (2)</b> <i>Operation of a telecommunications mast and technical assistance and consulting services</i> <i>Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona</i>	42.00%		42.00%	12.02	0.56	—	—	5.08	E.M.	5.28
<b>Telefónica Factoring Do Brasil, Ltd. (BRAZIL) (1)</b> <i>Development of factoring business</i> <i>Avda. Paulista, 1106</i>	40.00%	10.00%	50.00%	2.41	(0.78)	(0.23)	0.74	1.45	E.M.	0.95

(\*) 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)			
<b>Banco Bilbao Vizcaya Argentaria, S.A. (SPAIN) (1) (6)</b>	1.13%		1.13%	1,565.97	6,936.51	(862.88)	1,460.34	555.63	E.M.	555.63
<i>Banking</i>										
<i>Plaza de San Nicolás, 4 - 48013 Bilbao (Vizcaya)</i>										
<b>Telefónica Publicidad e Información, S.A. (SPAIN) (2) (6)</b>	59.90%		59.90%	18.41	102.45	—	90.06	4.06	F.C.	—
<i>Publishing of directories and advertising in all types of media</i>										
<i>Avda. de Manoteras, 12 - 28050 MADRID</i>										
Compañía Española de Redes										
y Nuevos Entornos Tecnológicos, S.L. (SPAIN) (2)		100.00%	59.90%	0.06	0.18	—	(0.18)	0.64	F.C.	—
<i>Construction and refurbishment of buildings.</i>										
<i>Refurbishments in general.</i>										
<i>Claudio Coello, 76 - Madrid</i>										
Goodman Business Press, S.A.U. (SPAIN) (2)		100.00%	59.90%	0.66	8.91	—	(0.14)	11.02	F.C.	—
<i>Publishing of technical and professional publications in several industries</i>										
<i>Fuerteventura, 21- San Sebastián de los Reyes. Madrid</i>										
Buildnet, S.A.U. (SPAIN) (2)		100.00%	59.90%	0.06	0.04	—	(0.05)	0.35	F.C.	—
<i>Creation, development, management and provision of on-line information services</i>										
<i>Claudio Coello, 76 - Madrid</i>										
Adquir Spain, S.A. (SPAIN) (2)		20.00%	11.98%	0.45	18.22	—	(5.76)	3.17	E.M.	2.58
<i>E-commerce</i>										
<i>Goya, 4, 4ª planta - Madrid</i>										
Telefónica Publicidad e Información Internacional, S.A.U. (SPAIN) (2)		100.00%	59.90%	49.34	(0.13)	—	(0.37)	49.34	F.C.	—
<i>Holding company</i>										
<i>Avda. de Manoteras, 12 - 28050 MADRID</i>										
Directories Holding, B.V. (NETHERLANDS)		100.00%	59.90%	0.02	13.14	—	(0.02)	47.58	F.C.	—
<i>Holding company</i>										
<i>Drentestraat 24 BG 1083 HK - Amsterdam</i>										
Publiguías Holding, S.A. (CHILE) (2)		100.00%	59.90%	13.73	(3.92)	—	2.53	13.20	F.C.	—
<i>Holding company</i>										
<i>Avda. Santa María 0792 - Providencia - Santiago de Chile</i>										
Urge Chile, S.A. (CHILE) (2)		100.00%	59.90%	0.09	(0.04)	—	(0.33)	0.07	F.C.	—
<i>Construction and upkeep of buildings.</i>										
<i>Refurbishment work in general</i>										
<i>Moneda 970, piso 12 - Santiago de Chile</i>										
Impresora y Comercial Publiguías, S.A. (CHILE) (2)		51.00%	34.48%	4.93	22.68	—	13.35	11.87	F.C.	—
<i>Telephone directory and related products and telephone files business</i>										
<i>Avda. Santa María 0792 - Providencia - Santiago de Chile</i>										
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)		100.00%	59.90%	2.34	(1.42)	—	3.94	22.36	F.C.	—
<i>Publishing of Peruvian market directories</i>										
<i>Paseo República, 3755 San Isidro, Lima</i>										
Telefónica Publicidade e Informação, Ltda. (BRAZIL) (2)		100.00%	59.90%	54.54	(50.70)	—	(4.53)	64.02	F.C.	—
<i>Publishing of directories and advertising in the states of Sao Paulo and Rio Grande do Sul</i>										
<i>Rua Gomes de Carvalho, 1507 Vila Olimpia, Sao Paulo - Brasil</i>										

(\*) 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)			
11888 Servicio Consulta Telefónica, S.A. (SPAIN) (2) <i>Provision of wireline public telephone and directory enquiry service</i> <i>Avda. de Manoteras, 12 - 28050 MADRID</i>		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> <i>Avda. Das Americas, 500 Bl. 6A - Rio de Janeiro</i>		20.00%	11.98%	3.70	—	—	—	1.57	I	1.57
Euredit, S.A. (FRANCE) (2) <i>Publication of European yearbooks</i> <i>Avda. Friedland, 9 - 75008 Paris (*)</i>		5.00%	2.99%	N/D	N/D	—	N/D	0.23	I	0.23
<b>Sistemas Técnicos de Loterías del Estado, S.A. (SPAIN) (2)</b> <i>Operation of a gaming terminal system for the Spanish State Gaming Organization</i> <i>Manuel Tovar, 9 - 28034 Madrid</i>	31.75%		31.75%	12.02	52.66	—	12.94	3.82	E.M.	23.50
<b>Amper, S.A. (SPAIN) (1) (6)</b> <i>Development, manufacture and repair of telecommunications systems and equipment and related components</i> <i>Torrelaguna, 75 - 28027 Madrid</i>	6.10%		6.10%	27.91	33.47	—	(7.93)	11.83	E.M.	3.26
<b>Portugal Telecom, S.G.P.S., S.A. (PORTUGAL) (1)</b> <i>Holding company</i> <i>Avda. Fontes Pereira de Melo, 40 - 1089 Lisbon</i>	3.74%	0.95%	4.70%	1,254.29	1,753.51	—	348.96	361.59	E.M.	158.58
<b>I-CO Global Communications (HOLDINGS) Limited (U.K.)</b>	N/D		N/D	N/D	N/D		N/D	6.03	I	6.03
<b>Other holdings</b>	N/A	N/A	N/A	N/A	N/A		N/A	0.78	I	0.78
<b>TOTAL VALUE IN CONSOLIDATION, ASSOCIATED COMPANIES (Note 8)</b>										<b>1,507.40</b>
<b>TOTAL VALUE IN CONSOLIDATION, INVESTEES (Note 8)</b>										<b>492.37</b>

(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.

<p>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.</p>	<p>thousand. This company was fully consolidated in the Telefónica Group.</p>
<p>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.</p>	<p>On December 23, 2003, Telefónica Móviles España, S.A. and Mobilkom Austria Aktiengesellschaft &amp; 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.</p>
<p><b>Telefónica Móviles Group</b> 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.</p>	<p><b>Telefónica de Contenidos Group</b> 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.</p>
<p>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.</p>	<p>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.</p> <p>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%.</p>
<p>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.</p>	<p>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.</p>
<p>Telefónica Móviles, S.A. acquired a 20% holding in the Spanish company Telefónica Móviles Interacciona, S.A. (formerly Terra Mobile, S.A.) from Terra Networks, S.A.; following this transaction, it was this company's sole stockholder. The Telefónica Group's effective holding in this company increased from 81.66% to 92.44% and it continues to be fully consolidated in the Telefónica Group. Subsequently, on June 24, 2003, Termespa, S.A. was merged by absorption into Telefónica Móviles Interacciona, S.A.</p>	<p>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.</p>
<p>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.</p>	<p>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</p>
<p>In September Telefónica Móviles, S.A. incorporated Telefónica Móviles Puerto Rico, Inc. with an initial capital stock of €40</p>	

accounted for by the equity method in the Telefónica Group, was excluded from the Group's consolidated financial statements.	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%.
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.	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%.
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.	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.
<b>T.P.I. Group</b> 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.	<b>Terra Group</b> 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.
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.	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.
<b>Telefónica Datacorp Group</b> 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.	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.
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.	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
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.	

bank was excluded from the scope of consolidation of the Telefónica Group.	
<b>Atento Group</b> 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.	<b>Telefónica Internacional Group</b> 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 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.	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.
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 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.
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.	<b>2002</b> The variations in the scope of consolidation in the year ended December 31, 2002, were as follows:
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.	<b>Telefónica</b> 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.
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.	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 Sudestecel 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.
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.	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 Sudestecel 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
<b>Telefónica de España Group</b> 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.	

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).	<ul style="list-style-type: none"> <li>• Telefónica Gestión de Servicios Compartidos, S.A. de C.V. (Mexico)</li> <li>• Telefónica Gestión de Servicios Compartidos, S.A.C. (Peru)</li> <li>• Telefônica Gestao de Serviços Compartilhados do Brasil, Ltda. (Brazil)</li> </ul>
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.	<ul style="list-style-type: none"> <li>• Telefónica Gestión de Servicios Compartidos, S.A. (Argentina)</li> </ul> <p>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.</p>
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 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 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 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 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 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 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 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.
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.	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.
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:	

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.	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.
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.	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.
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.	Also, in July 2002 Telefónica Data España, S.A. acquired a 33.33% holding in Servicios On Line para Usuarios Múltiples, S.A. (Solium) for €0.7 million. This company was accounted for by the equity method in the consolidated financial statements of the Telefónica Group.
<b>Telefónica Datacorp Group</b> 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 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.
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.	<b>Telefónica de España Group</b> In 2002 Telefónica Cable, S.A., a wholly-owned subsidiary of Telefónica de España, S.A., made the following acquisitions:
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.	<ul style="list-style-type: none"> <li>• 22% of the capital stock of Telefónica Cable Extremadura, S.A.</li> <li>• 10% of the capital stock of Telefónica Cable Catalunya, S.A.</li> <li>• 10% of the capital stock of Telefónica Cable Madrid, S.A.</li> <li>• 11% of the capital stock of Telefónica Cable Navarra, S.A.</li> <li>• 15% of the capital stock of Telefónica Cable Galicia, S.A.</li> <li>• 27 % of the capital stock of Telefónica Cable Andalucía, S.A.</li> <li>• 49% of the capital stock of Sociedad General de Cablevisión Canarias, S.A.</li> <li>• 49% of the capital stock of Telefónica Cable Castilla y León, S.A.</li> </ul>
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.	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.
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%.	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
<b>Fully consolidated companies:</b>						
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
	<b>7,607.78</b>	<b>458.69</b>	<b>(52.94)</b>	<b>(755.62)</b>	<b>(108.20)</b>	<b>7,149.71</b>

Millions of euros

	Balance at 12/31/02	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/03
<b>Consolidation goodwill</b>						
<b>Companies accounted for by the equity method:</b>						
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 <sup>a</sup> 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)	—	—
<b>Total</b>	<b>1,119.91</b>	<b>677.13</b>	<b>(361.50)</b>	<b>(140.15)</b>	<b>—</b>	<b>1,295.39</b>
<b>Total goodwill</b>	<b>8,727.69</b>	<b>1,135.82</b>	<b>(414.44)</b>	<b>(895.77)</b>	<b>(108.20)</b>	<b>8,445.10</b>

*Millions of euros*

Amortization of consolidation goodwill	Balance at 12/31/02	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/03
<b>Fully consolidated companies:</b>						
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
	<b>2,028.61</b>	<b>385.34</b>	<b>(17.71)</b>	<b>(260.17)</b>	<b>(31.63)</b>	<b>2,104.44</b>

Millions of euros

Amortization of consolidation goodwill	Balance at 12/31/02	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/03
<b>Companies accounted for by the equity method:</b>						
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 <sup>a</sup> 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)
	<b>335.06</b>	<b>58.77</b>	<b>(78.24)</b>	<b>(28.87)</b>	<b>0.07</b>	<b>286.79</b>
<b>Total accumulated amortization</b>	<b>2,363.67</b>	<b>444.11</b>	<b>(95.95)</b>	<b>(289.04)</b>	<b>(31.56)</b>	<b>2,391.23</b>
<b>Unamortized consolidation goodwill</b>	<b>6,364.02</b>	<b>691.71</b>	<b>(318.49)</b>	<b>(606.73)</b>	<b>(76.64)</b>	<b>6,053.87</b>

*Millions of euros*

	Balance at 12/31/01	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/02
<b>Consolidation goodwill</b>						
<b>Fully consolidated companies:</b>						
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
	<b>9,381.23</b>	<b>1,113.19</b>	<b>(2,239.05)</b>	<b>107.43</b>	<b>(491.46)</b>	<b>7,871.34</b>

Millions of euros

	Balance at 12/31/01	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/02
<b>Consolidation goodwill</b>						
<b>Companies accounted for by the equity method:</b>						
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 <sup>a</sup> 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
<b>Total</b>	<b>1,633.40</b>	<b>8.35</b>	<b>(334.82)</b>	<b>(100.04)</b>	<b>(5.11)</b>	<b>1,201.78</b>
<b>Total goodwill</b>	<b>11,014.63</b>	<b>1,121.54</b>	<b>(2,573.87)</b>	<b>7.39</b>	<b>(496.57)</b>	<b>9,073.12</b>

*Millions of euros*

<b>Amortization of consolidation goodwill</b>	<b>Balance at 12/31/01</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Translation Differences</b>	<b>Balance at 12/31/02</b>
<b>Fully consolidated companies:</b>						
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
	<b>1,563.25</b>	<b>590.80</b>	<b>(34.10)</b>	<b>225.60</b>	<b>(53.38)</b>	<b>2,292.17</b>

Millions of euros

	Balance at 12/31/01	Additions	Retirements	Transfers	Translation Differences	Balance at 12/31/02
<b>Amortization of consolidation goodwill</b>						
<b>Companies accounted for by the equity method:</b>						
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 D <sup>a</sup> 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
Líderes 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
	<b>322.44</b>	<b>76.69</b>	<b>(2.32)</b>	<b>18.73</b>	<b>1.39</b>	<b>416.93</b>
<b>Total accumulated amortization</b>	<b>1,885.69</b>	<b>667.49</b>	<b>(36.42)</b>	<b>244.33</b>	<b>(51.99)</b>	<b>2,709.10</b>
<b>Unamortized consolidation goodwill</b>	<b>9,128.94</b>	<b>454.05</b>	<b>(2,537.45)</b>	<b>(236.94)</b>	<b>(444.58)</b>	<b>6,364.02</b>

#### 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 Publiguias, S.A.	49.00%	17.72	(4.19)	6.54	—	20.07
Telefónica Argentina, S.A.	1.97%	0.06	(2.44)	(2.79)	—	(5.17)
Telefónica del Perú, S.A.	2.79%	22.43	(0.03)	0.18	—	22.58
Telefónica Larga Distancia, Inc.	2.00%	1.52	0.02	(0.14)	—	1.40
Telefónica Publicidad e Información, S.A.	40.10%	49.47	(1.12)	36.02	—	84.37
Telesp Participações, S.A.	12.51%	338.06	(2.87)	75.87	—	411.06
Telefónica Móviles, S.A.	7.56%	274.27	(90.36)	121.55	—	305.46
Group 3G UMTS Holding, GmbH (Note 14)	42.80%	(382.44)	—	—	—	(382.44)
Telefónica Móviles Argentina, S.A.	2.07%	(11.71)	0.35	1.65	—	(9.71)
Telefónica Finance USA	100.00%	1,916.31	—	83.69	—	2,000.00
Brasilcel (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
<b>Total</b>		<b>4,339.88</b>	<b>(175.13)</b>	<b>245.49</b>	<b>15.98</b>	<b>4,426.22</b>

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 Publiguias, 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
<b>Total</b>		<b>11,645.17</b>	<b>(284.33)</b>	<b>(5,795.61)</b>	<b>47.70</b>	<b>5,612.93</b>

### 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
<b>Total</b>	<b>5,612.93</b>	<b>396.06</b>	<b>245.49</b>	<b>(60.87)</b>	<b>(5.52)</b>	<b>(1,452.21)</b>	<b>(309.66)</b>	<b>4,426.22</b>

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 Publiguias, 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 participacoes, 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 Participacoes, 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
<b>Total</b>	<b>7,433.55</b>	<b>5,325.65</b>	<b>(5,795.61)</b>	<b>(990.51)</b>	<b>(142.70)</b>	<b>(108.33)</b>	<b>(109.12)</b>	<b>5,612.93</b>

## EXHIBIT V DEBENTURES AND BONDS

The detail of the debentures and bonds outstanding as of December 31, 2003, and of the main features there of is as follows (in millions of euros):

Telefónica and instrumentality companies		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.

			Maturing in						
Foreign operators	Currency	Interest Rate %	2004	2005	2006	2007	2008	Subsequent Years	Total
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	20.11
Series K 1998	UF	6.75	0.17	0.85	1.53	2.22	2.90	82.35	90.02
CTC CHILE:			132.76	2.46	309.32	3.83	4.51	94.41	547.29
Bonds 1 <sup>st</sup> Program T. Perú (1)	New Soles	VAC+6.94	—	—	24.83	—	—	—	24.83
Bonds 1 <sup>st</sup> Program T. Perú (2)	New Soles	VAC+7.00	—	—	—	—	—	10.80	10.80
Bonds 2 <sup>nd</sup> Program T. Perú (3)	New Soles	VAC+6.19	—	—	23.55	—	—	—	23.55
Bonds 2 <sup>nd</sup> Program T. Perú (4)	New Soles	6.38	3.83	—	—	—	—	—	3.83
Bonds 2 <sup>nd</sup> Program T. Perú (5)	New Soles	VAC+6.25	—	—	—	2.86	—	—	2.86
Bonds 2 <sup>nd</sup> Program T. Perú (6)	New Soles	7.75	2.17	—	—	—	—	—	2.17
Bonds 2 <sup>nd</sup> Program T. Perú (7)	USD	4.38	—	27.71	—	—	—	—	27.71
Bonds 2 <sup>nd</sup> Program T. Perú (7-Series B)	USD	4.00	—	9.48	—	—	—	—	9.48
Bonds 2 <sup>nd</sup> Program T. Perú (8)	New Soles	6.50	—	17.14	—	—	—	—	17.14
Bonds 2 <sup>nd</sup> Program T. Perú (8-Series B)	New Soles	6.19	—	3.43	—	—	—	—	3.43
Bonds 2 <sup>nd</sup> Program T. Perú (9)	USD	2.44	—	16.72	—	—	—	—	16.72
Bonds 3 <sup>rd</sup> Program T. Perú	New Soles	VAC+5	—	—	—	—	—	11.45	11.45
Bonds 6 <sup>th</sup> Program T. Perú	New Soles	5.19	—	16.00	—	—	—	—	16.00
Bonds 7 <sup>th</sup> Program T. Perú	New Soles	7.9375	—	—	—	—	14.44	—	14.44
Bonds 8 <sup>th</sup> Program T. Perú	USD	3.81	—	—	—	—	—	13.34	13.34
Bonds 9 <sup>th</sup> 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	213.59
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	660.26
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	1,781.38
Consolidation adjustments			(143.09)	(18.32)	—	(3.28)	—	(49.73)	(214.42)
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
<b>Debentures</b>				
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
<b>Total issues</b>			<b>743.28</b>	<b>1,094.49</b>

**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
<b>Euro interest rate swaps</b>	<b>6,479.85</b>				
—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
<b>Cross-currency swaps</b>	<b>4,460.87</b>				
<b>—from fixed to floating</b>	<b>2,984.39</b>				
USD/USD	2,984.39	3,769.29	USD	3,769.29	USD
<b>—from floating to fixed</b>	<b>1,476.48</b>				
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
<b>Exchange rate swaps</b>	<b>11,319.65</b>				
<b>—from fixed to fixed</b>	<b>2,163.92</b>				
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
<b>—from fixed to floating</b>	<b>1,741.87</b>				
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
<b>—from floating to fixed</b>	<b>1,274.97</b>				
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
<b>—from floating to floating</b>	<b>6,138.89</b>				
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
<b>Forwards</b>	<b>1,378.52</b>				
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
<b>Equity swaps</b>	<b>323.95</b>				
<b>Subtotal</b>	<b>23,962.84</b>				

Notional amounts of structured products with options	Euros	Notional Amounts	
<b>Interest rate options</b>	<b>2,401.39</b>		
—Caps & Floors	<b>2,242.72</b>		
US DOLLAR	158.35	200.00	USD
EURO CURRENCY	2,084.37	2,084.37	EUR
—Swaptions	<b>79.33</b>		
EURO CURRENCY	79.33	79.33	EUR
—Interest rate options	<b>79.33</b>	79.33	EUR
<b>Exchange rate options</b>	<b>3,837.43</b>		
USD/ARS	59.38	75.00	USD
EUR/USD	1,150.00	1,150.00	EUR
USD/EUR	2,126.48	2,685.75	USD
EUR/MXN	243.02	243.02	EUR
USD/BRL	241.25	304.70	USD
EUR/BRL	17.30	17.30	BRL
<b>Stock options</b>	<b>713.63</b>		
<b>Subtotal</b>	<b>6,952.45</b>		
<b>Total</b>	<b>30,915.29</b>		

**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
<b>Euro interest rate swaps</b>	<b>5,025.36</b>				
—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
<b>Cross-currency swap</b>	<b>8,493.29</b>				
—from fixed to floating	<b>2,472.85</b>				
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	<b>5,520.53</b>				
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	<b>499.91</b>				
USD/USD	476.78	500.00	USD	500.00	USD
BRL/BRL	23.13	85.70	BRL	85.70	BRL
<b>Cross-currency swap</b>	<b>16,096.81</b>				
—from fixed to fixed	<b>687.23</b>				
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	<b>1,794.67</b>				
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	<b>1,791.40</b>				
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	<b>11,823.51</b>				
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
<b>Forwards</b>	<b>1,591.84</b>				
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
<b>Subtotal</b>	<b>31,207.30</b>				

Notional amounts of structured products with options	Euros	Notional Amounts	
<b>Interest rate options</b>	<b>4,912.72</b>		
—Caps & Floors	<b>3,705.14</b>		
US DOLLAR	1,695.40	1,777.96	USD
EURO CURRENCY	2,009.74	2,009.74	EUR
—Swaptions	<b>1,128.25</b>		
US DOLLAR	1,048.92	1,100.00	USD
EURO CURRENCY	79.33	79.33	EUR
—Interest rate options	<b>79.33</b>	79.33	EUR
<b>Exchange rate options</b>	<b>411.96</b>		
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
<b>Equity swaps</b>	<b>377.05</b>		
<b>Subtotal</b>	<b>5,701.73</b>		
<b>Total</b>	<b>36,909.02</b>		

The detail, by maturity, of the hedging transactions arranged as of December 31, 2003, is as follows:

*Millions of euros*

	Amount	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
<b>With underlying instrument</b>					
<b>Promissory notes</b>					
<b>Loans</b>	<b>19,447.86</b>	<b>8,653.82</b>	<b>4,022.45</b>	<b>3,660.52</b>	<b>3,111.07</b>
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
<b>MTN debentures and bonds</b>	<b>4,603.66</b>	<b>1,892.29</b>	<b>935.86</b>	<b>142.52</b>	<b>1,632.99</b>
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
<b>Preferred shares</b>	<b>1,500.00</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,500.00</b>
In national currency	1,500.00				1,500.00
<b>Other assets and liabilities</b>	<b>4,326.18</b>	<b>4,266.57</b>	<b>31.81</b>	<b>27.80</b>	<b>—</b>
Swaps	467.64	408.03	31.81	27.80	—
Exchange rate options	3,837.43	3,837.43	—	—	—
Forward	21.11	21.11	—	—	—
<b>Subtotal</b>	<b>29,877.70</b>	<b>14,812.68</b>	<b>4,990.12</b>	<b>3,830.84</b>	<b>6,244.06</b>
<b>Shares</b>	<b>1,037.58</b>	<b>1,037.58</b>			
Swaps	323.95	323.95	—	—	—
Stock options	713.63	713.63	—	—	—
<b>Total</b>	<b>30,915.28</b>	<b>15,850.26</b>	<b>4,990.12</b>	<b>3,830.84</b>	<b>6,244.06</b>

**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
<b>With underlying instrument</b>					
<b>Promissory notes</b>					
<b>Loans</b>	<b>23,409.96</b>	<b>5,850.00</b>	<b>12,229.59</b>	<b>2,583.20</b>	<b>2,747.17</b>
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
<b>MTN debentures and bonds</b>	<b>9,574.61</b>	<b>5,305.94</b>	<b>2,931.18</b>	<b>138.27</b>	<b>1,199.22</b>
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
<b>Liability</b>	<b>3,547.40</b>	<b>1,160.59</b>	<b>715.17</b>	<b>—</b>	<b>1,671.64</b>
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	—	—	—	—	—
<b>Shares</b>	<b>377.05</b>	<b>377.05</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total</b>	<b>36,909.02</b>	<b>12,693.58</b>	<b>15,875.94</b>	<b>2,721.47</b>	<b>5,618.03</b>

**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 Brasília, 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 Médi Télécom 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

<p>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.</p>	<p>currencies. Disregarding these two effects, revenues would have increased by approximately 11%.</p>
<p>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.</p>	<p>Thanks to the measures taken to improve operating efficiency through strict expense control, EBITDA rose by 136.7% in 2003 to €304.4 million.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>• <b>Data</b> 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.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p><b>Telefónica Empresas</b> 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</p>	<p>• <b>Telefónica International Wholesale Services</b> 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</p>

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 Média 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, Ilobox 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 Latinoamérica (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.

<p>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.</p>	<p>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.</p>
<p><b>EBITDA and operating income</b></p> <p>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.</p>	<p><b>R&amp;D and technological innovation</b></p> <p>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.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>This innovation drive makes it possible to offer the Group's customers the technological solutions that are most suited to their needs.</p>
<p><b>Investment activity</b></p> <p>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.</p>	<p>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.</p>
<p>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.</p>	<p>Most of the R&amp;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.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>
	<p>In 2003 new systems were developed and the existing systems were substantially improved, the detail being as follows:</p>

- 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 Ibcá.

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 Ibcá 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.

