

Telefónica, S.A.

Auditors' Report

Financial Statements
for the Year Ended
December 31, 2003 and
Management Report

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

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Stockholders of Telefónica, S.A.:

1. We have audited the financial statements of Telefónica, S.A. comprising the balance sheet as of December 31, 2003, and the related statement of operations and notes to financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. The financial statements for 2003 referred to above are presented in compliance with current Spanish corporate law, despite the fact that the operations of Telefónica, S.A. and of the companies it controls are managed on a consolidated basis. Accordingly, the financial statements of Telefónica, S.A., which acts basically as a holding company, do not reflect the financial and net worth variations resulting from application of consolidation methods to these holdings or to the transactions performed by the related investees, some of which are the result of the application of the Group's overall strategy. However, these variations are reflected in the Telefónica Group's consolidated financial statements for 2003, on which we issued our auditors' report dated February 26, 2004, in which we expressed an unqualified opinion. The effect of consolidation is disclosed in Note 4-d.
3. As required by Spanish corporate law, for comparison purposes the directors present, in addition to the 2003 figures for each item in the balance sheet and statements of operations and of changes in financial position, the figures for 2002. Our opinion refers only to the 2003 financial statements. Our auditors' report dated February 26, 2003, on the 2002 financial statements contained an opinion qualified for an uncertainty concerning the Telefónica Group's net investment in Argentina.

In 2003 the main parameters of the Argentine economy improved, which had a favorable effect on the net worth of Telefónica's investees with investments in Argentina and, consequently, a portion of the investment valuation allowance recorded in prior years was reversed. Taking into account these effects, Telefónica S.A.'s net investment in Argentina through its direct and indirect holdings as of December 31, 2003, amounted to €1,095 million, which the Company's directors consider will be recovered, based on the results in the latest business plans prepared by them (see Note 7).

4. In our opinion, the financial statements for 2003 referred to above present, in all material respects, a true and fair view of the net worth and financial position of Telefónica, S.A. as of December 31, 2003, and of the results of its operations and of the funds obtained and applied by it in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.

5. The accompanying management report for 2003 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the management report is consistent with that contained in the financial statements for 2003. Our work as auditors was confined to checking the management report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

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



Javier Ares San Miguel
February 26, 2004

Telefonica

TELEFÓNICA, S.A.

**FINANCIAL STATEMENTS AND MANAGEMENT
REPORT FOR 2003**



Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

TELEFÓNICA, S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2003 AND 2002

ASSETS (Millions of Euros)	2003	2002
A) FIXED AND OTHER NONCURRENT ASSETS	43,052.6	43,809.3
I. Start-up expenses	33.64	61.66
II. Intangible assets (Note 5)	40.65	38.82
Computer software	71.72	52.20
Other intangible assets	11.37	10.84
Accumulated amortization	(42.44)	(24.22)
III. Property, plant and equipment (Note 6)	28.06	22.38
Land and structures	0.81	0.81
Furniture, tools, etc.	31.70	24.35
Accumulated depreciation	(4.45)	(2.78)
IV. Long-term investments (Note 7)	42,950.3	43,686.4
Investments in Group companies	23,374.8	22,806.8
Investments in associated companies	1,005.4	408.83
Other investments	6.82	565.65
Loans to Group and associated companies	19,729.7	22,261.1
Other loans	70.26	111.60
Long-term deposits and guarantees given	3.22	86.50
Taxes receivable (Note 14.2)	5,000.1	4,932.9
Allowances	(6,240.0)	(7,486.9)
B) DEFERRED CHARGES (Note 8)	288.98	314.60
C) CURRENT ASSETS	5,847.9	6,005.7
I. Accounts receivable	111.26	159.44
Trade receivables	7.27	11.88
Receivable from Group companies	72.75	111.97
Receivable from associated companies	0.15	1.62
Sundry accounts receivable	4.87	3.35
Employee receivables	0.85	1.25
Taxes receivable (Note 14.2)	30.66	45.41
Allowance for bad debts	(5.29)	(16.04)
II. Short-term investments	5,564.5	5,472.8
Loans to Group and associated companies (Note 7.3)	3,990.1	4,141.2
Short-term investment securities (Note 7.5)	1,574.4	1,331.6
III. Short-term treasury stock (Note 9)	133.46	334.56
IV. Cash	33.73	24.37
V. Accrual accounts	4.93	14.59
TOTAL ASSETS	49,189.5	50,129.7

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these balance sheets.



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TELEFÓNICA, S.A.
BALANCE SHEETS AS OF DECEMBER 31, 2003 AND 2002

STOCKHOLDERS' EQUITY AND LIABILITIES (Millions of Euros)	2003	2002
A) STOCKHOLDERS' EQUITY (Note 9)	16,477.0	17,572.2
I. Capital stock	4,955.8	4,860.6
II. Additional paid-in-capital	7,987.1	11,670.0
III. Revaluation reserves	1,368.8	2,881.9
IV. Reserves	791.43	2,638.3
Legal reserve	652.57	652.57
Reserve for treasury stock	133.46	334.56
Other reserves	5.40	1,651.2
V. Income (Loss) for the year	1,373.7	(4,478.6)
B) PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 16.7)	149.38	138.75
C) LONG-TERM DEBT	22,957.5	23,899.7
I. Debentures, bonds and other marketable debt securities (Note 10)	2,525.9	2,509.2
Nonconvertible debentures and bonds	2,525.9	2,509.2
II. Payable to credit institutions (Note 11)	2,665.2	3,509.8
III. Payable to Group and associated companies (Note 12)	17,577.6	17,679.6
IV. Other payables	4.24	21.22
V. Taxes payable (Note 14.2)	39.34	34.71
VI. Uncalled capital payments payable	145.13	145.13
Group companies (Note 7.4)	145.13	145.13
E) CURRENT LIABILITIES	9,605.5	8,518.9
I. Debentures, bonds and other marketable debt securities (Note 10)	727.71	754.13
Nonconvertible debentures and bonds	69.24	-
Other marketable debt securities	606.45	699.34
Interest on debentures and other securities	52.02	54.79
II. Payable to credit institutions	865.73	1,736.3
Loans and other accounts payable (Note 11)	860.91	1,702.4
Accrued interest payable	4.82	33.89
III. Payable to Group and associated companies (Note 12)	7,935.0	5,885.2
IV. Trade accounts payable	37.42	70.50
Accounts payable for purchases and services	37.42	70.50
V. Other nontrade payables	39.66	72.32
Taxes payable (Note 14.2)	15.43	12.16
Other nontrade payables (Note 15)	24.23	60.16
VI. Accrual accounts	-	0.32
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	49,189.5	50,129.7

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these balance sheets.



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TELEFÓNICA, S.A.

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

DEBIT (Millions of Euros)	2003	2002
A) EXPENSES		
Personnel expenses (Note 16.2)	113.07	90.06
Depreciation and amortization expense	47.91	57.09
Property, plant and equipment (Note 6)	1.67	1.57
Intangible assets (Note 5)	18.22	14.44
Amortizable expenses	28.02	41.08
Other operating expenses	209.00	241.56
Outside services provided by Group companies (Note 16.8)	51.55	46.73
Other outside services	166.36	176.59
Taxes other than income tax	5.96	9.49
Other current operating expenses	(14.87)	8.75
I. OPERATING INCOME	-	-
Other financial and similar expenses		
On debts to Group companies (Notes 16.4 and 16.8)	912.35	900.23
On debts to third parties and similar expenses (Note 16.4)	500.59	480.44
Variation in short-term investment valuation allowances	(30.80)	80.99
Amortization of deferred charges	38.23	22.07
Exchange losses (Note 16.5)	1,635.4	1,598.8
II. FINANCIAL INCOME	400.68	405.05
III. INCOME FROM ORDINARY ACTIVITIES	136.44	116.49
Variation in investment valuation allowances (Note 7.1)	(755.27)	5,484.7
Extraordinary expenses and losses (Note 16.7)	66.47	400.72
IV. EXTRAORDINARY INCOME	900.06	-
V. INCOME BEFORE TAXES	1,036.5	-
Corporate income tax accrued in Spain (Note 14)	(343.51)	(1,292.6)
Foreign taxes (Note 14)	6.30	5.06
VI. INCOME FOR THE YEAR	1,373.3	-

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these statements of operations.



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TELEFÓNICA, S.A.

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

CREDIT (Millions of Euros)	2003	2002
B) REVENUES		
Net sales to Group companies (Note 16.1)	32.82	36.17
Other operating revenues	72.92	63.98
Non-core and other current operating revenues	72.92	63.98
I. OPERATING LOSS	264.24	288.56
Revenues from equity investments	616.59	902.20
Group companies (Note 16.8)	591.65	881.96
Associated companies	12.19	5.79
Non-Group companies	12.75	14.45
Revenues from other equity investments and loans (Note 16.4)	1,248.0	1,314.2
Group companies (Note 16.8)	1,174.2	1,285.8
Other companies	74.14	28.41
Exchange gains (Note 16.5)	1,591.2	1,271.2
II. FINANCIAL LOSS	-	-
III. LOSS ON ORDINARY ACTIVITIES	-	-
Gains on fixed asset disposals (Note 16.6)	29.44	1.17
Extraordinary revenues (Note 16.6)	181.82	1.54
IV. EXTRAORDINARY LOSS	-	5,882.2
V. LOSS BEFORE TAXES	-	5,766.2
VI. LOSS FOR THE YEAR	-	4,478.0

The accompanying Notes 1 to 21 and Exhibit I are an integral part of these statements of operations.



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TELEFÓNICA, S.A.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2003

(1) INTRODUCTION AND GENERAL INFORMATION

Telefónica, S.A. ("Telefónica" or "the Company") was incorporated for an indefinite period of time on April 19, 1924, under the corporate name of Compañía Telefónica Nacional de España, S.A., and it adopted its present name in April 1998.

The Company's registered office is at calle Gran Vía 28, Madrid (Spain), and its Employer Identification Number is A-28/015865.

Telefónica's corporate purpose, per Article 4 of its bylaws, is the provision and operation of all manner of telecommunications services (including ancillary or supplementary telecommunications services or the services derived therefrom); research and development, the promotion and application of all manner of telecommunications components, equipment and systems; manufacturing, production and, in general, all other types of industrial activity relating to telecommunications; and the acquisition, sale and, in general, all other types of commercial activity relating to telecommunications.

As also stipulated in Article 4 of its bylaws, all the business activities that constitute the corporate purpose described above may be performed either in Spain or abroad and may be carried on either wholly or partially by the Company, or through shareholdings or other equity interests in other companies or legal entities with an identical or a similar corporate purpose.

In keeping with the foregoing, Telefónica is now the Parent Company of a Group of companies which operate mainly in the telecommunications, media and entertainment industries, providing a wide range of services on the international stage.

The Company is taxed under the general tax regime established by the Spanish State, the Spanish autonomous communities and local government, and files consolidated tax returns with most of the Spanish subsidiaries in its Group under the consolidated tax regime applicable to corporate groups.

(2) BASIS OF PRESENTATION

True and fair view

The accompanying financial statements were prepared from Telefónica's accounting records by the Company's directors in accordance with the accounting principles and standards contained in the Commercial Code as implemented by the Spanish National Chart of Accounts and, accordingly, give a true and fair view of the net worth, financial position and results of operations and of the funds obtained and applied in 2003.

The financial statements for 2003 will be submitted for approval by the Stockholders' Meeting, and it is considered that they will be approved without any changes. The financial statements for 2002 were approved by the Stockholders' Meeting on April 11, 2003.

Comparative information

There were no changes in the structure of the balance sheet or the statement of operations with respect the previous year. Also, no changes in accounting methods with respect to 2002 with a material effect were made.

Similarly, no significant events took place preventing a comparison of the figures for 2003 with those for 2002.

The figures in these financial statements and in the management report are expressed in millions of euros unless otherwise indicated.

(3) PROPOSED DISTRIBUTION OF INCOME

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

The proposed distribution of 2003 income that the Company's Board of Directors will submit for approval by the Stockholders' Meeting is as follows: a) to appropriate 10% of income for the year (€137.37 million) to the legal reserve; b) to pay a fixed dividend of €0.20 gross per share for the Company's outstanding shares carrying dividend rights; and c) to appropriate the remainder to voluntary reserves.

	Millions of Euros
Distribution:	1,373.71
To legal reserve	137.37
Dividend (maximum distributable amount of €0.20/share for all the shares into which the Company's capital stock is divided (4,955,891,361 shares).	991.18
To voluntary reserve	(minimum) 245.16
Total	1,373.71

(4) VALUATION STANDARDS

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

a) *Start-up expenses*

Start-up expenses, which comprise incorporation and capital increase expenses, are recorded at cost and are amortized on a straight-line basis over five years.

b) *Intangible assets*

Intangible assets include mainly software licenses, which are recorded at cost and are amortized on a straight-line basis over three years.

c) *Property, plant and equipment*

Property, plant and equipment is carried at cost.

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.

Upkeep and maintenance expenses are expensed currently.

Property, plant and equipment is depreciated by the straight-line method at annual rates based on the following years of estimated useful life:

	Years of Estimated Useful Life
Buildings	33-40
Plant and machinery	12
Furniture, office equipment and other tangible fixed assets	4-10

d) *Long-term investments*

Investments in marketable securities are recorded as follows:

1. Listed securities (excluding shares of Group or associated companies)

At the lower of cost or market. The market value was taken to be the lower of the average market price in the last quarter or market price at year-end.

2. Investments in Group and associated companies

At the lower of acquisition cost or underlying book value of the holdings, adjusted by the amount of the unrealized gains disclosed at the time of the acquisition and still existing at the date of subsequent valuation.

3. Unlisted securities

At cost, net, where appropriate, of the required investment valuation allowances to reduce them to their underlying book value, adjusted, where appropriate, by the amount of the unrealized gains disclosed at the time of the acquisition and still existing at the date of subsequent valuation.

Unrealized losses (cost higher than market value) are recorded in the "Allowances" account (see Notes 7 and 16.7). However, an additional provision was recorded with a charge to the "Extraordinary Expenses" caption to cover possible third-party liability arising from the negative net worth of investees, and this provision is recorded under the "Provisions for Contingencies and Expenses" caption.

Dividends are recorded as a revenue as soon as their distribution is approved, and gains or losses on the sale of holdings are recorded as revenues or expenses in the year in which they are realized.

The Company has prepared separate consolidated financial statements. In 2003 the effect of consolidation, with respect to the accompanying individual financial statements, was to increase the following balances by the amounts shown:

	Millions of Euros
Assets	12,885.64
Stockholders' equity	279.50
Net sales	28,367.02
Income for the year	829.87

e) *Deferred charges*

This caption basically includes the following items:

- Interest on long-term promissory notes

This relates to the difference between the face value and the effective value of the promissory notes issued at over one year. This interest is charged to income by the interest method.

- Debt arrangement expenses

These relate to long-term debt arrangement expenses and issue premiums on debentures and bonds and are amortized by the interest method on the basis of the principal amounts outstanding.

f) *Treasury stock*

Treasury stock is valued at the lower of cost, comprising the total amount paid for the shares, or market. Since these shares were acquired without any prior resolution having been adopted by the Stockholders' Meeting to reduce capital, it is considered that they could be used for subsequent sale or, alternatively, for a capital reduction, and, accordingly, the market value is taken to be the lowest of average official market price in the last quarter of the year, year-end market price, or the related underlying book value. A provision was recorded with a charge to the statement of operations for the difference between the acquisition cost and the lower of the year-end market price or the average market price in the last quarter, and with a charge to reserves for the difference between the aforementioned market value and the related underlying book value.

g) *Foreign currency transactions*

Fixed-income securities and receivables and payables denominated in foreign currencies are translated to euros at the exchange rates ruling at the transaction date, and are adjusted at year-end to the exchange rates then prevailing.

Exchange differences arising on adjustment of foreign currency fixed-income securities and receivables and payables to year-end exchange rates are classified by currency and due date, and for this purpose currencies which, although different, are officially convertible are grouped together.

The positive net differences in each group of currencies are recorded under the "Deferred Revenues" caption on the liability side of the balance sheet, unless exchange losses in a given group have been charged to income in prior years, in which case the net positive differences are credited to period income up to the limit of the negative net differences charged to income in prior years.

The positive differences deferred in prior years are credited to income in the year in which the related accounts receivable and payable fall due or are repaid early, or as negative exchange differences for the same or a higher amount are recognized in each homogeneous group.

h) *Pension and other commitments to employees*

Telefónica has entered into an agreement with its employees, the most salient features of which are as follows:

- Pension Plan pursuant to Legislative Royal Decree 1/2002 approving the revised Pension Plans and Funds Law.
- Defined contribution of 4.51% of the participating employees' regulatory salary. The defined contributions of employees transferred to Telefónica from other Group companies at which these defined contributions were different (6.87% in the case of Telefónica de España) will be maintained.

- Obligatory contribution by the participant of a minimum of 2.2% of his/her regulatory salary.
- Individual and financial capitalization systems.

This fund has been externalized in the Fonditel B pension fund managed by the subsidiary Fonditel Entidad Gestora de Fondos de Pensiones, S.A.

As of December 31, 2003 and 2002, 767 and 746 employees, respectively, were included in the plan and the cost for the Company amounted to €2.48 million and €2.27 million in 2003 and 2002, respectively (see Note 16.2).

i) *Accounts payable*

Accounts payable are recorded at repayment value, except in the case of zero-coupon debenture and bond issues, which are recorded in the balance sheet at issue value plus the related accrued interest (see Note 10.3).

j) *Derivatives*

Transactions whose purpose and effect is to eliminate or significantly reduce exchange, interest rate or market risks on asset and liability positions or on other transactions are treated as hedging transactions. The gains or losses arising during the life of these derivatives are taken to income using the same timing of recognition method as that used to recognize the gains or losses on the hedged assets or transactions.

Transactions that, exceptionally, were not assigned to hedge risks, are not treated as hedging transactions. In transactions of this kind, which can arise as a result of risk hedges at Group companies, the differences in market price are recorded for accounting purposes when the transactions are canceled or finally settled. However, if potential losses are anticipated at year-end, the related provision is recorded with a charge to the statement of operations.

k) *Corporate income tax*

The expense for corporate income tax of each year is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income. Tax relief and tax credits, excluding tax withholdings and prepayments, are deducted from the corporate income tax charge in the year in which they are definitively taken. The difference between the accrued expense and the tax paid is due to the above-mentioned deferral and to revenue and expense recognition timing differences giving rise to deferred tax assets and liabilities (see Note 14).

Also, pursuant to a resolution of the Spanish Accounting and Audit Institute (ICAC) dated March 15, 2002, Telefónica S.A. recorded the tax assets relating to the tax relief and tax credits (mainly the tax credits arising pursuant to Transitional Provision Three of Law 24/2001) not yet taken for tax purposes and regarding which there is no doubt, in accordance with the accounting principle of prudence, that they can be deducted in the future.

l) Recognition of revenues and expenses

Revenues and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

In accordance with the accounting principle of prudence, only realized income is recorded at year-end, whereas foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known (see Note 16).

m) Provisions for contingencies and expenses

The Company records provisions for contingencies and expenses based on its best estimate in order to cover quantifiable probable or certain third-party liability arising from litigation in progress, from indemnity payments and obligations or from expenses of undetermined amount, and collateral and other similar guarantees provided by the Company.

(5) INTANGIBLE ASSETS

The detail of the balances of intangible asset accounts, of the related accumulated amortization and of the variations therein in 2003 and 2002 is as follows:

	Millions of Euros		
	Computer Software	Other Intangible Assets	Total
Cost:			
Balance at 12/31/01	36.87	10.13	47.00
Additions	15.33	3.24	18.57
Retirements	-	(2.53)	(2.53)
Balance at 12/31/02	52.20	10.84	63.04
Additions	19.52	0.53	20.05
Balance at 12/31/03	71.72	11.37	83.09
Accumulated amortization:			
Balance at 12/31/01	8.19	1.59	9.78
Additions	13.45	0.99	14.44
Balance at 12/31/02	21.64	2.58	24.22
Additions	17.06	1.16	18.22
Balance at 12/31/03	38.70	3.74	42.44
Intangible assets, net	33.02	7.63	40.65

(6) PROPERTY, PLANT AND EQUIPMENT

The detail of the balances of property, plant and equipment accounts, of the related accumulated depreciation and of the variations therein in 2003 is as follows:

	Millions of Euros		
	Balance at 12/31/02	Additions	Balance at 12/31/03
Cost:			
Land and structures	0.81	-	0.81
Furniture, tools, etc.	24.35	7.35	31.70
Property, plant and equipment, gross	25.16	7.35	32.51
Accumulated depreciation:			
Land and structures	0.16	0.02	0.18
Furniture, tools, etc.	2.62	1.65	4.27
Total accumulated depreciation	2.78	1.67	4.45
Property, plant and equipment, net	22.38	5.68	28.06

The detail of the balances of property, plant and equipment, of the related accumulated depreciation and of the variations therein in 2002 is as follows:

	Millions of Euros				
	Balance at 12/31/01	Additions	Retire-ments	Transfers	Balance at 12/31/02
Cost:					
Land and structures	0.81	-	-	-	0.81
Furniture, tools, etc.	21.71	3.67	(1.17)	0.14	24.35
Property, plant and equipment, gross	22.52	3.67	(1.17)	0.14	25.16
Accumulated depreciation:					
Land and structures	0.14	0.02	-	-	0.16
Furniture, tools, etc.	1.07	1.55	-	-	2.62
Total accumulated depreciation	1.21	1.57	-	-	2.78
Property, plant and equipment, net	21.31	2.10	(1.17)	0.14	22.38

As of December 31, 2003, the Company's fully depreciated property, plant and equipment amounted to €0.65 million.

Telefónica, S.A. has taken out insurance policies with appropriate limits to cover the possible risks to which its property, plant and equipment is subject.

(7) LONG-TERM INVESTMENTS

7.1 The detail of the balances of the long-term investments, of the related investment valuation allowances and of the variations therein in 2002 and 2003 is as follows:

a) Variations in long-term investments:

	Millions of Euros								
	Balance at 12/31/01	Additions	Retire-ments	Transfers	Balance at 12/31/02	Additions	Retire-ments	Transfers	Balance at 12/31/03
Investments in Group companies	22,665.2	963.89	(1,661.7)	839.42	22,800.7	1,936.4	(1,369.0)	0.91	23,374.8
Investments in associated companies	407.86	0.97	-	-	408.83	41.91	(0.94)	555.62	1,005.4
Other investments	565.72	-	(0.07)	-	565.65	0.55	(2.81)	(556.57)	6.82
Loans to Group and associated companies	16,416.4	4,178.0	(824.90)	2,491.0	22,260.5	4,445.7	(3,043.0)	(3,933.0)	19,729.7
Other loans	0.38	-	-	111.22	111.60	257.10	(253.36)	(45.08)	70.26
Deposits and guarantees	9.81	97.56	(20.87)	-	86.50	336.57	(419.85)	-	3.22
Taxes receivable (Note 14.2)	435.28	4,669.0	(36.06)	(135.98)	4,932.24	181.58	(114.38)	-	5,000.1
Total	40,500.7	9,910.0	(2,543.6)	3,305.6	51,172.7	7,199.9	(5,204.3)	(3,978.1)	49,190.3

b) Variations in the long-term investment valuation allowances:

	Millions of Euros								
	Balance at 12/31/01	Variation in the Allowance	Retire-ments	Transfers	Balance at 12/31/02	Variation in the Allowance	Retire-ments	Transfers	Balance at 12/31/03
Investments in Group companies	2,793.0	5,419.0	(901.08)	101.40	7,411.3	(802.31)	(493.72)	3.56	6,121.0
Investments in associated companies	2.09	65.30	-	-	67.39	46.99	(0.94)	-	113.44
Other investments	6.01	-	-	-	6.01	-	(0.44)	-	5.57
Total investment valuation allowances	2,801.1	5,484.3	(901.08)	101.40	7,484.7	(755.32)	(495.10)	3.56	6,240.0
Total investments, net	37,698.6	4,424.7	(1,642.54)	3,204.2	43,686.9	7,955.6	(4,709.5)	(3,981.6)	42,950.3

In 2003 the trend in the “Variation in Investment Valuation Allowances” caption in the statement of operations was positive as a result of the increase in the net worth of certain investees, mainly as regards the investments in the Telefónica Internacional Group (€11.44 million), Telefónica Móviles (€283.32 million) and Telefónica de Contenidos (€161.39 million).

Provisions were recorded for certain investments, mainly in the Terra Networks Group (€246.15 million), the Emergia Group (€184.60 million) and the Atento Group (€47.68 million).

The provisions recorded in 2002 related mainly to the investments in the Telefónica Internacional Group (€2,272.97 million), Terra Networks (€67.32 million), Telefónica de Contenidos (€25.86 million), MediaWays Germany GmbH (€74.22 million), Telefónica DataCorp, S.A. (€87.72 million) and Telefónica Móviles (€283.32 million).

In view of its international presence, the Telefónica Group, like other corporations, was affected by the effects arising from Argentina’s economic situation through the various Group companies which operate there. As of December 31, 2003 and 2002 the exposure of Telefónica, S.A.’s direct and indirect holdings in the various companies in Argentina amounted to €1,095.30 million and €68.12 million, respectively, including the intercompany financing and the value of the investments.

In 2003 the main parameters of the Argentine economy improved, which had a favorable effect on the performance and earnings of Telefónica's companies in Argentina and on the expectations of being able to recover the investments in these companies

In these circumstances and based on the business plans prepared by Telefónica and the latest estimates made, which take into account the positive evolution of the businesses and that Telefónica will maintain its investment in Argentina long term, the investees will foreseeably report sufficient income to make it possible to recover the above-mentioned net investment. These business plans and estimates are based on assumptions and future expectations and, consequently, variances may arise. Therefore, they are updated periodically, at least once a year, in order to monitor the results obtained and to record such value adjustments as might be required.

In accordance with the above-mentioned premises, these financial statements present a positive impact of €19.37 million in 2003 (a negative impact of €1,400.03 million in 2002) on the statement of operations as a result of the variation in the investment valuation allowances for the investments in question.

The investment valuation allowances used relate to shareholdings sold, liquidated or contributed in the year, corresponding mainly to the investments in Emergia Holding, N.V (€65.00 million) and Katalyx Inc. (€128.17 million). The investment valuation allowances used in 2002 related mainly to Mediaways Germany, GmbH, which was sold to the Telefónica Data Group for its net book value at the date of the sale.

7.2 The detail of the subsidiaries, associated companies and investees is shown in Exhibit I.

7.3 The detail of loans to Group and associated companies is as follows:

Company	Millions of Euros			
	2003		2002	
	Long Term	Short Term	Long Term	Short Term
Telefónica Internacional, S.A.	5,556.53	1,413.69	7,096.30	1,024.68
Telefónica Móviles España, S.A.	0.94	-	0.19	32.42
Telefónica Data España, S.A.	-	64.33	-	43.48
Telefónica Publicidad e Información, S.A.	32.21	35.80	33.83	44.85
Atento, N.V.	190.73	20.91	-	-
Corporación Admira Media, S.A.	17.66	33.57	27.46	0.04
Inmobiliaria Telefónica, S.L.	3.03	27.42	13.62	28.23
Telefónica de España, S.A.U.	6,224.58	933.56	7,244.28	1,098.27
Telefónica Cable, S.A.	-	-	-	56.05
Telefónica de Contenidos, S.A.U.	2,013.23	149.10	1,088.70	920.87
Atento USA Inc.	-	-	-	17.40
Portugal Telecom, S.A.	-	21.00	21.00	-
Telefónica Móviles, S.A.	4,526.68	1,175.23	5,544.13	546.41
Telefónica Datacorp, S.A.U.	543.81	23.73	581.70	39.60
Comunicapital Inversiones, S.A.U.	64.75	-	75.36	-
Katalyx, Inc.	0.59	-	-	-
Atento Argentina, S.A.	-	-	-	2.25
Atento Maroc, S.A.	-	-	-	10.81
Emergia, S.A.	400.89	63.55	357.58	187.95
Atento Delaware	-	-	136.88	26.97
Atento México	-	-	-	10.71
Telefónica B2B Licencing Inc.	11.00	-	16.09	0.88
Telefónica Internacional Wholesale Services, S.L.	86.40	3.78	-	-
Telesp	-	0.50	-	0.57
Other	56.68	23.93	23.99	48.78
Total	19,729.71	3,990.10	22,261.11	4,141.21

The information on the loans to Group and associated companies is as follows:

- The financing granted to Telefónica de España, S.A.U. consists mainly of a loan which, arising in the unbundling of this company from Telefónica, had an outstanding balance of €6,278 million as of December 31, 2003, of which €5,580 million mature at long term and €697 million at short term. This loan earns interest at 6.8%.

- The loans to Telefónica Internacional, S.A. consist mainly of the following:

A subordinated long-term interest-free loan of €3,306 million, repayable in 12 equal quarterly installments from September 30, 2005 through June 30, 2008.

A participating loan of which as of December 31, 2003, amounted to €1,414 million, with a repayment schedule ending on, and a final maturity date of, December 30, 2006. The interest is established on the basis of the company's net income, and it can only be repaid early if capital is increased by the same amount.

A multicurrency credit line of US\$ 1,962 million earning floating interest tied to Libor or Euribor plus 1.04%, depending on whether it is drawn down in a foreign currency or euros, respectively. To date Telefónica Internacional, S.A. has drawn down US\$ 1,040 million (€23 million) against this credit line.

The credit facilities and loans totaling approximately €1,079 million in 2002 used to refinance and restructure the debt of Telefónica Internacional, S.A. These loans earn interest at a floating rate and the latest repayment date is in December 2006.

A loan amounting to US\$ 407 million (€22 million) maturing in 2006 and earning interest tied to the Libor plus 1.6%.

- The loans to Telefónica Móviles, S.A. relate mainly to the following:

Long-term credit lines, against which an amount equal to €2,243 million have been drawn down (€1,947 million and US\$ 373 million). These credit lines, each of which comprises a fixed-interest tranche and a floating-interest tranche, mature in 2004 and 2005.

Financing for an amount equal to €2,193 million, which earns interest at a market rate tied to Euribor or Libor plus a spread and is repayable in 2009, in order to enable it to make its investments in Mexico, Puerto Rico, Chile, Guatemala and Brazil. Approximately €490 million of this financing was granted in 2003.

- The loans granted to Telefónica de Contenidos, S.A.U. include most notably the following:

A ten-year participating loan of €1,141 million which had been fully drawn down as of December 31, 2003, which earns interest based on the performance of the business of Telefónica de Contenidos, S.A.U.

Two long-term loans of €50 million and €72 million granted to meet the financing requirements of Telefónica de Contenidos, S.A.U. in connection with the participating loan and the arrangement and disbursement of the subordinated loan in 2003 by this company to Sogecable, S.A. for the merger of DTS, Distribuidora de Televisión Digital, S.A. (Vía Digital) and Sogecable, S.A.

- A participating loan of US\$ 536 million (€424 million) to Emergia, S.A., which earns interest on the basis of the performance of the company's operating results, with repayments from 2004 to July 31, 2007.
- A credit facility granted to Emergia, S.A., amounting to US\$ 60 million which is repayable in 2004 and is tied to three-month Libor, the outstanding balance of which as of December 31, 2003, was US\$ 50 million (approximately €40 million).
- As explained in note 7.4.a), the Banco Bilbao Vizcaya Argentaria, S.A. Group (BBVA) became a stockholder of Atento N.V. in 2003. The agreements entered into by BBVA and Telefónica included most notably that relating to the financing provided by Telefónica, S.A. to Atento N.V. in the form of a participating loan of €75 million, maturing in 2013 and earning interest tied to the operating income of Atento, N.V.
- The financing received by Telefónica Datacorp, S.A.U. includes most notably the credit facilities and loans arising from the refinancing in 2002 totaling €346 million, earning floating-rate interest tied to three-month Euribor and maturing in 2005, 2006 and 2007.

The transfers relate basically to amounts transferred to short term on the basis of the related loan repayment schedules.

7.4 The detail of the equity investments sold and acquired by Telefónica is as follows:

a) Acquisitions of equity interests and capital increases:

2003

	Millions of Euros
Subsidiaries:	
Terra Networks, S.A.	1,070.21
Antena 3 de Televisión, S.A.	829.31
Atento, N.V.	20.00
Telefónica DataCorp, S.A.U.	4.73
Telefónica Gestión de Servicios Compartidos, S.A.U.	2.75
Telefónica Ingeniería de Seguridad, S.A.U.	3.58
Other	5.90
Total subsidiaries	1,936.48
Associated companies	
Sogecable, S.A.	41.91
Total associated companies	41.91

The main additions in 2003 were as follows:

In July Telefónica, S.A. concluded the tender offer for Terra Networks, S.A. shares by acquiring 202,092,043 of this company's shares for €5.25 per share, which represented 33.6% of its total capital stock. Following this transaction, Telefónica's direct holding in Terra was 71.97% and its effective holding at year-end was 75.29% (taking into account the treasury stock held by Terra).

Telefónica, S.A. acquired from its wholly-owned subsidiaries Telefónica de Contenidos, S.A.U. and Corporación Admira Media, S.A.U., 79,194,996 shares and 19,532,625 shares, respectively, of Antena 3 de Televisión, S.A., representing 59.24% of this company's capital stock for €29.31 million, in order to centralize the Telefónica Group's divestment of this company, as described in Note 7.4.b)

Pursuant to the Strategic Alliance Framework Agreement entered into on February 11, 2000, by Telefónica and BBVA, the Telefónica Group subsidiary Atento NV, increased capital several times in November in order to include the BBVA Group in its stockholder structure through the BBVA Group subsidiary General de Participaciones Empresariales, S.L. As a result of these transactions, the capital stock and additional paid-in capital of Atento NV increased by €25 million and €20,735 million, respectively. Telefónica, S.A. subscribed and paid in cash €15 thousand of capital stock and €19,984 thousand of additional paid-in capital in this connection, while the BBVA Group subscribed and paid capital stock amounting to €0 thousand and additional paid-in capital totaling €751 thousand. The inclusion of the BBVA Group in the stockholder structure of Atento NV reduced Telefónica, S.A.'s holding in the latter from 100% to the 91.35% it currently holds.

In November 2003 Telefónica DataCorp, S.A.U. increased capital stock by €4.73 million by issuing 4,732,824 shares of €1 par value each, which were fully subscribed and paid in cash by Telefónica, S.A.

On December 19, 2003, Telefónica Gestión de Servicios Compartidos España, S.A. increased capital stock by issuing 22,000 new shares of €1 par value each with additional paid-in capital of €24 per share. Telefónica, S.A. fully subscribed and paid in cash all the new shares issued for €2.75 million.

In December 2003 the wholly-owned subsidiary Telefónica Consultora y Servicios, S.A.U. was absorbed by its parent company Telefónica Consultora de Proyectos, S.A. Subsequently, also in December, Telefónica Consultora de Proyectos, S.A., a wholly owned subsidiary of Telefónica, S.A., was dissolved and liquidated (see Note 7.4.b). As a result of this liquidation, Telefónica Ingeniería de Seguridad, S.A.U., which was wholly owned by the dissolved company Telefónica Consultora de Proyectos, S.A.U., is now wholly owned by Telefónica, S.A.

In October Telefónica, S.A. acquired 2,020,000 shares of Sogecable, S.A. on the stock market for €1.91 million. These shares represent 1.60% of Sogecable, S.A.'s capital stock.

2002

Subsidiaries	Millions of Euros
Seguros de Vida y Pensiones Antares, S.A.	204.70
HighWay One Germany, GmbH	637.07
Emergia Holding, N.V.	47.09
Terra Networks, S.A.	5.53
Telefónica de Contenidos, S.A.	5.99
Lotca, Servicios Integrales, S.L.	16.92
Tele Leste Celular Participações	13.59
Telefónica Capital, S.A.	6.00
Other	27.00
	963.89

The main additions in 2002 were as follows.

In 2002 Telefónica, S.A. subscribed in full the capital increase of €637.07 million at HighWay One Germany GmbH, thereby increasing its ownership interest in this company to 99%. In December 2002 this shareholding was transferred to Telefónica Data Corp, S.A. for its net book value.

In March 2002, under the last part of the agreement entered into between Telefónica, S.A. and Iberdrola, S.A. for the acquisition by the former of all the holdings which the Iberdrola Group owned in the Brazilian operators in which the two companies were direct or indirect stockholders, Telefónica, S.A. acquired a 3.38% holding in Tele Leste Celular Participações, S.A. in exchange for 799,411 Telefónica, S.A. shares hitherto held as treasury stock. This holding was subsequently contributed to Telefónica Móviles, S.A. at its book value.

In 2002 Telefónica S.A. acquired 717,465 shares of the subsidiary Terra Networks, S.A. for €5.53 million, increasing the Telefónica Group's direct and indirect holding in this company to 38.58%.

In January 2002 Telefónica, S.A. incorporated the wholly-owned subsidiary Telefónica Capital, S.A. and paid this company's initial capital stock (€ million) in full. Subsequently, Telefónica Capital increased capital by €1 million with additional paid-in capital of €38.01 million, which was subscribed and paid in full by its sole stockholder Telefónica, S.A. through the nonmonetary contribution of 201,682 shares of Fonditel, Entidad Gestora de Fondos de Pensiones, S.A., representing 77.22% of this company's capital stock.

In September 2002 Telefónica, S.A. subscribed €32.69 million of the capital increase carried out at Seguros de Vida y Pensiones Antares, S.A. through the increase in the par value of this company's shares. As of December 31, 2003, the amount subscribed had not been paid. Additionally, in December 2002 Telefónica, S.A. acquired from its Luxembourg subsidiary Casiopea Reaseguradora, S.A. 110,000 shares of Seguros de Vida y Pensiones Antares, S.A. for a total amount of €172.01 million. The Company disbursed €9.63 million in this transaction and recorded the outstanding amount of

€12.38 million relating to the last capital increase at Seguros de Vida y Pensiones Antares, S.A. as capital payments payable. As a result of this transaction, at 2002 year end Telefónica owned 142,000 shares of Seguros de Vida y Pensiones Antares, S.A., representing 94.67% of its capital stock.

In December 2002, by virtue of its agreements with the Tyco Group, Telefónica, S.A. acquired 17,872,341 shares of the Dutch company Emergia Holding, N.V. for €47.09 million. As a result of this transaction, Telefónica owned, directly or indirectly, all the shares of this company.

In November 2002 Telefónica, S.A. acquired all 3,010 shares of Gran Vía Media, S.L. from its wholly-owned subsidiary Telefónica de Contenidos, S.A. Gran Vía Media, S.L. changed its corporate name to Lotca Servicios Integrales, S.L. In December 2002 Lotca increased capital by 16,920,000 shares of €1 par value each, which the Telefónica Internacional Group subscribed in full through a nonmonetary contribution. These shares were subsequently acquired by Telefónica, S.A. for €16,920,000. As of December 31, 2002, this company was wholly owned by Telefónica, S.A.

Grupo Admira Media, S.A. and Telefónica Internet, S.A., both of which are wholly-owned subsidiaries of Telefónica, S.A., changed their corporate names in 2002 to Telefónica de Contenidos, S.A. and Corporación Admira Media, S.A., respectively. Also, Corporación Admira Media, S.A. increased capital by €5.99 million, which Telefónica, S.A. subscribed in full.

b) Disposal of investments

2003

Subsidiaries	Gross Book Value
Antena 3 de Televisión, S.A.	829.31
Emergia Holding, N.V.	368.61
Katalyx Inc.	138.25
Telefónica Móviles, S.A.	23.65
Telefónica Consultora de Proyectos, S.A.U. (Note 7.4-a)	9.10
Other disposals	0.44
	1,369.36

In 2003 Telefónica, S.A. carried out a process of divesting its holding in Antena 3 de Televisión, S.A., which commenced on April 30, 2003, with the acceptance of the bid of €364 million made by the Planeta Group for 25.1% of the capital stock of Antena 3 de Televisión. This sale was subject to the condition subsequent, already fulfilled, that the shares of Antena 3 de Televisión were admitted to listing on the Spanish Stock Exchange.

Also, as indicated in Note 9, on April 11, 2003, the Stockholders' Meeting of Telefónica, S.A. approved the distribution of shares representing 30% of the capital stock of Antena 3 de Televisión as a dividend in kind for its stockholders, which took place in October after this company had been admitted to listing on the Stock Exchange.

Lastly, in October and November Telefónica, S.A. sold on the stock market all the remaining shares owned by it (2,928,893 shares) for €95.72 million.

These transactions aimed at the divestment of the holding in Antena 3 de Televisión, S.A., gave rise to the recording of an extraordinary revenue in the statement of operations amounting to €27.18 million (see Note 16.6).

In December Telefónica, S.A.'s wholly owned investee Emergia Holding N.V. was dissolved and liquidated through the contribution of assets and liabilities to its stockholder.

On October 10, 2003, Telefónica, S.A. sold the 999 shares of the U.S. company Katalyx, Inc. owned by it to Telefónica DataCorp, S.A.

The €23.65 million decline in the value of the holding in Telefónica Móviles, S.A. was due to the reimbursement of stockholders' contributions as part of the distribution of additional paid in capital carried out by that Company in 2003.

2002

Subsidiaries	Gross Book Value
MediaWays GmbH	1,535.5
Sao Paulo Telecomunicações Holding, S.A.	113.94
Telefónica Data Brasil Holding, S.A.	1.19
CRT Celular Participações, S.A.	11.01
	1,661.7

Telefónica, S.A. sold all the shares of MediaWays GmbH owned by it to HighWay One Germany GmbH for €634.50 million, the net value of the holding at the date of the sale.

SP Telecomunicações Holding, S.A., the majority stockholder of Telecomunicações de Sao Paulo, S.A. (Telesp), reduced capital in 2002 by assigning to Telefónica, S.A. 3,504,347,177 shares of the Brazilian company Telefonica Data Brasil Holding. These shares, together with the 189,278,445 shares of SP Telecomunicações Holding, S.A. owned by Telefónica, S.A., were sold to the Telefónica Internacional Group at their book value.

In 2002 Telefónica, S.A. sold to Telefónica Móviles, S.A. the 0.66% holding in Celular CRT Participações, S.A. acquired by it under the agreements entered into with Iberdrola, S.A. in 2001. This transaction was carried out at the book value of the holding.

c) Nonmonetary contributions of holdings to Group companies

2003

In 2003 there were no nonmonetary contributions of holdings to Group companies.

2002

In 2002 in line with the restructuring process carried out by Telefónica, S.A. to group together its interests by line of business, capital increases were carried out at certain Group companies through nonmonetary contributions of shares of other companies, as explained in Note 7.4.d.

The detail of these contributions is as follows:

Company	Millions of Euros
Retirements:	
Fonditel Entidad Gestora de Fondos de Pensiones, S.A.	(12.12)
HighWay One GmbH	(637.07)
Zeleris España, S.A.	(3.91)
TBS Celular Participações, S.A.	(25.91)
Sudestecel Participações, S.A.	(64.06)
Tele Sudestecel Participações, S.A.	(0.01)
Iberoleste Participações, S.A.	(113.19)
Tele Leste Celular Participações, S.A.	(13.59)
Atento Holding, Inc.	(282.71)
	(1,152.57)
Additions:	
Telefónica Capital, S.A.	12.12
Telefónica Datacorp, S.A.	637.07
Zeleris Soluciones Integrales, S.L.	3.91
Telefónica Móviles, S.A.	216.76
Atento Holding, N.V.	282.71
	1,152.57

The value for tax purposes of these additions may differ from that recorded for accounting purposes as a result of the application of the values for tax purposes at which the holdings contributed had been carried, which are disclosed, where appropriate, in the accompanying financial statements and in those for previous years.

d) Transfers due to conversion of loans into equity

2003

In 2003 there were no transfers due to conversion of loans into equity.

2002

In December 2002 Telefónica Datacorp, S.A. increased capital through the issuance of 200 million new shares of €1 par value each, which were subscribed in full by Telefónica, S.A. through the conversion of a €200.00 million loan into equity.

The Uruguayan company Emergia, S.A. increased capital in December by US\$ 500 million. Telefónica subscribed and paid the capital increase in full by converting loans to this company into equity.

e) Transactions protected for tax purposes

Following is a detail of the transactions protected for tax purposes carried out in 2003 and 2002, as defined in Articles 97.5 and 108, as applicable, of Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995. The transactions performed prior to 2002 are duly disclosed in prior years' financial statements.

2003

In 2003 there were no transactions protected for tax purposes.

2002

- Capital increase of €9.01 million, including additional paid-in capital, authorized by the Stockholders' Meeting carried out on November 27, 2002, by Telefónica Capital, S.A. as consideration for shares representing 77.22% of the capital stock of the Spanish company Fonditel Entidad Gestora de Fondos de Pensiones, S.A., with a net book value of €12.12 million.
- Capital increase authorized by the Special Stockholders' Meeting carried out on December 23, 2002, by Telefónica Datacorp, S.A. as consideration for shares representing 99% of the capital stock of the German company HighwayOne Germany GmbH.
- Capital increase carried out by Atento N.V. as consideration for all the shares of the U.S. company Atento Holding Inc.
- Capital increase of €21,763.71 carried out by Zeleris Soluciones Integrales, S.L. as consideration for all the shares of the Spanish company Zeleris España, S.A.

This transaction was carried out under the tax neutrality regime provided for share exchanges in Article 97 of Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995.

- Capital increase authorized by the Stockholders' Meeting of Telefónica Móviles, S.A. carried out on May 23, 2002, for a par value of €6,998,086.3 and additional paid-in capital of €106,197,586.22 as consideration for shares of the Brazilian company Iberoleste Participações, S.A.

This transaction was carried out under the tax neutrality regime provided for nonmonetary contributions in Article 108 of Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995.

- Capital increase authorized by the Stockholders' Meeting of Telefónica Móviles, S.A. carried out on May 27, 2002, for a par value of €6,402,660.5 and additional paid-in capital of €97,161,858.50 as consideration for shares of the Brazilian companies TBS Celular Participações, S.A., Sudestecel Participações, S.A., Tele Leste Celular Participações, S.A. and Tele Sudeste Celular Participações, S.A.

This transaction was carried out under the tax neutrality regime provided for nonmonetary contributions in Article 108 of Chapter VIII of Title VIII of Corporate Income Tax Law 43/1995.

7.5 Short-term investment securities

In 2003 this caption included mainly placements of temporary cash surpluses in short-term investments.

(8) DEFERRED CHARGES

The breakdown of the balances of this caption as of December 31, 2003 and 2002, and the related amortization schedule are as follows:

	Maturity						Balance at 12/31/03	Balance at 12/31/02
	2004	2005	2006	2007	2008	Subsequent Years		
Interest on long-term promissory notes	7.13	7.00	7.05	7.13	7.27	16.02	51.60	58.79
Debt arrangement expenses	33.50	27.90	19.94	19.92	18.44	70.17	189.87	207.82
Executive loyalty-building program costs	-	-	-	-	-	-	-	4.73
Other deferred charges	6.16	5.85	5.85	5.54	5.49	18.62	47.51	43.26
Total	46.79	40.75	32.84	32.59	31.20	104.81	288.98	314.60

(9) STOCKHOLDERS' EQUITY

The detail of the balances of equity accounts and of the variations therein in 2003 and 2002 is as follows:

	Millions of Euros									
	Balance at 12/31/01	Allocation of 2001 loss	Capital increase	Other variations	Balance at 12/31/02	Allocation of 2002 Loss	Capital Increase	Distribution of dividends	Other variations	Balance at 12/31/03
Capital stock	4,671	-	188.74	-	4,860.60	-	196.37	-	(101.14)	4,955.83
Additional paid-in capital	11,670	-	-	-	11,670.00	(1,516.00)	-	(1,653.15)	(513.51)	7,987.34
Revaluation reserves	3,070	-	(188.74)	-	2,881.94	(1,316.00)	(196.37)	-	-	1,368.57
Legal reserve	652.57	-	-	-	652.57	-	-	-	-	652.57
Voluntary reserve	2,133	(354.18)	-	(133.15)	1,645.80	(1,645.00)	-	-	-	-
Reserve for treasury stock	260.70	-	-	73.86	334.56	-	-	-	(201.10)	133.46
Other restricted reserves	5.40	-	-	-	5.40	-	-	-	-	5.40
Income (Loss) for the year	(354.18)	354.18	-	(4,478.65)	(4,478.65)	4,478.65	-	-	1,373.10	1,373.10
Total	22,110	-	-	(4,537)	17,572.20	-	-	(1,653.15)	557.96	16,477.01

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, Sao Paulo and Lima Stock Exchanges.

On June 15, 2001, the Stockholders' Meeting of Telefónica, S.A. authorized the Board of Directors to increase the Company's capital, at one or several times within a maximum period of five years from that date, under the terms provided by Article 153.1 b) of the Spanish Corporations Law (authorized capital) up to a maximum of €2,274,677,655, by issuing for this purpose the related new common shares, be they redeemable or of any other type permitted by the Law, with a fixed or variable premium, with or without preemptive subscription right and, in all cases, with disbursements for the new shares issued in the form of monetary contributions. As of December 31, 2003, the Board of Directors had not made use of this authorization.

Also, on June 15, 2001, the Stockholders' Meeting approved two successive capital increases with a charge to unrestricted reserves, each for an amount equal to 2% of the subscribed and paid-in capital stock, through two successive issues of new shares that will be assigned free of charge to the Company's stockholders at a ratio of one new share for every 50 shares held by them, and empowered the Board of Directors accordingly to execute the resolution in question within one year from the date on which it was adopted. These two capital increases were carried out in the first few months of 2002, as indicated below.

In addition, on April 12, 2002, the Stockholders' Meeting approved two successive capital increases with a charge to unrestricted reserves, each for an amount equal to 2% of the subscribed and paid-in capital stock, through two successive issues of new shares to be assigned free of charge to the Company's stockholders at a ratio of one new share for every 50 shares held by them, and empowered the Board of Directors accordingly to execute the resolution in question within one year from the date on which it was adopted. These two capital increases were carried out in the first few months of 2003, as indicated below.

Also, the aforementioned Stockholders' Meeting on April 12, 2002, resolved to increase capital by €1,180,809 through the issuance of new common shares with additional paid-in capital of €1.61 per share to cater for the needs derived from the establishment of a stock option plan for the employees of the Endemol Group. It also granted the Board of Directors the necessary powers to implement the capital increase resolution, including the express power to refrain from implementing the resolution. In a resolution dated December 18, 2002, the Board of Directors expressly decided not to implement the aforementioned resolution to increase capital, and opted to cover the stock option plan referred to above by a means other than through a capital increase with the issuance of new shares (i.e., through the prior acquisition of Telefónica, S.A. shares on the stock market).

Also, on April 11, 2003, the Stockholders' Meeting granted the Board of Directors the necessary powers to issue fixed-income securities at one or several times within a maximum period of five years from the date of adoption of the related resolution. The total maximum amount of the issue or issues of fixed-income securities that the Board can resolve to make pursuant to the aforementioned powers, together with that of the Company's other issues outstanding on the date on which these powers are exercised, cannot exceed the maximum limit of the amount of paid-in capital stock plus the reserves recorded in the latest available approved balance sheet and the asset revaluation accounts accepted by the authorities, pursuant to Article 282.1 of the Spanish Corporations Law. The fixed-income securities issued can be debentures, bonds, promissory notes or any other kind of fixed-income security, both simple and, in the case of debentures and bonds,

exchangeable for shares of the Company or of any of the Group companies and/or convertible into shares of the Company. As of December 31, 2003, the Board of Directors had not exercised these powers, except in relation to the approval of a program to issue corporate promissory notes for 2004.

In addition, on April 11, 2003, the Stockholders' Meeting authorized the Board of Directors to derivatively acquire treasury stock, for consideration, up to the limits and pursuant to the terms and conditions established by the Stockholders' Meeting, within a maximum period of 18 months from that date. However, it established that in no case could the par value of the shares acquired, added to that of the treasury stock already held by Telefónica, S.A. and any of its controlled subsidiaries, exceed 5% of the capital stock of Telefónica.

As of December 31, 2003 and 2002, Telefónica S.A. held the following shares of treasury stock:

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

(*) As indicated in Note 4-f, a drop in the market value of the shares would lead to the recording of additional provisions with a charge to income, but would not affect the total amount of equity.

In 2003 the Company acquired for consideration 50,792,028 shares of treasury stock and 3,918,983 shares were assigned to it in the capital increases at no charge to stockholders. Also 101,140,640 shares were used to retire a portion of the capital stock and 6,000,000 shares were sold for a gain of €7.12 million (see Note 16.6). Lastly, as a result of the completion of the process of purchasing the holding in Telefónica Holding Argentina, S.A. in 2003, the settlement relating to the Company amounted to the equivalent of 1,331,422 share of treasury stock, which gave rise to an extraordinary gain of €12.63 million (see Note 16.6). The average acquisition cost of the shares of treasury stock as of December 31, 2003 and 2002, was €10.39 and €11.65 per share, respectively.

The balance sheets as of December 31, 2003 and 2002, include the acquisition cost of the shares of treasury stock (€421.26 million and €1,067.94 million, respectively) net of allowances of €287.80 million and €733.38 million, respectively, the provisions to which were recorded, in accordance with current accounting regulations (see Note 4-f), with a cumulative charge to the consolidated statement of operations in respect of the market value of these shares (€286.33 million in 2002) and with a cumulative charge to unrestricted reserves in respect of the amount by which the market value or cost in 2003 exceeds the underlying book value (€287.80 million and €447.05 million in 2003 and 2002, respectively). The allowance released with a credit to 2003 income amounted to €159.95 million, as a result of the positive performance of the share price in the period (the provision recorded in 2002 amounted to €288.09 million) (see Note 16.6).

The Company has recorded the related restricted reserve for the amount of these shares of treasury stock. Also, in 2003 and 2002 it recorded provisions of €448.84 million and €59.29 million, respectively, with a charge to the "Unrestricted Reserves" caption on the asset side of the accompanying balance sheet to reflect the underlying book value of the treasury stock (see Note 4-f).

Variations in capital stock and additional paid-in capital in 2003

The variations in 2003 in the “Capital Stock” and “Additional Paid-in Capital” captions were as follows:

	Date	Number of Shares	Millions of Euros	
			Capital Stock	Additional Paid-in Capital
Balance at December 31, 2002		4,860,666	4,860.66	11,670.02
Capital increase at no cost to stockholders	02/12/03	97,213	97.21	-
Capital increase at no cost to stockholders	04/11/03	99,157	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	4,955.8	7,987.1

The capital increases and decreases formalized in 2003 were as follows:

On February 12, 2003, the notarial deed of formalization and execution of a capital increase at Telefónica S.A. was executed. This capital increase, for a par value of €97,213,225 was carried out with a charge to unrestricted reserves through the issuance of an equal number of new common shares of the Company, of €1 par value each, which were assigned to the Company’s stockholders free of charge at a ratio of one new share for every 50 shares held by them. Following registration of the aforementioned public deed at the Mercantile Registry, the new shares were admitted to listing on official markets from February 27, 2003.

On April 11 2003, the notarial deed of formalization and execution of a capital increase at Telefónica S.A. was executed. This capital increase, for a par value of €99,157,490, was carried out with a charge to unrestricted reserves through the issuance of an equal number of new common shares of the Company, of €1 par value each, which were assigned to the Company’s stockholders free of charge at a ratio of one new share for every 50 shares held by them. Following registration of the aforementioned public deed at the Mercantile Registry, the new shares were admitted to listing on official markets from May 2, 2003.

On June 5, 2003, the deed of capital reduction formalizing the implementation by the Company’s Board of Directors of the resolution adopted by the Stockholders’ Meeting on April 11, 2003, was executed. Capital was reduced through the retirement of treasury stock previously acquired by the Company pursuant to the authorization of the Stockholders’ Meeting. As a result, 101,140,640 shares of treasury stock of Telefónica S.A. were retired and the Company’s capital stock was reduced by a par value of €101,140,640. Article 5 of the bylaws in relation to the capital stock figure, which from that date was set at €4,955,891,361 was reworded accordingly. At the same time, pursuant to Article 167.3 of the Spanish Corporations Law, and in order to render null and void the right of opposition provided for in Article 166 of the Corporations Law, it was decided to record a reserve for retired capital stock for an amount equal to the par value of the retired shares, which can only be used if the same requirements as those applicable to the reduction of normal capital stock are met. The retired shares were excluded from official listing on June 18, 2003.

In addition, on April 11, 2003, the Stockholders Meeting resolved to distribute a portion of the additional paid-in capital recorded in the Company's balance sheet, through the payment of €0.25 per share for each of the Company's outstanding shares. The related charge was made to the "Additional Paid-in Capital" account. This amount was paid in two installments, the first of €0.13 per share on July 3, 2003, and the second of €0.12 per share on October 15, 2003. The total amount paid amounted to €1,233.17 million.

Also, on April 11, 2003, the Stockholders' Meeting approved the distribution in kind of a portion of the additional paid in capital, for a total amount of up to €420,003,360, through the distribution to the stockholders of Telefónica S.A. of shares representing up to 30% of the capital stock of Antena 3 de Televisión S.A. This distribution, which was carried out in November 2003, was subject to the condition precedent, already fulfilled, that the Spanish National Securities Market Commission (CNMV) approved the admission to listing of the shares of the aforementioned company (see Note 7.4).

Variations in capital stock and additional paid-in capital in 2002

The variations in 2002 in the "Capital Stock" and "Additional Paid-in Capital" captions were as follows:

	Date	Number of Shares	Millions of Euros	
			Capital Stock	Additional Paid-in Capital
Balance at December 31, 2001		4,671,915,885	4,671.92	11,670.02
Capital increase at no cost to stockholders	02/13/02	93,438,317	93.44	-
Capital increase at no cost to stockholders	04/12/02	95,307,084	95.30	-
Balance at December 31, 2002		4,860,661,286	4,860.66	11,670.0

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 €3,438,317, was carried out with a charge to unrestricted reserves through the issuance of an equal number of new common shares of the Company, of €1 par value each, which were assigned to the Company's stockholders free of charge at a ratio of one new share for every 50 shares held by them.

Following registration of the aforementioned public deed at the Mercantile Registry, the new shares were admitted to listing on official markets from February 26, 2002.

On April 12, 2002, the notarial deed of formalization and execution of a further capital increase at Telefónica, S.A. was executed. This capital increase, for a par value of €5,307,084, was carried out with a charge to unrestricted reserves through the issuance of an equal number of new common shares of the Company, of €1 par value each, which were assigned to the Company's stockholders free of charge at a ratio of one new share for every 50 shares held by them.

Following registration of the aforementioned public deed at the Mercantile Registry, the new shares were admitted to listing on official markets from April 30, 2002.

b) *Legal reserve*

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Otherwise, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

c) *Revaluation reserves*

The balance of the "Revaluation Reserves" caption arose as a result of revaluations made from 1946 to 1987 and of the revaluation made pursuant to Royal Decree-Law 7/1996.

The detail as of December 31, 2003 and 2002, of the balances of the revaluation reserves, which amounted to €1,368.89 million and €2,881.94 million, respectively, and of the variations therein in 2003 and 2002 is as follows:

	Millions of Euros
Balance at 12/31/01	3,070.68
Capital increase on February 13, 2002	(93.44)
Capital increase on April 12, 2002	(95.30)
Balance at 12/31/02	2,881.94
Capital increase on February 12, 2003	(97.21)
Capital increase on April 11, 2003	(99.16)
Amounts used to offset 2002 losses	(1,316.67)
Balance at 12/31/03	1,368.89

(10) DEBENTURES, BONDS AND OTHER MARKETABLE DEBT SECURITIES

10.1 The detail of the balances as of December 31, 2003 and 2002, of the debentures, bonds and corporate promissory notes and of the variations therein in the years then ended is as follows:

	Millions of Euros		
	Nonconvertible Debentures and Bonds	Corporate Promissory Notes	Total
Balance at 12/31/01	2,549.38	624.81	3,174.19
New issues	-	1,403.17	1,403.17
Redemptions	(116.09)	(1,328.64)	(1,444.73)
Adjustments and other variations	75.92	-	75.92
Balance at 12/31/02	2,509.21	699.34	3,208.55
New issues	-	1,346.15	1,346.15
Redemptions	-	(1,439.04)	(1,439.04)
Adjustments and other variations	86.00	-	86.00
Balance at 12/31/03	2,595.21	606.45	3,201.66
Maturity:			
Long term	2,525.97	-	2,525.97
Short term	69.24	606.45	675.69
Unmatured accrued interest	52.02	-	52.02

10.2 The detail of the debentures and bonds outstanding as of December 31, 2003, and of their main features, is as follows:

Debentures and Bonds	Type of Interest	Interest Rate %	Maturity					Subsequent Years	TOTAL
			2004	2005	2006	2007	2008		
DEBENTURES									
FEBRUARY 1990 SERIES B	FIXED	12.6000	-	8.22	-	-	-	-	8.22
FEBRUARY 1990 SERIES C	FIXED	12.6000	-	-	-	-	-	3.76	3.76
FEBRUARY 1990 SERIES E	ZERO CUPON	12.8532	-	66.79	-	-	-	-	66.79
FEBRUARY 1990 SERIES F	ZERO CUPON	12.5793	-	-	-	-	-	7.24	7.24
DECEMBER 1990	ZERO CUPON	13.5761	-	629.77	-	-	-	-	629.77
OCTOBER 2004	FIXED	8.2500	69.24	-	-	-	-	-	69.24
APRIL 1999	FIXED	4.5000	-	-	-	-	-	500.00	500.00
JUNE 1999	FLOATING	2.6540	-	-	-	-	-	300.00	300.00
JULY 21, 1999	ZERO CUPON	6.3700	-	-	-	-	-	39.48	39.48
MARCH 2, 2000	FLOATING	4.5800(*)	-	-	-	-	-	50.00	50.00
APRIL 2000	FIXED	5.6250	-	-	-	500.00	-	-	500.00
BONDS									
MARCH 1998	FIXED	4.8414	-	-	-	-	420.71	-	420.71
Total issues			69.24	704.78	-	500.00	420.71	900.48	2,595.21

(*) The applicable interest rate (floating, set annually) is that relating to the ten-year pound sterling swap multiplied by 1.0225.

10.3 The zero-coupon debentures and bonds are included in the balance sheet at their issue value plus the related accrued interest.

The detail of the maturities and redemption values of these debentures and bonds is as follows:

Issue	Redemption Date	Redemption Rate (%)	Current Value	Redemption Value
DEBENTURES				
FEBRUARY 1990 SERIES E	02/26/05	613.338%	66.79	76.79
FEBRUARY 1990 SERIES F	02/26/10	1,069.479%	7.24	15.04
DECEMBER 1990	12/28/05	675.000%	629.77	811.37
JULY 1999	07/21/29	637.638%	39.48	191.29
Total			743.28	1,094.4

10.4 As of December 31, 2003, there was a series promissory note issue program outstanding, the detail being as follows:

Amount (Millions of Euros)	Method of Placement	Face Value	Maturity	Placement
1,000 extendable to 2,000	Through auctions	€1,000	At 3, 6, 12, 18 and 25 months	Competitive auctions at least once a month
	Customized, intermediated by participating entities	€100,000	At 30 to 750 days	Specific transactions

10.5 The average interest rate on the outstanding debentures and bonds at year-end was 6.85% in 2003 (6.81% in 2002), and the average interest rate on the corporate promissory notes was 3.416% in 2003 (3.465% in 2002).

(11) PAYABLE TO CREDIT INSTITUTIONS

11.1 The detail of the balances of this caption as of December 31, 2003 and 2002, is as follows:

	Average Interest Rate		Millions of Euros					
			2003			2002		
	2003	2002	Short Term	Long Term	Total	Short Term	Long Term	Total
Promissory notes	13.52	13.52	6.92	99.64	106.56	7.09	106.56	113.65
Loans and credits	2.33	3.49	718.38	2,420	3,139	1,561	2,873	4,434
Foreign currency loans and credits	1.29	1.76	135.61	144.83	280.44	134.34	530.28	664.62
Total			860.91	2,665	3,526	1,702	3,509	5,211

11.2 These balances mature as follows:

	Maturity						Subsequent Years	Balance at 12/31/03
	2004	2005	2006	2007	2008			
Promissory notes	6.92	6.74	6.57	6.37	6.14	73.82	106.56	
Loans and credits	718.38	872.35	672.98	157.73	31.93	685.79	3,139.1	
Foreign currency loans and credits	135.61	94.68	50.15	-	-	-	280.44	
Total	860.91	973.77	729.7	164.10	38.07	759.61	3,526.1	

11.3 The "Loans and Credits" account includes a syndicated loan of €1,200 million arranged by the Company in 1999 with 38 financial institutions. This loan has a term to maturity of five or seven years, chosen by each lending institution, and it will be repaid at one time on the maturity of each tranche. The loan bears interest at a floating rate tied to Euribor.

In December 2001 a loan of US\$ 115 million maturing in July 2006 was arranged with BBVA.

In relation to the issue of 42 bearer promissory notes made with La Estrella, S.A. de Seguros and maturing on February 15, 2001, which carried a commitment to issue new promissory notes, on February 15, 2001, Telefónica, S.A. issued 74 bearer promissory notes with a par value of €126.29 million and maturing in February 2011.

11.4 Credit facilities available

The "loans and credits" balances relate only the amounts drawn down.

As of December 31, 2003, the undrawn credit facility balances amounted to €6,528 million, which sufficiently covers the financing needs arising from short-term commitments.

The claimability of certain financing arranged by Telefónica is subject to compliance with certain financial covenants. All the covenants were being complied with at the date of preparation of these financial statements.

(12) PAYABLE TO GROUP AND ASSOCIATED COMPANIES

12.1 The detail of this caption as of December 31, 2003 and 2002, is as follows:

	Millions of Euros					
	2003			2002		
	Long Term	Short Term	Total	Long Term	Short Term	Total
Loans	12,469.	7,614.	20,084	12,238.	5,662.	17,900
Accounts payable to Group companies for purchases and services	-	71.57	71.57	-	217.01	217.01
Accounts payable to subsidiaries due to taxation on a consolidated basis	5,108.	248.68	5,356	5,441.	6.21	5,447
Total	17,577.	7,935.	25,512	17,679.	5,885.	23,564

12.2 In 2003 and 2002 Telefónica Europe, BV granted the following loans to the Company:

Year		Millions of Euros
Granted	Maturity	
2002	2003	96
2002	2005	50
2002	2004	80
2002	2012	2,000
2003	2005	100
2003	2013	1,500
2003	2033	500
2003	2005	100
2003	2005	100
2003	2005	50
2003	2006	100
2003	2006	200

The financing arranged in 2003 includes as an associated cost the commissions or premiums which are charged to the statement of operations in the period in which the financing is arranged (see Note 8).

- I. These loans bear interest at market rates (Euribor plus a spread). The average interest rate in 2003 was 5.87 %.
- II. The total financing received from Telefónica Europe, B.V. as of December 31, 2003, amounted to €12,559.88 million.

Additionally, the Company had been granted financing from Telefónica Finanzas, S.A. as of December 31, 2003, amounting to €6,058.51 million, and from Telefónica de España, S.A.U. amounting to €1,042.39 million.

- 12.3 The detail of the short-term accounts payable to Group companies for purchases and services is as follows:

	Millions of Euros	
	2003	2002
Telefónica de España, S.A.U.	42.11	84.93
Telefónica de Contenidos, S.A.	-	6.49
Telefónica Internacional, S.A.	-	56.04
Telefónica Móviles, S.A.	-	56.83
Telefónica Móviles España, S.A.	3.42	-
Terra Networks, S.A.	2.70	-
Terra España, S.A.	6.25	-
Educaterra	2.31	-
Telefónica Holding Argentina, S.A.	7.47	7.35
Other	7.32	5.37
Total	71.58	217.01

- 12.4 The long-term balance of the “Accounts Payable to Subsidiaries Due to Taxation on a Consolidated Basis” account includes basically the accounts payable to these companies for their contribution of tax losses to the tax group headed by Telefónica, S.A. (see Note 14.2). The short-term balance relates mainly to corporate income tax installment payments made by the Group companies through Telefónica.

These amounts include most notably those relating to Telefónica Internacional, S.A. (€2,941.31 million) and Telefónica Móviles Holding, S.A. (€84.80 million) for the contribution of tax losses to the tax group in prior years.

(13) DERIVATIVES

In 2003 the Company continued to use derivatives both to limit interest rate and exchange risks on unhedged positions and to adapt its debt structure to market conditions.

As of December 31, 2003, the total outstanding balance of derivatives transactions was €7,158.04 million (€8,717.54 million as of December 31, 2002) of which €13,394.17 million related to interest rate risk and €12,726.29 million to exchange risk (€18,973.30 million and €19,367.19 million as of December 31, 2002, respectively).

It should be noted that as of December 31, 2003, Telefónica S.A. had arranged transactions with financial institutions to hedge interest rate and exchange risks for other Telefónica Group companies amounting to €1,846.13 million and €4,313.16 million, respectively (€8,553.30 million and €2,069.69 million, respectively, as of December 31, 2002). The balancing entries for these external transactions were intercompany hedging transactions with identical conditions and maturities arranged between Telefónica S.A. and the Group companies, and, accordingly, the transactions do not involve any risk for Telefónica S.A.

Most of the derivatives transactions are assigned directly to individual asset or liability positions in the balance sheet. Also, there is a transaction portfolio hedging financial risks of the Company. The net financial gain obtained in 2003 in relation to these transactions amounted to €48.33 million.

13.1 The detail of the portfolio by type of derivative as of December 31, 2003, is as follows:

Type of Risk	Millions				
	2003				
	Equivalent Euro Value	Telefónica Receives		Telefónica Pays	
Value		Currency	Value	Currency	
Euro interest rate swaps	7,004.8				
Fixed to floating	1,761.7	1,761.7	EUR	1,761.7	EUR
Floating to fixed	4,260.4	4,260.4	EUR	4,260.4	EUR
Floating to floating	982.71	982.71	EUR	982.71	EUR
Cross-currency swaps	4,146.5				
Fixed to floating	3,330.5				
USD/USD	3,126.9	3,949.2	USD	3,949.2	USD
MXN/MXN	203.67	2,898.9	MXN	2,898.9	MXN
Floating to fixed	815.99				
USD/USD	498.81	630.00	USD	630.00	USD
GBP/GBP	113.51	80.00	GBP	80.00	GBP
MXN/MXN	203.67	2,898.9	MXN	2,898.9	MXN
Exchange rate swaps	11,934.8				
Fixed to fixed	2,007.4				
USD/EUR	1,885.9	1,727.4	USD	1,885.9	EUR
GBP/EUR	121.49	80.00	GBP	121.49	EUR
Fixed to floating	838.99				
USD/EUR	531.40	543.83	USD	531.40	EUR
JPY/EUR	56.95	6,200.0	JPY	56.95	EUR
BRL/EUR	96.99	288.17	BRL	96.99	EUR
MAD/EUR	33.76	349.09	MAD	33.76	EUR
PEN/USD	91.05	402.25	PEN	115.00	USD
MXN/USD	28.84	371.55	MXN	36.43	USD
Floating to fixed	1,271.4				
EUR/BRL	78.97	96.99	EUR	288.17	BRL
EUR/USD	167.91	182.82	EUR	212.08	USD
USD/EUR	874.97	827.73	USD	874.97	EUR
MAD/EUR	31.49	33.76	MAD	349.09	EUR
USD/PEN	91.94	115.00	USD	402.25	PEN
USD/MXN	26.18	36.43	USD	371.55	MXN
Floating to floating	7,817.0				
EUR/USD	1,859.1	2,237.1	EUR	2,348.0	USD
USD/EUR	5,005.8	4,962.5	USD	5,005.8	EUR
EUR/GBP	283.77	303.72	EUR	200.00	GBP
GBP/EUR	182.23	120.00	GBP	182.23	EUR
USD/MXN	231.31	321.63	USD	3,282.5	MXN
MXN/USD	254.66	3,282.5	MXN	321.63	USD
Forward transactions	262.25				
USD/EUR	217.23	267.41	USD	217.23	EUR
EUR/USD	3.96	5.28	EUR	5.00	USD
USD/ARS	21.12	25.18	USD	78.17	ARS
ARS/USD	19.94	78.17	ARS	25.18	USD
Subtotal	23,348.5				

Notional amounts of structured products with options	Euros	Notional Amounts	
Interest rate options	2,242.7		
Caps & Floors	2,242.7		
US DOLLAR	158.35	200.00	USD
EURO CURRENCY	2,084.3	2,084.3	EUR
Swaptions	-		
EURO CURRENCY	-	-	EUR
Interest rate options	529.14		EUR
USD/EUR	529.14	668.31	USD
Equity swaps	323.95		
Stock options	713.63	713.63	EUR
Subtotal	3,809.4		
TOTAL	27,158.0		

Note: The stock options position basically relates to call options bought on 33 million shares of treasury stock with an average exercise price of €1.43. Also, there are combinations of call options bought at €1.02, call options sold at €2.07 and put options sold at €0.56 with a total positive delta of 4.7 million shares.

13.2 The detail of the portfolio by type of derivative as of December 31, 2002, is as follows:

Type of Risk	Millions				
	2002				
	Equivalent Euro Value	Telefónica Receives		Telefónica Pays	
	Value	Currency	Value	Currency	
Euro interest rate swaps	5,390.6				
Fixed to floating	1,714.1	1,714.1	EUR	1,714.1	EUR
Floating to fixed	2,713.1	2,713.1	EUR	2,713.1	EUR
Floating to floating	963.33	962.95	EUR	963.33	EUR
Cross-currency swaps	10,944.1				
Fixed to floating	6,310.8				
USD/USD	6,276.4	6,582.0	USD	6,582.0	USD
MXN/MXN	34.40	372.00	MXN	372.00	MXN
Floating to fixed	4,633.2				
USD/USD	4,475.8	4,693.8	USD	4,693.8	USD
GBP/GBP	122.98	80.00	GBP	80.00	GBP
MXN/MXN	34.40	372.00	MXN	372.00	MXN
Exchange rate swaps	19,221.5				
Fixed to fixed	702.52				
USD/EUR	70.61	65.00	USD	70.61	EUR
GBP/EUR	121.49	80.00	GBP	121.49	EUR
USD/JPY	132.29	136.00	USD	16,456.0	JPY
JPY/USD	129.68	16,456.0	JPY	136.00	USD
USD/BRL	100.65	155.00	USD	372.93	BRL
BRL/USD	147.80	372.93	BRL	155.00	USD
Fixed to floating	511.84				
EUR/USD	50.73	58.41	EUR	53.20	USD
USD/EUR	119.58	109.00	USD	119.58	EUR
JPY/EUR	113.90	12,400.0	JPY	113.90	EUR
BRL/EUR	96.99	288.17	BRL	96.99	EUR
BRL/USD	40.05	108.77	BRL	42.00	USD
PEN/USD	47.68	176.13	PEN	50.00	USD
MXN/USD	42.91	450.33	MXN	45.00	USD
Floating to fixed	1,603.5				
EUR/JPY	49.84	56.95	EUR	6,200.0	JPY
EUR/BRL	77.77	96.99	EUR	288.17	BRL
USD/EUR	1,357.1	1,247.7	USD	1,357.1	EUR
USD/BRL	29.35	42.00	USD	108.77	BRL
USD/PEN	47.78	50.00	USD	176.13	PEN
USD/MXN	41.64	45.00	USD	450.33	MXN
Floating to floating	16,403.6				
EUR/USD	6,025.9	6,229.2	EUR	6,319.0	USD
USD/EUR	8,949.6	8,753.2	USD	8,949.0	EUR
EUR/GBP	384.32	387.08	EUR	250.00	GBP
GBP/EUR	265.59	170.00	GBP	265.59	EUR
JPY/EUR	282.00	30,000.0	JPY	282.00	EUR
USD/MXN	245.87	262.50	USD	2,659.0	MXN
MXN/USD	250.31	2,659.0	MXN	262.50	USD
Forward transactions	145.60				
USD/EUR	38.67	37.61	USD	38.67	EUR
EUR/USD	102.51	111.14	EUR	107.50	USD
USD/CLP	2.26	2.26	USD	1,700.0	CLP
CLP/USD	2.16	1,700.0	CLP	2.26	USD
Subtotal	35,701.9				

Notional amounts of structured products with options	Euros	Notional Amounts	
Interest rate options	2,638.5		
Caps & Floors	2,050.8		
US DOLLAR	190.71	200.00	USD
EURO CURRENCY	1,860.1	1,860.	EUR
Swaptions	508.43		
US DOLLAR	429.10	450.00	USD
EURO CURRENCY	79.33	79.33	EUR
Interest rate options	79.33	79.33	EUR
Equity swaps	377.05		
Subtotal	3,015.6		
TOTAL	38,717.5		

The detail, by average maturity, of the hedging transactions in 2003 and 2002 is as follows:

	2003				
	Amount	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
With underlying instrument					
Loans	19,345.98	7,503.3	4,635.7	4,272.9	2,934.0
In national currency	9,268.34	3,677.9	1,586.3	3,193.7	810.32
In foreign currencies	10,077.64	3,825.3	3,049.4	1,079.2	2,123.6
MTN debentures and bonds	4,308.38	1,652.6	817.13	285.04	1,553.5
In national currency	524.27	-	-	-	524.27
In foreign currencies	3,784.11	1,652.6	817.13	285.04	1,029.2
Preferred shares	1,500.00	-	-	-	1,500.0
In national currency	1,500.00	-	-	-	1,500.0
Other assets and liabilities	966.10	914.42	51.68	-	-
Swaps	391.94	340.26	51.68	-	-
Exchange rate options	529.14	529.14	-	-	-
Forward transactions	45.02	45.02	-	-	-
Subtotal	26,120.46	10,070.3	5,504.5	4,557.9	5,987.5
Shares	1,037.58	1,037.5	-	-	-
Swaps	323.95	323.95	-	-	-
Stock options	713.63	713.63	-	-	-
Total	27,158.04	11,107.9	5,504.5	4,557.9	5,987.5

Note: The stock options position basically relates to call options bought on 33 million shares of treasury stock with an average exercise price of €1.43. Also, there are combinations of call options bought at €1.02, call options sold at €2.07 and put options sold at €0.56 with a total positive delta of 4.7 million shares.

	2002				
	Amount	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years
With underlying instrument					
Loans	25,438.85	3,535.9	15,667.9	3,678.9	2,555.9
In national currency	12,312.63	1,601.0	6,641.7	2,270.8	1,798.9
In foreign currencies	13,126.22	1,934.8	9,026.2	1,408.1	757.01
MTN debentures and bonds	11,353.86	7,115.6	2,752.9	114.43	1,370.3
In national currency	410.83	50.73	-	-	360.10
In foreign currencies	10,943.03	7,064.9	2,752.9	114.43	1,010.7
Liabilities	1,547.78	47.78	-	-	1,500.0
Swaps	47.78	47.78	-	-	-
Interest rate options	1,500.00	-	-	-	1,500.0
Shares	377.05	377.05	-	-	-
Total	38,717.54	11,076.4	18,420.9	3,793.3	5,426.3

(14) TAX MATTERS

Pursuant to a Ministerial Order dated December 27, 1989, since 1990 Telefónica, S.A. has filed consolidated tax returns with certain Group companies. 54 companies formed the consolidated tax group in 2003.

14.1 Deferred tax assets and liabilities

The detail as of December 31, 2003 and 2002, of Telefónica's deferred tax assets and liabilities, and of the variations therein in 2003 and 2002, is as follows:

	Deferred Tax Assets	Deferred Tax Liabilities	Intercompany Deferred Tax Liabilities/(Assets)
	Long Term	Long Term	Long Term
Balance at December 31, 2001	91.03	3.87	42.39
Reversal	(36.06)	-	-
Arising in the year	20.22	-	4.78
Other variations	(16.01)	(3.87)	(12.46)
Balance at December 31, 2002	59.18	-	34.71
Reversal	(15.90)	-	(0.13)
Arising in the year	10.72	-	4.76
Other variations	26.18	-	-
Balance at December 31, 2003	80.18	-	39.34

Telefónica's deferred tax assets relate mainly to employee long-service bonuses, and to accounting provisions recorded for investments in companies with negative underlying book values.

The deferred tax liabilities reversed in 2002 relate mainly to timing differences due to the reinvestment of extraordinary gains.

14.2 Taxes payable and taxes receivable

The detail of the "Taxes Payable" and "Taxes Receivable" captions as of December 31, 2003 and 2002, is as follows:

	Millions of Euros	
	Balance at 12/31/03	Balance at 12/31/02
Taxes payable:		
<i>Long-term taxes payable:</i>		
Deferred tax liabilities	39.34	34.71
<i>Short-term taxes payable:</i>		
Personal income tax withholdings	15.43	12.16
VAT	3.18	1.05
Withholdings from income from movable capital and other	8.62	7.51
<i>Accrued social security taxes</i>	2.87	2.32
	0.76	1.28
Total	54.77	46.87

	Millions of Euros	
	Balance at 12/31/03	Balance at 12/31/02
Taxes receivable:		
<i>Long-term taxes receivable (Note 7)</i>		
Deferred tax assets	5,000	4,932.90
Long-term tax loss carryforwards	80.18	59.18
<i>Short-term taxes receivable:</i>		
Corporate income tax prepayments	4,919	4,873.72
Tax withholdings	30.66	45.41
Corporate income tax refundable	11.58	6.27
Taxes recoverable and other	0.33	2.67
VAT and Canary Islands general indirect tax refundable	0.03	0.11
	18.72	36.36
Total	5,030	4,978.31

14.3 Reconciliation of the income/loss per books to the tax base and determination of the corporate income tax revenue and net tax refundable.

The corporate income tax revenue and the net tax refundable for 2003 and 2002 are as follows.

	Millions of Euros	
	2003	2002
Income (Loss) before taxes per books	1,036.5	(5,766.3)
Permanent differences	(1,962.5)	2,747.1
Timing differences		
Arising in the year	30.62	57.78
Arising in prior years	(44.97)	(103.04)
Tax base	(940.35)	(3,064.4)
Gross tax payable	(329.12)	(1,072.2)
Tax credits capitalized	(22.43)	(85.61)
Other tax credits and tax relief	-	(152.25)
Corporate income tax refundable	(351.55)	(1,310.1)
Timing differences	5.02	15.84
Corporate income tax accrued in Spain	(346.53)	(1,284.3)
Foreign taxes	6.30	5.06
Other	3.02	1.90
Total income tax	(337.21)	(1,287.3)

The tax credits taken relate basically to the reinvestment of gains and double taxation.

The income qualifying for the tax credit for reinvestment of extraordinary gains in 2003 amounted to €7.01 million, and the reinvestment commitment of the Telefónica tax group to which the company belongs were sufficiently covered in the year.

The permanent differences relate mainly to the investment valuation provisions recorded by the tax Group companies included in the consolidated corporate income tax return in order to avoid duplication, since these companies recorded the tax asset in their own individual financial statements, to dividends received from tax group companies or foreign companies taxed at source and to nondeductible provisions.

The detail of the variation in the adjustments for timing differences in 2003 is as follows:

	Millions of Euros
Timing differences:	
Long-service bonuses	(25.79)
Period provisions for contingencies and expenses	11.44
Total	(14.35)

The taxes incurred abroad relate mainly to the corporate income tax borne by the permanent establishment in Argentina.

14.4 On September 25, 2002, tax audits commenced at several of the companies included in tax group 24/90 of which Telefónica, S.A. is the parent company. The taxes subject to

review are corporate income tax (for the years from 1998 to 2001) and VAT and tax withholdings and prepayments relating to personal income tax, tax on income from movable capital, property tax and nonresident income tax (1998 to 2001). No material liabilities not recorded in the accompanying financial statements are expected to arise as a result of the reviews currently being performed by the tax inspection authorities.

(15) OTHER NONTRADE PAYABLES

The balance of this caption relates mainly to compensation payable and to other payables relating to fixed asset purchases.

(16) REVENUES AND EXPENSES

16.1 Operating revenues

The revenues from sales and services in 2003 and 2002 related to sales to Group companies and, principally, to the management contract with Telefónica de Argentina, S.A.

In November 1990 Telefónica and Telefónica Argentina, S.A. entered into a renewable management contract expiring in 2003 regulating the counseling services rendered by Telefónica and the price thereof. The revenues received in this connection in 2003 and 2002 amounted to €28.02 million and €29.90 million, respectively, and these amounts are recorded under the "Net Sales to Group Companies" caption in the accompanying statements of operations.

16.2 Personnel expenses

The detail of the personnel expenses is as follows:

	2003	2002
Compensation, incentive schemes, etc.	97.30	74.81
Pension plans (Note 4-h)	2.48	2.27
Employee welfare expenses and other	13.29	12.98
Total	113.07	90.06

The "Personnel Expenses" caption includes the severance paid to two senior managers who left the Company in 2003, the amount of which had been established in their respective senior management contracts.

In general, senior management contracts relating to members of the Executive Committee include indemnity clauses consisting of three years' salary plus another year's salary depending on the years of service at the Company, for cases of unilateral termination by the Company. The one-year's salary payment consists of the last year's fixed compensation and the arithmetic mean of the sum of the last two variable compensation payments received per the related contract.

The “Compensation, Incentive Schemes, etc.” caption includes the period expense for 2003 and 2002 relating to the Telefónica stock option plan (TOP) allocable to Company personnel, amounting to €8.69 million and €7.09 million, respectively.

16.3 Average number of employees

Category	2003	2002
University graduates and other line personnel	611	574
Junior college graduates and technicians (draftsmen)	8	7
Supervisors and data processing assistants	167	181
Building and services personnel	5	7
Total	791	769

The total number of employees as of December 31, 2003, was 767 (799 in 2002).

Compensation systems tied to share market price

At 2003 year-end Telefónica only had one compensation system tied to the market price of its shares, namely the TIES Program, described below, which is aimed at all the serving personnel of Telefónica and of most of its Spanish and foreign subsidiaries.

The other compensation system tied to the market price of Telefónica shares ended in September 2003. The so-called TOP Plan was aimed exclusively at executive personnel of Telefónica, S.A. and of several Group companies including the executive directors of Telefónica, S.A. This Plan was implemented by Telefónica on June 28, 1999, and was approved by the Company’s Stockholders’ Meeting on April 7, 2000.

In view of the fact that when the aforementioned TOP Plan expired after the last opportunity for beneficiaries (participants) to exercise the Telefónica, S.A. stock options held by them the exercise prices were substantially higher than the market price of the shares at that time, the option-holders did not exercise the options which, accordingly, expired.

Following is a detailed account of the TIES Program.

On February 23, 2000, the Board of Directors of Telefónica, S.A. approved the establishment of a compensation system tied to the market price of the Company’s shares, with the grant of options on Company shares, known as the TIES Program. This Program is aimed at all the employees of Telefónica, S.A. and its Spanish and foreign subsidiaries who meet the requirements established in the rules governing the Program and who are not participating in any other similar stock or stock option plan.

The aims of the TIES Program are identical to those achieved by other similar programs implemented in the past by Telefónica, S.A. or its subsidiaries and is broadly similar to programs which have been introduced in several European countries and in the U.S. Its main purpose is to introduce a system of global incentives and to reward the past and future services of all the employees of Telefónica, S.A. and its subsidiaries in the coming years. The TIES Program will basically motivate all its beneficiaries by giving them access to Telefónica, S.A. shares under highly favorable terms and conditions.

In order to achieve the purposes of the Program, on April 7, 2000, the Stockholders' meeting of Telefónica, S.A. approved two capital increases with disapplication of pre-emptive subscription rights, for a par value of €1,197,880 and €31,504,244, respectively, through the issuance of 1,197,880 and 31,504,244 new common shares, respectively, of €1 par value each, with additional paid-in capital of 400% of the par value.

The main features of the TIES Program are as follows:

1. Number of shares offered for initial acquisition by the beneficiaries: 1,197,880.
2. Issue price: €.
3. Maximum no. of shares under option assigned to beneficiaries: 31,504,244. This figure, which is the maximum amount necessary to cover the total rights carried by the shares initially assigned, also includes a reserve for new beneficiaries of the Program equal to 4.5% of the initial beneficiaries.
4. Method of assignment of shares under option: depends on the appreciation of Telefónica, S.A. shares with respect to an initial reference value to be set by the Board of Directors and on the number of shares of Telefónica, S.A. initially acquired. The initial reference value is set at €20.5 per share.
5. Exercise price: €.

At its meeting on June 28, 2000, the Board of Directors of Telefónica, S.A. resolved to commence implementation of the TIES Program (the features and general terms of which had been established on February 23, 2000, by the Board of Directors' Meeting that approved the creation of the Program), and established the requirements to be met by the employees of the subsidiaries of Telefónica, S.A. in order to become beneficiaries of the TIES Program.

Subsequently, on November 29, 2000, the Board of Directors of Telefónica, S.A. adapted to the date on which the Program was ultimately launched the conditions and requirements to be met by the employees of the companies participating in the Program in order to become beneficiaries of the Program and the reference value initially set.

On February 14, 2001, the notarial deed of formalization and execution of the first capital increase at Telefónica indicated above was executed. The par value of the capital was increased by €1,123,072, through the issuance of an equal number of common shares with additional paid-in capital of €4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by the beneficiaries of the TIES Program.

On February 20, 2001, the notarial deed of formalization and execution of the second capital increase at Telefónica to cater for the TIES Program was executed. The par value of the capital was increased by €31,504,244, through the issuance of an equal number of common shares with additional paid-in capital of €4 per share. The new shares were fully subscribed and paid, through a monetary contribution, by BBVA (50%) and La Caixa (50%).

On December 31, 2003, 73,171 persons were participating in the TIES program, who held a total of 30,113,539 purchase options on Telefónica, S.A. shares. As of that date, 510 Telefónica, S.A. employees were participating in the Plan.

No Telefónica, S.A. directors, general managers or employees of a similar rank to general manager are participating in the TIES Program.

16.4 Other interest on accounts payable and similar expenses and revenues from other equity investments and loans

The detail of these captions is as follows:

	2003	2002
Debentures, bonds and other marketable debt securities	202.14	213.69
Euro loans and credits	857.93	763.63
Foreign currency loans	352.87	403.35
Total interest on accounts payable and similar expenses	1,412.94	1,380.67
Interest on loans to subsidiaries and associated companies	993.72	1,191.25
Revenues from investments in euros	46.28	18.20
Revenues from investments in foreign currencies	0.21	0.19
Revenues from financial derivatives	208.44	104.55
Total revenues from other equity investments and loans	1,248.64	1,314.29

€12.35 million and €00.23 million of the expenses related to interest on accounts payable to Group companies in 2003 and 2002, respectively (see Note 16.8).

16.5 Exchange differences

The detail of the exchange losses charged to income is as follows:

	2003	2002
Repayment of loans maturing in the year	126.90	122.46
Potential losses in 2003 and subsequent years	308.73	502.17
Recurring operations and derivatives	1,199	974.24
Total	1,635	1,598.87

The detail of exchange gains credited to income is as follows:

	2003	2002
Repayment of loans maturing in the year	42.73	21.23
Adjustment of foreign loans	959.78	1,013.8
Recurring operations and derivatives	588.74	236.11
Total	1,591.25	1,271.14

The variation in exchange gains and exchange losses in 2003 with respect to 2002 was due basically to the significant fluctuations in the US\$/euro exchange rate, which was offset by the effect of hedges arranged for this purpose.

16.6 Extraordinary revenues

The “Extraordinary Revenues” caption in the accompanying statement of operations relates to nonrecurring revenues obtained by the Company. The detail of the extraordinary revenues is as follows:

	2003	2002
Gains on disposal of investments	29.44	1.17
Release of reserve for treasury stock (Note 9)	159.95	-
Other extraordinary revenues	21.87	1.54
Total	211.26	2.71

The gains on disposals of investments include mainly the gain of €7.18 million obtained from the divestment of the holding in Antena 3 de Televisión, S.A. (see Note 7.4.b).

As indicated in Note 9, the Company recorded an extraordinary revenue for the release of the provision for treasury stock recorded in prior years, due to the positive performance of the share price in 2003.

The “Other Extraordinary Revenues” caption includes mainly €12.63 million relating to the settlement for the acquisition of Telefónica Holding Argentina, S.A. And the gain of €7.12 million on the sale of treasury stock (see Note 9).

16.7 Extraordinary expenses

The detail of the extraordinary expenses is as follows:

	2003	2002
Prior years' losses	21,72	6,21
Losses on long-term investments	10,08	-
Provision for treasury stock (Note 9)	-	288,09
Other extraordinary expenses	34,67	106,42
Total	66,47	400,72

The “Other Extraordinary Expenses” account includes most notably the provisions of €3.06 million and €34.62 million recorded by the Company in 2003 and 2002, respectively, to cover the underlying book value of certain investees that was negative as of December 31. These provisions are recorded under the “Provisions for Contingencies and Expenses” caption in the accompanying balance sheet.

Additionally, this account includes the provisions considered necessary by the Company to cover certain contingencies the amounts and probability of which were difficult to quantify or foresee as of the date of preparation of these financial statements.

16.8 Transactions with Group companies

Telefónica’s main transactions with Group companies in 2003 and 2002 were as follows:

	2003	2002
Dividends received	591.65	881.96
Accrued interest	1,174.5	1,285.8
Financial expenses (Note 16.4)	(912.35)	(900.23)
Acquisitions of goods and services from the Telefónica Group	(50.15)	(45.24)
Telefónica de Argentina management fee transferred to Telefónica de España	(1.40)	(1.49)

The dividends received in 2003 include most notably the dividend of €9.50 million paid by Telefónica de España, S.A.U., that of €4.05 million paid by Telefónica Publicidad e Información, S.A. and the distribution of additional paid-in capital received from Telefónica Móviles, S.A. amounting to €14.51 million. Those received in 2002 included most notably that of €855.54 million paid by Telefónica de España, S.A.U. and that of €2.06 million paid by Telefónica Publicidad e Información, S.A.

The accrued interest in 2003 includes most notably that relating to Telefónica de España, S.A.U. (€66.85 million), to Telefónica Móviles, S.A. (€12.61 million), to Telefónica Internacional, S.A. (€52.97 million), to Telefónica de Contenidos, S.A.U. (€78.78 million) and to Emergia, S.A. (€16.52 million). The accrued interest in 2002 included most notably that relating to Telefónica de España, S.A.U. (€16.50 million), to Telefónica Móviles, S.A. (€302.29 million), to Telefónica Internacional, S.A. (€22.99 million), to Telefónica de Contenidos, S.A. (€1.83 million) and to Emergia S.A. (€9.73 million).

The financial expenses paid to Group companies include most notably those arising from the financing received from Telefónica Europe, B.V. and Telefónica Finanzas, S.A.U., the cost of which in 2003 amounted to €707.07 million and €176.61 million, respectively (€13.26 million and €249.80 million, respectively, in 2002) (see Note 12.2).

(17) DIRECTORS' COMPENSATION AND OTHER BENEFITS AND OTHER DISCLOSURES

a) Directors' compensation and other benefits

The compensation of Telefónica's directors consists of a fixed monthly payment and attendance fees for attending the Board of Directors' advisory and control committee meetings. Also, the executive directors receive compensation for the executive duties discharged by them.

The directors' compensation is governed by Article 28 of the bylaws, which indicates that the amount of the compensation to be paid by the Company to its directors is set by the Stockholders' Meeting, and the Board of Directors subsequently distributes it among the directors. In this connection, on April 11, 2003, the Stockholders' Meeting set a maximum gross annual amount to be paid to the Board of Directors of €6 million, which includes a fixed payment and attendance fees for attending the Board of Directors' advisory committee or control committee meetings. It should be noted that, in line with the best practices in this field, the directors' compensation is not tied to results.

In 2003 the members of the Board of Directors of Telefónica, S.A. earned €10,900,943.98 (€3,339,958.34 fixed monthly payment, including the compensation earned as members of the Boards of Directors of other Telefónica Group companies; €120,247.86 of attendance fees for attending the Board of Directors' advisory committee meetings (including the attendance fees for attending Board of Directors' advisory committee meetings of other Telefónica Group companies); €7,275,864.86 of salaries and variable compensation of the executive directors; €14,872.92 of compensation in kind paid to the executive directors, which include life insurance premiums; and €50,000 of contributions paid by the Company, as promoter and for executive directors, under pension plans).

The breakdown of the compensation and benefits received by the directors of Telefónica in 2003 is as follows:

Board of Directors: annual amount of the fixed payment received by each director (in euros):

Position	2003
Chairman	90,151.92
Deputy Chairmen	150,253.02
Directors (1):	
Executive directors	90,151.92
Nominee directors	90,151.92
Independent directors	90,151.92

(1) Additionally, one director, who is not resident in Spain, receives an additional annual payment of €60,101.21 because his experience and work in relation to Latin America is of special interest to the Company.

Standing Committee: annual amount of the fixed payment received by each director (in euros):

Position	2003
Chairman	60,101.19
Deputy Chairman	60,101.19
Directors	60,101.19

The directors do not receive any attendance fees for attending meetings of the Board of Directors or of the Standing Committee.

Other committees of the Board of Directors: total annual amounts paid in 2003 for attending meetings of the advisory and control committees of the Board of Directors, received by the directors taken as a whole:

Committees	2003
Audit and Control	Attendance fee per meeting: €58.61 Number of meetings paid: 9 Total received: €26,616.91
Appointments and Compensation and Best Practice Corporate Governance	Attendance fee per meeting: €58.61 Number of meetings paid: 6 Total received: €4,899.69
Human Resources and Corporate Reputation	Attendance fee per meeting: €58.61 Number of meetings paid: 6 Total received: €20,606.64
Regulation	Attendance fee per meeting: €58.61 Number of meetings paid: 5 Total received: €12,879.15
Service Quality and Commercial Service	Attendance fee per meeting: €58.61 Number of meetings paid: 4 Total received: €5,586.1
International Matters	Attendance fee per meeting: €58.61 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
	Sogecable S.A.	Television, telecommunications and audiovisual production services	< 0.01%	Director
Antonio Massanell Lavilla	Telefónica Móviles S.A.	Telecommunications	< 0.01%	Director
Enrique Used Aznar	Amper, S.A.	Telecommunications equipment provider	0.39%	Chairman
Antonio Viana Baptista	Portugal Telecom SGPS, S.A.	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%" is shown.

Also, pursuant to the aforementioned Law, set forth below are the activities carried on, for their own account or for the account of others, by the various members of the Board of Directors that are identical, similar or complementary to the activity that constitutes the corporate purpose of Telefónica, S.A.:

Name	Activity Carried on	Type of Arrangement under which the Activity is Carried on	Company through which the Activity is Carried on (2)	Positions Held or Functions Performed at the Company
José Antonio Fernández Rivero	Internet and e-commerce	For account of others	Adquira España, S.A.	Chairman
Fernando de Almansa Moreno-Barreda	Telecommunications	For account of others	Telefónica Móviles, S.A.	Director
	Telecommunications	For account of others	Telefónica del Perú, S.A.A.	Director
	Telecommunications	For account of others	Telefónica de Argentina, S.A.	Director
	Telecommunications	For account of others	Telecomunicações de Sao Paulo, S.A.	Director

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
Maximino Carpio García	Telecommunications equipment provider	For own account		Advisory Director of Abengoa, S.A.
	Wireless telecommunications	For account of others	Telefónica Móviles, S.A.	Director
Alfonso Ferrari Herrero	Telecommunications	For account of others	Compañía de Telecomunicaciones de Chile, S.A.	Director
	Telecommunications	For account of others	Telefónica de Perú, S.A.A.	Director
Miguel Horta Costa	Telecommunications	For account of others	Portugal Telecom, SGPS S.A.	Executive Chairman
	Telecommunications	For account of others	PT Comunicações, S.A.	Chairman
	Telecommunications	For account of others	PT 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	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 Sao 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

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
Mario Eduardo Vázquez	Telecommunications	For account of others	Telefónica Holding de Argentina, S.A.	Deputy Chairman
	Telecommunications	For account of others	Compañía Internacional de Telecomunicaciones, S.A.	Deputy Chairman
	Telecommunications	For account of others	Telefónica Móviles Argentina, S.A.	Chairman
	Telecommunications	For account of others	Telefónica Comunicaciones Personales, S.A.	Chairman
	Telecommunications	For account of others	Radio Móvil Digital Argentina, S.A.	Chairman
	Telecommunications	For account of others	Radio Servicios S.A.	Chairman
	Telecommunications	For account of others	Telinver, S.A.	Chairman
	Telecommunications	For account of others	Atento Argentina, S.A.	Chairman
	Telecommunications	For account of others	Katalyx Argentina, S.A.	Chairman
	Telecommunications	For account of others	Katalyx Food Service Argentina, S.R.L.	Owner/Manager
	Telecommunications	For account of others	Katalyx Cataloguing Argentina, S.R.L.	Owner/Manager
	Telecommunications	For account of others	Katalyx Construction Argentina, S.R.L.	Owner/Manager
	Telecommunications	For account of others	Katalyx Transportation Argentina, S.R.L.	Owner/Manager
	Telecommunications	For account of others	Altocity.com, S.A.	Deputy Chairman
	Telecommunications	For account of others	E-Commerce Latina, S.A.	Deputy Chairman
	Internet and e-commerce	For account of others	Adquira Argentina, S.A.	Chairman
Information technology	For account of others	Indra SI, S.A.	Director	
Antonio Viana Baptista	Telecommunications	For account of others	Telefónica Móviles, S.A.	Executive Chairman
	Telecommunications	For account of others	Telefónica Internacional, S.A.	Director
	Telecommunications	For account of others	Telefónica Móviles España, S.A.	Director
	Telecommunications	For account of others	Telefónica de Argentina, S.A.	Director
	Telecommunications	For account of others	Compañía de Telecomunicaciones de Chile, S.A.	Director
	Telecommunications	For account of others	Telecomunicaciones de Sao Paulo, S.A.	Director
	Telecommunications	For account of others	Brasilcel, N.V.	Director

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
Antonio Viana Baptista	Telecommunications	For account of others	Portugal Telecom, SGPS, S.A.	Director

(2) Only shown if the activity is carried on for the account of others and, therefore, is carried on through a company.

Pursuant to Article 114.2 of the Spanish Corporations Law, also introduced by Law 26/2003, it is hereby stated that in the fiscal year to which these financial statements refer, the directors, or persons acting on their behalf, did not perform any transactions with Telefónica or any other company in the Telefónica Group other than in the course of the Company's ordinary operations or in conditions other than normal market conditions.

(18) OTHER INFORMATION

Financial guarantees

	2003	2002
Guarantees provided for financial transactions	14,284.93	14,292.94

The "Guarantees Provided for Financial Transactions" account relates mainly to guarantees provided by Telefónica to third parties to secure the transactions of its subsidiaries and investees, mainly Telefónica Europe, B.V.

No significant losses are expected to arise for the Company in connection with these commitments.

The amount indicated for guarantees provided by Telefónica S.A. includes most notably the guarantee provided to certain credit institutions to cover the obligations of Ipse 2000, S.p.A. arising from the deferral of payment for the third-generation wireless telephony license in Italy. These guarantees are in turn counterguaranteed by the Group's subsidiaries that own the investment in Ipse 2000, S.p.A.

Litigation

Telefónica, S.A. and its Group companies are party to several lawsuits which are currently in progress in the law courts and the arbitration courts of the various countries in which the Telefónica Group is present.

Based on the reports of counsel engaged to act in the lawsuits of Telefónica, S.A., it is reasonable to consider that the adverse outcome of any of these, as yet, unresolved lawsuits will not materially affect the Telefónica Group's economic and financial position or solvency. These lawsuits include most notably the following:

- 1) A proceeding contesting the resolutions adopted by the Special Stockholders' Meeting of Telefónica, S.A. on February 4, 2000.

The stockholder Javier Sotos García, who owns 300 shares of the Company, filed a complaint contesting the resolutions adopted by the Special Stockholders' Meeting on February 4, 2000, based on the purported contravention of the rules regulating the holding of the Meeting and on the purported contravention of the rules for disapplication of preemptive rights of subscription in capital increases.

On May 8, 2003, Court of First Instance no. 33 handed down a judgment wholly dismissing the complaint filed by the plaintiff stockholder, holding that it was inappropriate to rule on the voidness or voidability of the resolutions adopted by the Special Stockholders' Meeting of Telefónica, S.A. on February 4, 2000, and awarding the costs of the proceeding against the plaintiff. On July 26, 2003, an appeal was filed by the latter at the Madrid Provincial Appellate Court. On December 10, 2003, Telefónica, S.A. filed a reply brief contesting the appeal.

Based on the opinion of its legal counsel, the Company is convinced that the outcome of the aforementioned court proceeding will be wholly satisfactory for the Company and it states that the complaint filed did not in any way signify holding in abeyance the implementation of the corporate resolutions approved by the Stockholders' Meeting and contested in that court proceeding.

- 2) A proceeding contesting certain resolutions adopted by the Annual Stockholders' Meeting of Telefónica, S.A. on June 15, 2001.

The aforementioned stockholder, Javier Sotos García, also filed a complaint contesting some of the resolutions adopted by the Company's Annual Stockholders' Meeting on June 15, 2001.

The aforementioned complaint is based on the purported infringement of the contesting stockholder's right to information and on the purported contravention of the legal rules for disapplication of preemptive rights of subscription in capital increases.

On January 23, 2004, the Company was notified that the proceeding had been stayed until such time as either the parties apply for its resumption or the instance lapses.

Based on the opinion of its legal counsel, the Company is convinced that the outcome of the aforementioned court proceeding will also be wholly satisfactory for the Company.

Also, it should be noted that the complaint filed against the aforementioned resolutions adopted by the Stockholders' Meeting on June 15, 2001, did not in any way signify holding in abeyance the implementation of those resolutions.

- 3) Complaint filed by IDT against Telefónica, S.A., Terra Networks, S.A. and Lycos, Inc.

International Discount Telecommunications Corporation (IDT) filed a complaint at the New Jersey State Courts in the U.S. against Telefónica, S.A., Terra Networks, S.A., Terra Networks U.S.A., Inc., and Lycos, Inc.

This complaint is based on the purported breach of the joint venture agreement entered into between IDT and Terra Networks, S.A. in October 1999, on the purported nonperformance of the obligations under the agreement to terminate the joint venture agreement, on purported fraud and contravention of the legislation governing the issuance of securities

(Federal Securities Exchange Act) and, lastly, on purported fraudulent concealment of information.

The lawsuit is currently for an unspecified amount, without prejudice to the possibility of the claim by the plaintiff for damages being specified and quantified in the course of the proceeding.

In May 2002 the New Jersey State Court decided to dismiss the part of the complaint relating to certain purported breaches of the joint venture agreement, which also resulted in the exclusion of Terra Networks, U.S.A., Inc. from the proceeding.

Subsequently, IDT added a new claim to the complaint alleging that Telefónica was liable, as a control person, for the fraud alleged against Terra in its negotiations with IDT that led to the termination agreement. Telefónica has filed objections against this claim which are currently before the Court. The defendants have filed an answer and, in turn, Terra Networks S.A. has filed a counterclaim.

On July 2, 2003, in light of the evidence taken, Terra Networks, S.A., Lycos, Inc. and Telefónica, S.A. filed pleadings seeking summary trial to determine the claims and have others dismissed. In turn, IDT has petitioned to have the counterclaim filed by Terra Networks, S.A. dismissed.

Based on the opinion of its legal counsel, the Company considers that it has a sound defense against the claims filed against it and, accordingly, Telefónica is confident that the outcome for Telefónica of the litigation arising from IDT's complaint should not be adverse but, if it were, considers that the economic and financial impact on the Telefónica Group should not be material.

4) Sistemas e Instalaciones de Telecomunicación, S.A.U. (Sintel).

As a result of the voluntary bankruptcy proceeding being conducted at Madrid Court of First Instance no. 42, case number 417/2001, which is the continuation of the petition for Chapter 11-type insolvency filed by the director of Sintel on June 8, 2000, two criminal proceedings have commenced which affect Telefónica, S.A.

Under the bankruptcy order, inter alia, the effects of the bankruptcy were backdated to June 8, 1998. As a result of the backdated effects of the bankruptcy pursuant to the order, the bodies in the bankruptcy sent Telefónica a payment demand for €22,867,892, which represents the total amount paid for Sintel, since they consider null and void as a matter of law the involvement of Sintel in the contract dated December 30, 1998, in which a debt of €1,347,528 was recognized by reason of the sale of the shares of Sintel to Mastec Internacional, S.A. and the amounts paid by Sintel, which in the aforementioned contract appeared as a joint and several guarantor for the fulfillment of these payment obligations.

Telefónica filed an ancillary complaint in which it proposes that the effects of the bankruptcy be backdated to a date closer to that of the bankruptcy order, so that the contract dated December 30, 1998, is not affected. The representatives of the employees filed another complaint to the contrary, proposing that the effects of the bankruptcy be backdated to the date of the sale of the shares of Sintel (April 1996).

The arrangement proposed by the bankrupt company and approved by the Court is currently the subject of an appeal to a superior court.

Based on the opinion of its legal counsel, the Company considers that the Order approving the arrangement is correct and that the appeal filed at the Madrid Provincial Appellate Court should not succeed.

Notwithstanding the foregoing, the liquidation process has commenced, for which purpose the Liquidation Committee was formed on July 20, 2003, and the Control body on October 15, 2003.

The two criminal proceedings are as follows:

“Abbreviated” proceeding no. 273/2001, in relation to which, on September 24, 2002, Telefónica, S.A. and Telefónica de España, S.A. appeared before Central Examining Court no. 1 filing a civil suit as parties suffering loss against the directors of Sintel and of Mastec Internacional, S.A. Leave was given for them to appear as parties to the proceeding.

Preliminary proceeding no. 362/2002, which was commenced on October 23, 2002, by Central Examining Court no. 1 for a possible offense of extortion. This proceeding arises from the preceding one, concerns the possible commission of an offense of extortion in the assumption by Sintel of joint and several liability with Mastec for the obligation to pay the related sale price. This preliminary proceeding has been joined to proceeding no. 273/2001, although no decision on the petition for dismissal of the proceeding has been rendered.

5) Complaint filed by Bidland Systems, Inc. against Katalyx Inc. and Telefónica, S.A.

In December 2000, Bidland Systems, Inc. ("Bidland") filed a complaint at a California State Court against Telefónica B2B, Inc, now called Katalyx Inc., and Telefónica, S.A. based mainly on a monetary claim by virtue of purported contractual obligations based on a joint venture project that had not been formalized. Bidland alleges that it suffered loss and damage quantified at US\$ 150 million.

The discovery phase in the proceeding took place during 2002 and 2003, and included the taking of witness statements and the adducing of independent experts' reports for appraising the damage alleged by Bidland.

At the end of this phase, Telefónica and Katalyx filed at court on August 21, 2003, applications for summary judgment against all Bidland's claims contested by the latter. In October 2003, the case file was transferred to a new District Judge who has not yet set down a date for trial.

Based on the opinion of its legal counsel, the Company considers that it has reasonable legal arguments and that, although there are uncertainties in the outcome of any litigation, it should not be adverse for Telefónica, but that if it were, its economic and financial impact should not be material.

6) Collective lawsuits filed by stockholders of Terra in the U.S., in connection with the tender offer by Telefónica, S.A. for Terra Networks, S.A.

On May 29, 2003, two class actions were filed at the Supreme Court of New York State by stockholders of Terra Networks, S.A. against Telefónica, S.A., Terra Networks, S.A. and certain former and current directors of Terra Networks, S.A.

These actions are founded mainly on the claim that the price offered to the stockholders of Terra Networks, S.A. was not in keeping with the intrinsic value of the shares of that company, and seek to not have the tender offer approved or, in the alternative, to have damages awarded to them.

It should be noted that since the filing of the complaints, the related proceedings have remained inactive.

Based on the opinion of its legal counsel, the Company considers that it has a sound defense against both the form and the substance of the claims filed against it and, accordingly, is confident that the outcome of the litigation should not be adverse for Telefónica.

- 7) Appeal for judicial review no. 6/461/03 filed at the National Appellate Court by the World Association of Stockholders of Terra Networks, S.A. (ACCTER) against the administrative decision made by the Spanish National Securities Market Commission to authorize the tender offer by Telefónica, S.A. for Terra Networks, S.A.

ACCTER filed an appeal for judicial review against the decision of the Spanish National Securities Market Commission to authorize the tender offer made to Terra stockholders on June 19, 2003.

Telefónica, S.A. has filed an application, admitted for consideration, to appear in the proceeding as an intervening nonparty to defend the lawfulness of the decision by the Spanish National Securities Market Commission.

In turn, the National Appellate Court has rejected the appellant's request for an ex parte or inter partes injunctive stay of the aforementioned decision.

At present, a brief has already been filed by the Government Legal Service in reply to the application filed by ACCTER for judicial review.

Based on the opinion of its legal counsel, the Company is convinced that the outcome of the aforementioned proceeding will be satisfactory for the Company.

Commitments

Strategic alliance between Telefónica and Terra

On February 12, 2003, Telefónica and Terra Networks, S.A. entered into a Framework Strategic Alliance Agreement to replace the Strategic Agreement dated May 16, 2000, to which Bertelsmann AG was also a party (whereby, in the framework of the acquisition of Lycos Inc. by Terra Networks, S.A., Telefónica, S.A. undertook to commission from Terra Networks, S.A. the portion of the advertising services committed by Bertelsmann AG that the latter did not commission from Terra Networks, S.A., up to a maximum amount of US\$ 675 million).

Additionally, on February 12, 2003, Telefónica, S.A., Terra Networks, S.A., Lycos Inc. and Bertelsmann AG entered into a preferential interest agreement which will enable them to continue to explore opportunities for the mutual provision of communications, development and content services in the on-line market.

The term of the Framework Strategic Alliance Agreement is six years, ending on December 31, 2008. The agreement is automatically renewable for one-year periods unless it is expressly terminated by the parties.

The main features of this Framework Strategic Alliance Agreement are summarized as follows:

1. Strengthening of the Terra Lycos Group as:
 - The exclusive provider of essential portal elements, including brand image, and aggregator of the broad and narrow band Internet content and services targeted at the residential, SOHO and, when so agreed, SME market segments, for the Telefónica Group companies' connectivity and ISP services.
 - Preferential provider of consulting, management and maintenance services for the country portals of the Telefónica Group companies.
 - Exclusive provider of Telefónica Group employee on-line training services.
 - Preferential provider of on-line integral marketing services with the Telefónica Group companies.
2. Guaranteed minimum volume of acquisitions of Terra Lycos Group on-line advertising space by Telefónica Group companies.
3. Exclusive acquisition of connectivity and wholesale Internet access services by Terra Lycos Group companies from Telefónica Group companies under the legally permitted most-favored-customer conditions.
4. Outsourcing by Terra Lycos Group companies to Telefónica Group companies of all or part of the services and/or operation of the Internet access elements for the provision of ISP services to its residential, SOHO and, when so agreed, SME customers under the legally permitted most-favored-customer conditions.
5. Exclusive acquisition by Terra Lycos Group companies from Telefónica Group companies of the advanced broad and narrow band network and platform services required to construct the range of services to be offered to residential, SOHO and, when so agreed, SME customers under the legally permitted most-favored-customer conditions.

The Framework Strategic Alliance Agreement guarantees the generation for the Terra Lycos Group of a minimum annual value throughout the term of the Agreement of €78.5 million. This amount is the difference between the revenues arising from the services provided under the aforementioned Framework Strategic Alliance Agreement and the costs and investments directly associated therewith. In compliance with the terms of the aforementioned Framework Agreement, the minimum annual value was generated for the Terra Lycos Group in 2003.

Agreements with Portugal Telecom (Brazil)

On January 23, 2001, Telefónica, S.A. and its subsidiary Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT Moveis, SGPS, S.A., on the other, entered into an agreement in order to group together all the wireless telephony businesses in Brazil and, accordingly, they undertook to contribute all their wireless telephony assets in Brazil to a joint venture, which, subject to the obtainment of the necessary regulatory authorizations, would be a subsidiary of the two groups, and in which they would each have a 50% ownership interest. Also, under the terms of this agreement, the two parties expressed their interest in increasing their reciprocal ownership interests, subject to compliance with the applicable regulatory and bylaw conditions.

On October 17, 2002, Telefónica Móviles, S.A., on the one hand, and Portugal Telecom SGPS, S.A. and its subsidiary PT 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 one of the parties falls below 40% during an uninterrupted period of six months. In this event, if the Group with the reduced interest were the Portugal Telecom Group, it would be entitled to sell to Telefónica Móviles, S.A., which would be obliged to buy (directly or through another company), all of Portugal Telecom's ownership interest in Brasilcel N.V. This right expires on December 31, 2007. The price for the acquisition of the Portugal Telecom Group's holding in Brasilcel, N.V. would be calculated on the basis of an independent appraisal (in the terms provided for in the definitive agreements) performed by investment banks, selected using the procedure established in these agreements. Subject to certain conditions, the payment could be made, at Telefónica Móviles' choice, in (i) cash, (ii) Telefónica Móviles S.A. shares and/or Telefónica, S.A. shares, or (iii) a combination of the two. This put option would be exercisable in the 12 months subsequent to the end of the aforementioned six-month period, provided that the Portugal Telecom Group had not increased its ownership interest to 50% of the total capital stock of Brasilcel N.V.

Also, in accordance with the definitive agreements, the Portugal Telecom Group will be entitled to sell to Telefónica Móviles, S.A., which will be obliged to buy, its holding in Brasilcel, N.V. should there be a change in control at Telefónica, S.A., at Telefónica Móviles, S.A. or at any other subsidiary of the latter that held a direct or indirect ownership interest in Brasilcel N.V. Similarly, Telefónica Móviles, S.A. will be entitled to sell to the Portugal Telecom Group, which will be obliged to buy, its holding in Brasilcel, N.V. if there is a change of control at Portugal Telecom SGPS, S.A., at PT 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 Telefonía Móviles, S.A. on April 26, 2002, with Sprint, Leap Wireless, Qualcomm and other financial investors, the acquisition by Telefonía 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, Telefonía 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 Telefonía Móviles México, S.A. de C.V. Telefonía Móviles, S.A. also contributed to this new company the companies which it owned in northern Mexico. After these contributions, Telefonía 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 Telefonía 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, Telefonía 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 Telefonía Móviles' choice, in cash, in shares of Telefonía 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, Telefonía 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 Telefonía Group, in September 2003 TLD transferred to Telefonía Móviles, S.A. the convertible promissory notes and the right to acquire the additional 0.2% of the capital stock. The actual conversion of the aforementioned promissory notes and the exercise of the option right have not yet received the required approval of the U.S. Federal Communications Commission (FCC).

Atento



Within the framework of the strategic agreement entered into on February 11, 2000, by Banco Bilbao Vizcaya Argentaria S.A. (BBVA) and Telefónica, on December 4, 2001, the two entities signed an agreement establishing the procedure and conditions for the integration in Atento, a Telefónica Group subsidiary, of the BBVA Group's Spanish and international contact center business.

The transaction agreed on consists of the initial contribution by Telefónica S.A. of all its contact center business (now carried on by Atento Holding Inc.) to a newly-formed subsidiary (Atento N.V.) and the subsequent inclusion of the BBVA Group in the stockholder structure of Atento N.V. through the contribution of the Spanish companies Procesos Operativos, S.A. and Leader Line, S.A., which entailed the transfer to Atento of the BBVA Group's Spanish and international contact center business.

The transaction also envisaged the signing of various specific agreements for the provision to the BBVA Group by Atento of contact center services in Spain and Portugal and in several Latin American countries.

Atento N.V. was incorporated on May 30, 2002. All Telefónica, S.A.'s contact center business was contributed to it on that date. The contributions by the BBVA Group under the terms of the agreement discussed in this section had not yet been made as of that date.

On October 24, 2003, BBVA, Telefónica, S.A. and Atento N.V. entered into an Agreement establishing the terms and conditions under which BBVA, through the company GPE, became a stockholder of Atento N.V. by contributing all the shares of Procesos Operativos, S.A. As a result of the execution of this Agreement, Telefónica, S.A. currently owns shares representing 91.35% of the capital stock of Atento N.V., and GPE (a BBVA Group company) owns the remaining 8.65%.

Subsequently, on December 1, 2003, the Atento Group company Atento Teleservicios España, S.A. acquired all the shares of Leader Line, S.A.

On November 27, 2003, BBVA and Atento N.V. entered into a framework contract for services, with a term of four years, establishing the terms under which Atento N.V. and its subsidiaries will provide contact center activities and services to the BBVA Group.

At the same time as the aforementioned acquisition of Leader Line, S.A., Telefónica and GPE entered into a put option contract whereby GPE has the right to sell to Telefónica, which will be obliged to buy, all the shares of Atento N.V. that GPE owns at the time the option is exercised.

Commitments in relation to Sogecable

As a result of the agreements dated May 8, 2002 and January 29, 2003, between Telefónica, S.A., Telefónica de Contenidos, S.A. (Sole-Stockholder Company) and Sogecable, S.A., relating to the merger of Via Digital with Sogecable, on August 7, 2003, Telefónica de Contenidos acquired a commitment to contribute funds up to a maximum of €45,281,500 to offset Sogecable's cash shortfall if it is unable to repay any amount owed under a syndicated loan and credit facility granted to Sogecable on August 7, 2003, by several financial institutions. This guarantee to contribute funds to cover possible cash shortfalls at Sogecable expires on June

30, 2005, the date on which it is estimated that the restructuring process brought about by the merger of the digital platforms will have been completed.

Also, on August 7, 2003, Telefónica de Contenidos acquired a commitment, up to a maximum of €80 million, to either guarantee compliance with the payment obligations arising for Sogecable under the aforementioned syndicated loan and credit facility, or to indemnify the syndicate of banks and savings banks up to the same amount against the damage and loss that the syndicate may suffer if any of Sogecable's obligations in relation to the contract were to be rendered null, void or ineffective for Sogecable.

In any case, the maximum amount guaranteed by Telefónica de Contenidos in relation to the aforementioned syndicated loan and credit facility granted to Sogecable may not exceed €80 million, and the guarantee will be reduced in proportion to the voluntary or mandatory early repayments that take place during the term of the related agreement, which ends on December 31, 2010.

Other commitments acquired by Telefónica de Contenidos as a result of the aforementioned agreements entered into by Telefónica, Telefónica de Contenidos and Sogecable, such as the grant of a participating loan of €50 million, the grant of €172.49 million to guarantee the subscription in full of a subordinated loan of €175 million and the acquisition from Vía Digital of the rights for the 2006 Soccer World Cup, were met in full by Telefónica de Contenidos in the second half of 2003.

Telefónica, S.A. and Telefónica de Contenidos, S.A.U. have stated that they currently plan not to dispose of this holding for at least three years from the exchange date.

Other commitments in the form of performance bonds for concessions or licenses

1. Telefónica de España, S.A. (Sole-Stockholder Company), a subsidiary of Telefónica, S.A., has provided counter-guarantees for 43 guarantees provided by Banco Santander Central Hispano and by the insurance company Zurich totaling approximately €100 million, relating to definitive guarantees provided by Telefónica Cable, S.A. (Sole-Stockholder Company), a subsidiary of Telefónica de España, S.A. (Sole-Stockholder Company), in relation to 43 concession contracts with the Spanish State for the provision of cable telecommunications services in 43 franchise areas.

These guarantees ensure performance by the concession-holder company of the obligations assumed under the concession contracts, in particular in relation to coverage of the services and the timetable for their implementation. The aforementioned guarantees were maintained after the concession deeds were converted into 19 individual B1-type licenses and 43 concession contracts for the provision of broadcasting services.

Through a Telecommunications Market Commission Resolution dated January 7, 2003, it was decided to propose to the Ministry of Science and Technology that 90% of the amount of the final guarantees provided by Telefónica Cable, S.A. for the formalization of the aforementioned 43 contracts be reimbursed. The Secretary of State for Telecommunications and for the Information Society issued a Resolution dated June 17, 2003, rejecting the proposed reimbursement of guarantees, and an appeal for judicial review was filed against the resolution.

On December 1, 2003, on the basis of the new legal framework created by the General Telecommunications Law of November 3, 2003, Telefónica applied to the Ministry of Science and Technology for the cancellation of all the guarantees provided, and on January 28, 2004, the Ministry issued a report proposing the cancellation of 90% of the guarantees relating to B1-type licenses and rejecting the cancellation of the remaining 10% of the guarantees relating to the provision of broadcasting services.

2. Telefónica Móviles, S.A.U., a subsidiary of Telefónica Móviles, S.A., in turn a subsidiary of Telefónica, S.A., has provided certain financial guarantees to the Spanish State amounting to €1,100 million, in relation to the grant to Telefónica Móviles España, S.A. (Sole-Stockholder Company) of a UMTS license in Spain. These guarantees ensure fulfillment of the commitments assumed by the company awarded the license in relation to network deployment, job creation, investments, etc.

Telefónica Móviles España, S.A.U. initiated negotiations with the Ministry of Science and Technology with a view to changing the existing system of guarantees. This process was completed through an Official Notice issued by the Secretary of State for Telecommunications and for the Information Society on July 31, 2003, as a result of which the 71 guarantees in force at that date amounting to €30.9 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 €67.5 million with the Government Depositary, to secure compliance with the UMTS service commitments prior to launch of the UMTS and the commitments of the first year from the date of commercial launch, in accordance with the new system of guarantees. In October 2003, Telefónica Móviles España, S.A. cancelled the released guarantees at the respective banks.

3. In 1999 Telefónica de Argentina, S.A. provided guarantees for the promissory notes amounting to US\$ 22.5 million provided by Telefónica Comunicaciones Personales, S.A. to the Argentine Government to guarantee the fulfillment of the obligations assumed in the obtainment of the PCS licenses for areas I and III. Also, Telefónica de Argentina, S.A. jointly and severally guaranteed, with Telecom Argentina Stet-France Telecom, S.A., the promissory notes amounting to ARP 45 million provided jointly by Telefónica Comunicaciones Personales, S.A. and Telecom Personal, S.A. to the Argentine Government to guarantee the fulfillment of the obligations assumed in the obtainment of the PCS licenses for area II. These guarantees are still in force, pending verification by the Regulatory Authority of the fulfillment of the PCS network coverage obligations secured by these guarantees. In 2003 the Regulatory Authority verified substantially all the coverage obligations in areas I and III, leaving only the cities of La Rioja, Córdoba and Catamarca. The Regulatory Authority is expected to complete the verification of the PCS network coverage obligations in the aforementioned cities and in area II in 2004.

Telefónica, S.A. performs various equity investment purchase and sale transactions in the course of its business activities, in which it is standard practice to receive or provide guarantees regarding the nonexistence of liabilities, contingencies, etc. in the equity investments forming the subject matter of the related transactions.

The contingencies arising from the guaranties, lawsuits and commitments described above were evaluated when the financial statements as of December 31, 2003, were prepared, and the

provisions recorded with respect to the commitments taken as a whole are not representative. Also, these commitments are not expected to give rise to additional material contingencies.

Fees paid to auditors

The fees paid in 2003 to the various member firms of the Deloitte Touche Tohmatsu international organization, to which Deloitte & Touche España, S.L., the auditors of Telefónica, S.A. in 2003 and 2002 amounted to €2.07 million and €1.92 million, respectively.

The detail of the foregoing amount is as follows:

	Millions of Euros	
	2003	2002
Audit of financial statements	0.67	0.41
Other audit services	0.66	0.84
Work additional to or other than audit services	0.74	0.67
TOTAL	2.07	1.92

Environmental matters

Telefónica, S.A., as head of the Telefónica Group, engages in activities relating to the ownership of shares and the provision of financing and corporate counseling to various Group companies. In view of the business activities in which the Company engages, it does not have any liability, expenses, assets, provisions or contingencies of an environmental nature that might be material with respect to its net worth, financial position and results of operations. Accordingly, no specific disclosures relating to environmental issues are included in these notes to 2003 financial statements.

(19) SUBSEQUENT EVENTS

In the period from December 31, 2003, through the date of preparation of these financial statements no events worthy of mention took place at Telefónica, S.A. or at the Telefónica Group.

(20) STATEMENTS OF CHANGES IN FINANCIAL POSITION

APPLICATION OF FUNDS	2003	2002	SOURCE OF FUNDS	2003	2002
- Funds applied in operations		-	- Funds obtained from operations	187.82	182.42
- Start-up and debt arrangement expenses	21.30	187.04			
- Fixed asset additions:			- Long-term deferred tax assets	4.63	-
a) Intangible assets	20.05	18.57	- Long-term debt	-	5,136
b) Tangible fixed assets	7.35	3.67	- Fixed asset disposals:		
c) Long-term investments	7,199	8,452	a) Intangible assets	-	2.53
- Long-term deferred tax liabilities	-	11.55	b) Tangible fixed assets	-	2.20
- Deferred revenues	-	0.91	c) Long-term investments	5,048.1	1,642
- Transfer to long term of short term loans	-	3,438	- Transfer to short term of loans to Group companies	3,981.1	-
- Dividends	1,653	-			
- Long-term debt	951.48	-			
TOTAL FUNDS APPLIED	9,853	12,112	TOTAL FUNDS OBTAINED	9,223.4	6,965.3
FUNDS OBTAINED IN EXCESS OF FUNDS APPLIED	-	-	FUNDS APPLIED IN EXCESS OF FUNDS OBTAINED	630.24	5,146.7
(INCREASE IN WORKING CAPITAL)			(DECREASE IN WORKING CAPITAL)		
	9,853	12,112		9,853.4	12,112.0

VARIATIONS IN WORKING CAPITAL

INCREASE IN WORKING CAPITAL	2003	2002
Short-term investments	60.92	-
Treasury stock	454.70	421.24
Cash	9.36	-
Accrual accounts	-	4.47
Accounts payable	-	3,204.69
TOTAL	524.98	3,630.40
VARIATION IN WORKING CAPITAL	630.24	5,146.69
	1,155.22	8,777.32

DECREASE IN WORKING CAPITAL	2003	2002
Accounts receivable	58.93	503.09
Short-term investments	-	8,119.69
Cash	-	154.56
Accounts payable	1,086.00	-
Accrual accounts	9.66	-
TOTAL	1,155.22	8,777.32
VARIATION IN WORKING CAPITAL	-	-
	1,155.22	8,777.32

The reconciliation of the balances in the statements of operations to the funds obtained from operations is as follows:

	Millions of Euros	
	2003	2002
Income (Loss)	1,373.71	(4,478.69)
Add:		
Depreciation and amortization expense	47.91	57.09
Amortization of debt arrangement expenses	38.23	22.07
Investment valuation provisions	-	5,484.78
Period provisions	42.70	378.86
Amortization of executive loyalty-building expenses	8.69	7.09
Less:		
Gain on disposal of long-term investments	29.44	1.17
Short-term investment valuation provisions	30.80	-
Investment valuation provisions	755.27	-
Reversal of provisions	170.70	-
Corporate income tax	337.21	1,287.69
Funds obtained from operations	187.82	182.42

**(21) EXPLANATION ADDED FOR TRANSLATION
TO ENGLISH**

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

EXHIBIT I

**Detail of subsidiaries, associated companies and investees
as of December 31, 2003**

DETAIL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND INVESTEEES AS OF DECEMBER 31, 2003 (amounts in millions of euros)

SUBSIDIARIES	% OF OWNERSHIP	CAPITAL	RESERVES	INTERIM DIVIDEND	INCOME (LOSS)	GROSS BOOK VALUE
Telefónica de Contenidos, S.A. (SPAIN) (1) (6) <i>Organization and operation of activities and businesses relating to multimedia services</i> <i>Paseo de la Castellana, 141 - 28046 Madrid</i>	100,00%	3.024,82	(2.612,77)	-	93,44	2.241,88
Telefónica Datacorp, S.A.U. (SPAIN) (1) (6) <i>Provision and operation of telecommunications services</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	1.226,24	(468,62)	-	15,01	1.335,29
Telefónica de España, S.A.U. (SPAIN) (1) (6) <i>Provision of telecommunications services in Spain</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	1.023,68	2.272,21	-	178,08	3.033,86
Energia, S.A. (URUGUAY) (1) (6) <i>Provision of high bandwidth communications services</i> <i>Luis A. de Herrera, 1248 Piso 4 - Montevideo</i>	100,00%	30,29	328,23	-	(94,11)	499,04
Taetel, S.L. (SPAIN) (1) <i>Acquisition, holding and disposal of shares and other equity interests in other companies</i> <i>Beatriz de Bobadilla, 3 - 28040 Madrid</i>	100,00%	28,25	10,40	-	0,70	28,25
Telefónica Media Internacional y de Contenidos USA, Inc. (USA) <i>Operation of media services in the U.S.</i> <i>1221 Brickell Av. - Miami</i>	100,00%	17,89	(17,79)	-	0,36	0,33
Lotca Servicios Integrales, S.L. (SPAIN) (4) <i>Ownership and operation of aircraft and the lease thereof</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	16,93	-	-	(0,01)	16,93
Inmobiliaria Telefónica, S.L. (SPAIN) (1) <i>Purchase, sale and lease of real estate</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	10,04	102,62	-	10,02	103,44
Telefónica Capital, S.A. (SPAIN) (3) <i>Financial company</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	7,00	39,16	-	1,12	18,12
Atento Servicios Corporativos, S.A. (SPAIN) (1) <i>Holding company</i> <i>C/ Gran Vía, 28 - 28.013 Madrid</i>	100,00%	6,12	36,56	-	3,48	107,57
Corporación Admira Media, S.A. (SPAIN) (1) <i>Organization and management of media-related activities and businesses</i> <i>Jorge Manrique 12, Madrid</i>	100,00%	6,01	(1,19)	-	9,23	6,05

SUBSIDIARIES	% OF	CAPITAL	RESERVES	INTERIM DIVIDEND	INCOME (LOSS)	GROSS BOOK VALUE
	OWNERSHIP					
Telefónica Investigación y Desarrollo, S.A. (TIDSA) (SPAIN) (3) <i>Telecommunications research activities and projects</i> <i>Emilio Vargas, 6 - 28043 Madrid</i>	100,00%	6,01	48,90	-	6,26	6,01
Communicapital Inversiones, S.A.U. (SPAIN) (1) <i>Global telecommunications fund</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	6,00	(73,19)	-	8,01	6,00
Compañía Española de Tecnología, S.A. (SPAIN) (3) <i>Promotion of business initiatives and disposition of marketable securities</i> <i>Villanueva, 2 duplicado planta 1ª Oficina 23 - 28001 Madrid</i>	100,00%	3,99	(0,29)	-	(0,04)	10,11
Casiopea Reaseguradora, S.A. (LUXEMBOURG) (3) <i>Reinsurance activities</i> <i>6D, route de Trèves, L-2633 Senningerberg, Luxembourg</i>	100,00%	3,60	48,18	-	15,94	2,99
Zeleris Soluciones Integrales, S.L. (SPAIN) (3) <i>Provision of national and international mail, directory and parcel distribution services</i> <i>Paseo de Graça, 81 1º - Barcelona</i>	100,00%	3,40	(1,27)	-	0,57	6,49
Telefónica Finanzas, S.A. (TELFISA) (SPAIN) (3) <i>Integrated cash management, counseling and financial support for Group companies</i> <i>Gran Vía, 30 - 4ª Pta. - 28013 Madrid</i>	100,00%	3,01	7,76	-	2,17	12,61
Fisatel Mexico, S.A. de C.V. (MEXICO) (1) <i>Integrated cash management, counseling and financial support for Group companies</i> <i>Boulevard Manuel Avila Camacho, 24 - 16ª Pta. - Lomas de Chapultepec - 11000 Mexico City</i>	100,00%	0,42	(0,03)	-	(0,24)	0,42
Venturini España, S.A. (SPAIN) (2) <i>Printing, graphic arts and direct marketing</i> <i>Avda. de la Industria, 17 Tres Cantos - 28760 Madrid</i>	100,00%	3,01	0,30	-	(0,37)	3,60
Telefónica Procesos y Tecnología de la Información, S.A. (SPAIN) (3) <i>IT services</i> <i>José Abascal, 4 - 28003 Madrid</i>	100,00%	3,00	4,79	-	0,74	3,01
Telefónica Gestión de Servicios Compartidos, S.A. (SPAIN) (1) <i>Provision of management and administration services</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	2,11	4,13	-	(4,09)	14,61
Telefónica Ingeniería de Seguridad, S.A. (SPAIN) (2) <i>Security services and systems</i> <i>Condesa de Venadito, 1 - 28027 Madrid</i>	100,00%	0,90	(0,35)	-	(2,26)	3,58

SUBSIDIARIES	% OF			INTERIM	INCOME	GROSS BOOK
	OWNERSHIP	CAPITAL	RESERVES	DIVIDEND	(LOSS)	VALUE
Communicapital Gestión, S.A.U. (SPAIN) (1) <i>Global telecommunications fund</i> <i>Gran Vía, 28 - 28013 Madrid</i>	100,00%	0,06	(0,02)	-	-	0,06
Telefónica Europe, B.V. (NETHERLANDS) (1) <i>Fund raising in capital markets</i> <i>Strawinskylaan 1259 ; tower D ; 12th floor 1077 XX - Amsterdam</i>	100,00%	0,05	4,74	-	1,18	0,05
Telefónica USA, Inc. (U.S.A.) (5) <i>E-commerce</i> <i>1221 Brickell Avenue - Miami - Florida 33131</i>	100,00%	0,01	N/D	N/D	N/D	0,01
Telefónica B2B, Inc. (U.S.A.) <i>B2B e-commerce</i> <i>1001 Brickell Bay Drive - Miami, Florida 33131</i>	100,00%	0,01	N/D	N/D	N/D	0,01
Telefónica B2B Licencing, Inc. (U.S.A.) (1)	100,00%	0,01	(2,42)	-	(6,45)	0,01
Telefónica Internacional USA Inc. (U.S.A.) (1) <i>1221 Brickell Avenue suite 600 - 33131 Miami - Florida</i>	100,00%	0,50	(0,11)	-	0,22	0,01
Telefonica Gestao de Serviços Compartilhados do Brasil, Ltda. (BRAZIL) (1) <i>Provision of management and administration services</i> <i>Rua Do Livramento, 66 Bolco Ibirapuera - Sao Paulo</i>	99,99%	8,45	(5,72)	-	0,69	5,00
Telefónica Gestión de Servicios Compartidos, S.A. de C.V. (MEXICO) (1) (6) <i>Provision of management and administration services</i> <i>Blvd. Díaz Ordaz Pte N 123 2º, Col. Santamaría - 6465 Monterrey</i>	99,99%	6,75	(3,32)	-	(0,37)	6,76
Telefónica Gestión de Servicios Compartidos, S.A.C. (PERU) (1) (6) <i>Provision of management and administration services</i> <i>Shell, 310 - Miraflores</i>	99,99%	3,91	0,63	-	0,72	3,91
Telefónica Gestión de Servicios Compartidos, S.A. (ARGENTINA) (1) <i>Provision of management and administration services</i> <i>Tucuman 1, Piso 18 Ciudad de Buenos Aires</i>	99,99%	0,01	(0,84)	-	0,28	0,01

SUBSIDIARIES	% OF			INTERIM	INCOME	GROSS BOOK
	OWNERSHIP	CAPITAL	RESERVES	DIVIDEND	(LOSS)	VALUE
Telefónica Internacional, S.A. (SPAIN) (1) (6) <i>Investment in the telecommunications industry abroad</i> <i>C/ Gran Vía, 28 - 28013 Madrid</i>	99,88%	7.381,66	(1.310,65)	-	404,02	8.131,75
Endemol Entertainment Holding, N.V. (NETHERLANDS) (3) (6) <i>Production of audiovisual content</i> <i>Bonairelaan, 4 - 1213 Vh Hilversum - Netherlands</i>	99,49%	0,69	101,35	-	61,50	840,34
Seguros de Vida y Pensiones Antares, S.A. (SPAIN) (3) <i>Life insurance, pensions and health insurance</i> <i>Avda. General Perón, 38 Master II - 17ª P. - 28020 Madrid</i>	94,67%	204,33	(0,50)	-	7,96	206,62
Atento N.V. (NETHERLANDS) (1) (6) <i>Provision of telecommunication services</i> <i>Locatellikade, 1 - 1076 AZ Amsterdam</i>	91,35%	0,12	14,75	-	(16,25)	302,71
Terra Networks, S.A. (SPAIN) (1) (6) <i>Provision and operation of telecommunications services</i> <i>Nicaragua, 54 - 08029 Barcelona</i>	75,29%	1.202,94	1.690,31	-	(172,71)	3.755,96
Telefónica Móviles, S.A. (SPAIN) (1) (6) <i>Holding company</i> <i>Goya, 24 - 28001 Madrid</i>	71,01%	2.165,28	267,32	-	1.607,84	2.654,50
Telefónica Publicidad e Información, S.A. (SPAIN) (2) (6) <i>Publishing of directories and advertising in media of all types</i> <i>Avda. de Manoteras, 12 - 28050 MADRID</i>	59,90%	18,41	102,45	-	90,06	4,06
Pléyade Peninsular, Correduría de Seguros y Reaseguros del Grupo Telefónica, S.A. (SPAIN) (3) <i>Distribution, promotion or preparation of insurance contracts, operating as a broker</i> <i>Avda. General Perón, 38 Master II - 17ª P.- 28020 Madrid</i>	16,67%	0,36	1,28	-	2,23	0,06
Telefónica del Perú, S.A.A. (PERU) (1) <i>Operator of local, long-distance and international telephony services in Peru</i> <i>Avda. Arequipa, 1155 Santa Beatriz - Lima</i>	0,14%	675,08	111,88	(37,93)	5,61	2,89

ASSOCIATED COMPANIES	% OF OWNERSHIP	CAPITAL	RESERVES	INTERIM DIVIDEND	INCOME (LOSS)	GROSS BOOK VALUE
Telefónica Factoring Do Brasil, Ltd. (BRAZIL) (1) <i>Development of the factoring business</i> <i>Avda. Paulista, 1106</i>	40,00%	2,41	(0,78)	(0,23)	0,74	0,97
Telefónica Factoring Establecimiento Financiero de Crédito, S.A. (SPAIN) (1) <i>Loans and credits (consumer and mortgage loans and commercial transactions)</i> <i>Pedro Teixeira, 8 - 28020 Madrid</i>	50,00%	5,11	1,68	-	2,77	2,64
Aliança Atlântica Holding B.V. (NETHERLANDS) <i>Holder of 5,225,000 Portugal Telecom, S.A. shares</i> <i>Strawinskylaan 1725, 1077 XX Amsterdam</i>	50,00%	40,00	1	-	0,80	21,97
Torre de Collçerola, S.A. (SPAIN) (2) <i>Operation of a telecommunications mast and provision of technical assistance and consulting services</i> <i>Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona</i>	42,00%	12,02	0,56	-	-	5,08
Sistemas Técnicos de Loterías del Estado, S.A. (SPAIN) (2) <i>Operation of a gaming terminal system for the Spanish State Gaming Organization</i> <i>Manuel Tovar, 9 - 28034 Madrid</i>	31,75%	12,02	52,66	-	12,94	3,82
Amper, S.A. (SPAIN) (1) (6) <i>Development, manufacture and repair of telecommunications systems and equipment and related components</i> <i>Torrelaguna, 75 - 28027 Madrid</i>	6,10%	27,91	33,47	-	(7,93)	11,83
Portugal Telecom, S.G.P.S., S.A. (PORTUGAL) (1) <i>Holding company</i> <i>Avda. Fontes Pereira de Melo, 40 - 1089 Lisbon</i>	3,74%	1.254,29	1.753,51	-	348,96	361,59
Sogetel, S.A. (SPAIN) (1) (6) <i>Indirect management of public T.V. Service</i> <i>Gran via, 32 - 3ª Pta. - 28013 Madrid</i>	1,60%	252,01	492,93	-	(329,54)	41,91
Banco Bilbao Vizcaya Argentaria, S.A. (SPAIN) (1) (6) <i>Banking</i> <i>Plaza de San Nicolás, 4 - 48013 Bilbao (Vizcaya)</i>	1,13%	1.565,97	6.936,51	(862,88)	1.460,34	555,63
INVESTEES						
	% OF OWNERSHIP	CAPITAL	RESERVES	INTERIM DIVIDEND	INCOME (LOSS)	GROSS BOOK VALUE
I-CO Global Communications (HOLDINGS) Limited (U.K.)	N/D	N/D	N/D	-	N/D	6,03
Other holdings	N/A	N/A	N/A	-	N/A	0,79

TOTAL SUBSIDIARIES (Note7)	23.374,86
TOTAL ASSOCIATED COMPANIES (Note 7)	1.005,42
TOTAL INVESTEES (Note 7)	6,82

(1) Company audited by Deloitte & Touche. In Spain Deloitte & Touche España, S.L.

(2) Company audited by PriceWaterhouseCoopers.

(3) Company audited by K.P.M.G. Peat Marwick.

(4) Company audited by B.D.O. Audiberia.

(5) Company in liquidation.

(6) Consolidated figures.

(7) Inactive company.

Provisional figures for associated companies and investees.

N/D No data.

N/A Not applicable.

Telefonica

MANAGEMENT REPORT

**TELEFÓNICA, S.A.
2003**

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Initial summary

The Telefónica Group's earnings increased significantly in 2003 despite the adverse effect of exchange rates (as a result of the drop in the value of the U.S. dollar with respect to the euro), the greater pressure brought to bear by competition and the commercial drive associated with the attraction of wireless and ADSL customers.

The Telefónica Group had to manage its business in a difficult scenario characterized by a slowdown in the growth of the market for traditional services, the economic and social situation in certain of the countries in which it operates, the higher pressure exerted by competitors and certain decisions taken by the regulator. In order to address this situation, Telefónica focused its management priorities on strengthening its position in the key markets in order to take advantage of the increase in the number of customers (centering itself mainly on wireless telephony and broadband services), proactively manage the situation in Latin America, reinforce a more commercial corporate model, improve operating efficiency, continue with the expense and investment containment policy and restructure the businesses that had not achieved the level of development foreseen, focusing mainly on the key businesses.

This strategy enabled Telefónica to achieve a prominent position in the industry, where it remained leader in the Spanish- and Portuguese-speaking wireline and wireless telephony markets, with almost 99 million customers, to enjoy a solid financial position with a significant level of cash flow generation and to become one of the leading European operators in terms of stock market capitalization. As a result of this situation, the Company can make a greater commitment to its stockholders by improving their returns and establishing an attractive remuneration policy for the coming years.

In the future, the Group's strategy will continue to focus on achieving sustainable cash flow growth and increasing the returns on capital invested, for the purpose of being able to apply as basic action principles the implementation of a corporate model that is more commercial and more customer-oriented, the shifting of the Company towards a more flexible and less complex business model as a result of greater operating efficiency and lower capital intensiveness by optimizing investments and, lastly, growth based mainly on three cornerstones, namely wireless telephony, broadband services and wireline telephony in Latin America.

Organization by line of business

The Group's strategy described in the preceding section requires an organization that places greater emphasis on the key businesses, thereby enabling the Group to attain a more flexible asset and cost structure.

To this end, certain measures were implemented in 2003 with a view to having the new organizational model (whereby the Lines of Business are simplified) fully operational in 2004. The measures taken in 2003 include most notably the approval in September of the inclusion of the business of Telefónica Empresas (Data, TIWS and Solutions) in the wireline businesses in Spain and Latin America, together with the restructuring of Telefónica de Contenidos and Admira. December saw the completion of this new organization, which also entails a greater involvement of Terra in the wireline telephony businesses, a new Subsidiaries unit encompassing TPI, Endemol and Contenidos and a Corporate Center with a more streamlined structure.

Earnings

In 2003 the Company obtained income of €1,373.71 million, as compared with the loss of €4,478.69 million reported in 2002.

The most salient events reflected in the 2003 statement of operations are as follows:

- An operating loss of €64.24 million, 8.42% lower than in 2002, as a result of the 4.89% decrease in expenses and a 5.58% increase in revenues. This decrease in expenses was due mainly to the effect of Telefónica's cost containment drive in 2003.
- Financial income of €400.68 million, slightly lower (1.08%) than that obtained in 2002, due mainly to the effect of the exchange differences recorded in the statement of operations.
- The combination of the two aforementioned effects gave rise to income from ordinary activities of €136.44 million in 2003, a figure which was higher than the €16.49 million reported in 2002.
- The Company obtained extraordinary income of €1,036.50 million in 2003, as compared with the extraordinary loss of €5,882.79 million in 2002. This difference was due largely to the investment valuation provisions recorded for subsidiaries which passed on to Telefónica, S.A. the improvements in their earnings with respect to 2002.

Investment activity

The most significant investments made by Telefónica, S.A. in 2003 were as follows:

- Acquisition of 33.6% of the capital stock of Terra Networks, S.A. for €1,070.21 million, as a result of the tender offer launched in 2003.
- Acquisition of 59.24% of the capital stock of Antena 3 de Televisión, S.A. from other Group companies for €829.31 million, in order to centralize the divestment of holding, which took place in 2003.

Financing

The principal financing transactions in 2003 were as follows:

- On February 14, 2003, Telefónica Europe B.V. issued notes under its EMTN program underwritten by Telefónica S.A. in two tranches: (i) for a face value of €1,500 million, maturing at ten years from the issue date, and with a fixed-rate coupon of 5.125%; and (ii) for a face value of €500 million, maturing at 30 years from the issue date, and with a fixed-rate coupon of 5.875%. Telefónica Europe B.V. applied for the admission to listing on these notes on the London Stock Exchange.
- On February 3, 2003, Telefónica Europe B.V. issued notes under the documentation of the EMTN program underwritten by Telefónica S.A., for a total face value of €100 million, maturing at two years from the issue date. The notes were issued under the FRN format and bear floating interest tied to EONIA with a spread of 0.47%.
- In July 2003 Telefónica Europe B.V. updated the EMTN program (which is listed on the London Stock Exchange) and increased the issue limit to €10,000 million.
- Also, in October 2003 Telefónica Europe B.V. launched two floating-rate issues under the documentation of its EMTN program underwritten by Telefónica S.A., each for a total face value of €100 million and with the following characteristics: (i) maturity of a total face value of €100 million on October 17, 2005, at a rate tied to EONIA plus a spread of 0.23%; and (ii) maturity on October 27, 2005, at an interest rate tied to three-month Euribor plus a spread of 0.14%.
- In November Telefónica Europe B.V. launched two floating-rate notes issues under its EMTN program underwritten by Telefónica S.A. with the following characteristics: (i) issue date November 5, 2003, and maturing on May 5, 2005, for a total face value of €50 million and bearing interest tied to EONIA plus a spread of 0.17%; and (ii) issue date November 27, 2003, maturing three years after the issue date and bearing interest tied to three-month Euribor plus a spread of 0.18%. The total face value of this issue was €100 million.
- Lastly, Telefónica Europe B.V. issued notes under its EMTN program underwritten by Telefónica S.A. on December 11, 2003, the total face value of which is €200 million. These notes mature three years from the issue date and bear floating interest tied to three-month Euribor plus a spread of 0.18%.
- As regards commercial paper, in 2003 Telefónica Europe continued to make issues under its ECP (Euro Commercial Paper) program underwritten by Telefónica S.A. As of December 31, 2003, the final balance of outstanding ECP issues totaled €95.383,029 (at the initial issue price).

Treasury stock

At the beginning of 2003 Telefónica held treasury stock representing 1.88516% of capital stock, i.e. 91,631,076 shares with a book value of €1.65 each, giving a total of €1,067.94 million and a par value of €1.63 million.

In 2003 the Company acquired for consideration 50,792,028 shares of treasury stock (representing 1.0249% of capital stock and with a par value of €50.79 million) at an average price of €9.67 per share, and 3,918,983 shares were assigned to it in the capital increases at no cost to the stockholders. Also, 101,140,640 shares (with a par value of €101.14 million) were used to retire a portion of the capital stock pursuant to a resolution adopted by the Stockholders' Meeting on April 11, 2003, and 6,000,000 shares (representing 0.0012% of the capital stock and with a par value of €6.00 million) were sold at an average selling price of €9.63 per share, for a gain of €7.12 million.

Lastly, as a result of the completion in 2003 of the acquisition of the holding in Telefónica Holding Argentina, S.A., in the related settlement the Company received an amount equal to 1,331,422 shares of treasury stock (with a par value of €1.33 million), giving rise to an extraordinary revenue of €12.63 million.

As a result of these transactions, 40,532,869 shares (0.81787% of capital stock) of treasury stock were held at 2003 year-end, acquired at an average price of €10.39, giving a total of €421.26 million and a par value of €40.53 million. As indicated in Note 4-f, pursuant to current accounting legislation, these shares of treasury stock were valued at their underlying book value and, consequently, a provision of €287.80 million was recorded.

Events subsequent to December 31, 2003

There were no significant events worthy of mention at Telefónica, S.A. or at the Telefónica Group in the period from December 31, 2003, through the date of preparation of these financial statements.