

Telefonica

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.

ASSETS (Millions of euros)	2004	2003
A) FIXED AND OTHER NONCURRENT ASSETS	43,715.40	43,052.65
I. Start-up expenses	12.19	33.64
II. Intangible assets (Note 5)	40.08	40.65
Computer software	95.90	71.72
Other intangible assets	10.53	11.37
Accumulated amortization	(66.35)	(42.44)
III. Property, plant and equipment (Note 6)	261.59	28.06
Land and structures	220.21	0.81
Furniture, tools and other items	103.61	31.70
Accumulated depreciation and allowances	(62.23)	(4.45)
IV. Long-term investments (Note 7)	43,401.54	42,950.30
Investments in Group companies	22,415.48	23,374.86
Investments in associated companies	1,479.16	1,005.42
Other investments	14.42	6.82
Loans to Group and associated companies	20,531.41	19,729.71
Other loans	55.17	70.26
Long-term deposits and guarantees given	35.05	3.22
Tax receivables (Note 14.2)	4,343.19	5,000.10
Allowances	(5,472.34)	(6,240.09)
B) DEFERRED CHARGES (Note 8)	266.22	288.98
C) CURRENT ASSETS	7,515.63	5,847.93
I. Accounts receivable	109.93	111.26
Trade receivables	7.86	7.27
Receivable from Group companies	71.04	72.75
Receivable from associated companies	0.15	0.15
Sundry accounts receivable	6.73	4.87
Employee receivables	0.78	0.85
Tax receivables (Note 14.2)	27.89	30.66
Allowance for bad debts	(4.52)	(5.29)
II. Short-term investments	6,447.97	5,564.55
Loans to Group and associated companies (Note 7.3)	6,184.36	3,990.10
Short-term investment securities (Note 7.5)	263.61	1,574.45
III. Short-term treasury stock (Note 9)	690.18	133.46
IV. Cash	255.72	33.73
V. Accrual accounts	11.83	4.93
TOTAL ASSETS	51,497.25	49,189.56

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

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TELEFÓNICA, S.A.
BALANCE SHEETS AS OF DECEMBER 31.

STOCKHOLDERS' EQUITY AND LIABILITIES (Millions of euros)	2004	2003
A) STOCKHOLDERS' EQUITY (Note 9)	14,399.38	16,477.06
I Capital stock	4,955.89	4,955.89
II Additional paid-in-capital	5,287.68	7,987.14
III Revaluation reserves	1,368.89	1,368.89
IV Reserves	1,485.52	791.43
Legal reserve	789.94	652.57
Reserve for treasury stock	690.18	133.46
Other reserves	5.40	5.40
V Income for the year	1,301.40	1,373.71
B) PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 16.7)	139.30	149.38
C) LONG-TERM DEBT	20,770.55	22,957.57
I Debentures, bonds and other marketable debt securities (Note 10)	1,917.52	2,525.97
Nonconvertible debentures and bonds	1,824.62	2,525.97
Other marketable debt securities	92.90	-
II Payable to credit institutions (Note 11)	2,950.56	2,665.25
III Payable to Group and associated companies (Note 12)	15,697.40	17,577.64
IV Other payables	13.02	4.24
V Taxes payable (Note 14.2)	46.92	39.34
VI Uncalled capital payments payable	145.13	145.13
Group companies (Note 7.4)	145.13	145.13
D) CURRENT LIABILITIES	16,188.02	9,605.55
I Debentures, bonds and other marketable debt securities (Note 10)	1,814.65	727.71
Nonconvertible debentures and bonds	799.06	69.24
Other marketable debt securities	963.84	606.45
Interest on debentures and other securities	51.75	52.02
II Payable to credit institutions	2,619.35	865.73
Loans and other accounts payable (Note 11)	2,607.85	860.91
Accrued interest payable	11.50	4.82
III Payable to Group and associated companies (Note 12)	11,551.42	7,935.03
IV Trade accounts payable	53.87	37.42
Accounts payable for purchases and services	53.87	37.42
V Other nontrade payables	148.73	39.66
Taxes payable (Note 14.2)	17.31	15.43
Other nontrade payables (Note 15)	131.42	24.23
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	51,497.25	49,189.56

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

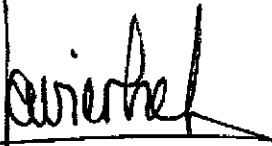
Translation of a report and financial statements originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Stockholders of Telefónica, S.A.:

1. We have audited the financial statements of Telefónica, S.A. comprising the balance sheet as of December 31, 2004, and the related statement of income and notes to financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.
2. The financial statements for 2004 referred to above are presented in compliance with current Spanish corporate law, despite the fact that the operations of Telefónica, S.A. and of the companies it controls are managed on a consolidated basis. Accordingly, the financial statements of Telefónica, S.A., which acts basically as a holding company, do not reflect the financial and net worth variations resulting from application of consolidation methods to these holdings or to the transactions performed by the related investees, some of which are the result of the application of the Group's overall strategy. However, these variations are reflected in the Telefónica Group's consolidated financial statements for 2004, on which we issued our auditors' report dated March 4, 2005, containing an unqualified opinion. The effect of consolidation is disclosed in Note 4-d.
3. As required by Spanish corporate law, for comparison purposes the directors present, in addition to the 2004 figures for each item in the balance sheet and statements of income and of changes in financial position, the figures for 2004. Our opinion refers only to the 2004 financial statements. Our auditors' report dated February 26, 2004, on the 2003 financial statements contained an unqualified opinion.
4. In our opinion, the financial statements for 2004 referred to above present, in all material respects, a true and fair view of the net worth and financial position of Telefónica, S.A. as of December 31, 2004, and of the results of its operations and of the funds obtained and applied by it in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards in Spain applied on a basis consistent with that of the preceding year.
5. The accompanying management report for 2004 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the management report is consistent with that contained in the financial statements for 2004. Our work as auditors was confined to checking the management report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.
Registered in ROAC under no. S0692


Javier Ares San Miguel
March 4, 2005