

TELEFONICA S A
Form 6-K
July 29, 2004

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of July, 2004

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant's name into English)

Gran Vía, 28

28013 Madrid, Spain

3491-459-3050

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

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Yes No X

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

Telefónica, S.A.

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NOTE:

The English language translation of the consolidated financial statements originally issued in Spanish has been prepared solely for the convenience of English speaking readers. Despite all the efforts devoted to this translation, certain omissions or approximations may subsist. Telefónica, its representatives and employees decline all responsibility in this regard. In the event of a discrepancy, the Spanish-language version prevails.

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

TELEFÓNICA GROUP

Market Size

(Data in thousands)

	EUROPE	AFRICA

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			Spain wireline T de España: 19,420 wireless T Móviles: 18,639 Deutschland/UK ADSL CONNECTIONS Grupo T Deutschland: 597	Morocco wireless Medi Telecom: J ,149
LATIN AMERICA				
Argentina wireline T de Argentina: 4,378 wireless TCP Argentina: 2,189 El Salvador wireline T. El Salvador: 56	Brazil wireline Telesp: 12,826 wireless CRT Celular: 2,821 TeleSudeste Cel: 3,924 TeleLeste Celular: 1,240 Global Telecom:	Chile wireline CTC Chile: 2,562 wireless CTC Móvil: 2,739 Guatemala wireline T. Guatemala: 36 wireless T. Guatemala:	Mexico WIRELESS TEM México: 4,080 Peru wireline T del Perú: 2,185 wireless T Móviles: 1,796 PAY-TV customers Cable Mágico: 373	Puerto Rico wireless NewComm Wireless: 155 Venezuela (*) wireline CAN TV: 2,760 wireless CAN TV: 2,779

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wireless	2,128	239		
T. El Salvador:	Telesp Cel. Group:			
293	8,500			
	TeleCentro Oeste:			
	4,901			

*

Data for CanTV as of March 2004.

TELEFONICA GROUP

MARKET SIZE

Unaudited figures (Thousands)

	Totals			Weighted (*)		
	Jun 2004	Jun 2003	% Chg.	Jun 2004	Jun 2003	% Chg.
Lines in service (1)	44,821.6	43,252.9	3.6	39,051.1	37,520.2	4.1
In Spain	19,420.4	18,859.5	3.0	19,420.4	18,859.5	3.0
In other countries	25,401.1	24,393.4	4.1	19,630.7	18,660.8	5.2
Cellular customers (2)	58,570.5	48,584.3	20.6	32,793.0	28,528.4	14.9
In Spain	18,638.8	18,877.2	(1.3)	17,240.9	17,450.1	(1.2)
In other countries	39,931.6	29,707.2	34.4	15,552.1	11,078.3	40.4
Total (3)	103,765.2	92,182.2	12.6	72,206.7	66,383.5	8.8

Note: Data for CanTV as of March 2004.

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

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

(2) Cellular customers: includes all cellular customers of Telefónica Servicios Móviles España, MediTelecom, Telefónica Móvil Chile, TCP Argentina, Telefónica Móviles Perú, Brasilcel (the Joint Venture with Portugal Telecom in Brazil), NewCom Wireless Puerto Rico, Telefónica Móviles Guatemala, Telefónica Móviles El Salvador, Telefónica Móviles México and CanTV Celular.

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

TELEFÓNICA GROUP

Financial Highlights

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

- **Strong operating growth, both at the revenues and EBITDA levels up by 5.6% and 6.9% respectively, in comparison with the same period of 2003.**
 - ◆ Assuming constant exchange rates and excluding the changes in consolidation, revenues would be up by 9.4%, EBITDA by 8.2% and operating profit by 21.0%.
 - ◆ The Telefónica de España Group accelerated its rate of growth during the second quarter (revenues up by 2.7% compared with 1.7% in 1Q04; EBITDA up by 8.1% compared with 4.2% in 1Q04).
 - ◆ The cellular business revenues and EBITDA were 14.1% and 6.2% higher, respectively.
 - ◆ The Telefónica Latinoamérica Group achieved growth in constant currency of 10.3% in revenues and 7.8% in EBITDA.
 - ◆ Better results of the Other Businesses in revenues and EBITDA (Atento Group +15.5% and +61.3%; Terra Lycos Group +8.3% and positive EBITDA; Directories Business +12.5% and 39.9% respectively).
- **A substantial increase in the Group's profitability and operating free cash flow :**
 - ◆ EBITDA margin of 44.5% compared with 43.9% a year ago.
 - ◆ The margins of Telefónica de España Group improved compared to June 2003, showing a positive contribution from the 2003-2007 Redundancy Program and despite the increased commercial efforts.
 - ◆ Significant growth of 13.4% in the operating free cash flow (EBITDA-CapEx) generated, amounting to 5,016.9 million euros.
- **Intense commercial effort reflected in the substantial growth of the total customer base to 103.8 million (up by 12.6% year on year):**
 - ◆ High levels of commercial activity at Telefónica Móviles Group (net adds of 9.7 million year on year), especially in Latin America. The Group had 55.8 million customers at June 30 (up by 21.0%).
 - ◆ The Group's ADSL connections totalled 3.7 million compared with 1.9 million in June 2003.
- **Net income of 1,254.2 million euros compared with 1,425.6 million euros in the first half of 2003:**
 - ◆ Excluding the net effect of the 2003-2007 Redundancy Program relating to 2004 in extraordinary results, net income would have risen by 15.9% to 1,652.2 million euros.
- **A 6.1% decrease in net debt over the past year down to 18,776.3 million euros.**

TELEFÓNICA GROUP

Consolidated Results

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

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

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

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

Telefónica Group's results for the first half of 2004 reflect the strong growth in operations compared with the first half of 2003 (operating revenues up by 5.6%, EBITDA up by 6.9%), together with the increase in profitability (EBITDA margin of 44.5% compared with 43.9% in 1H03) and free cash flow generation (EBITDA-CapEx up by 13.4%). Moreover, net debt was reduced by 1,214.3 million euros compared to June 2003 to 18,776.3 million euros.

Net income

obtained by the Telefónica Group in the first half of 2004 amounted to 1,254.2 million euros, which was 12.0% lower than in the first six months of 2003. However, excluding the net effect on extraordinary results of the 2003-07 Redundancy Program related to 2004, net income would have risen by 15.9% to 1,652.2 million euros.

Operating free cash flow

generation (EBITDA-CapEx) as of June 30 was 5,016.9 million euros, 13.4% more than in the first half of 2003. With a year on year increase of 16.1%, Telefónica de España Group is the Group's biggest business line contributor to the rise in the Group's free cash flow generation. The cellular telephony business and the Telefónica Latinoamérica Group rose by 9.3% and 6.3%, respectively.

Group's total **customer base** stood at 103.8 million at June 30, compared with 92.2 million at the end of June 2003 and 101.7 million at the end of March 2004. The number of customers managed at June 30 was 98.2 million, 12.9% more than in June 2003 and 2.2% more than in March 2004. It should be taken into account that these figures for total and managed customers do not include the 1.3 million inactive SIM cards, which have ceased to be included in the declared plant of Telefónica Móviles España.

The number of cellular customers managed at the end of June totaled 55.8 million, registering a net add of more than 1.4 million in the second quarter and of 9.7 million year on year.

With a net gain year on year of 1.7 million, ADSL connections totaled 3.7 million. In Spain, there were 2.0 million connections (58.0% more than in June 2003), giving the Group a 74% estimated share in the total broadband market. Telefónica Group retail ADSL customers in Spain totaled 1.6 million, representing a total estimated market share of 58%. In Latin America, ADSL connections exceeded one million (0.6 million in June 2003), with particularly noteworthy performance at Telesp, which had 0.6 million connections (a year on year increase of 58.0%).

Telefónica Group's consolidated **operating revenues** totaled 14,324.5 million euros at the end of the first half of 2004, which was 5.6% more than in the same period of 2003, supported by the growth of all business lines, with the exception of the content and media business, which was affected by the deconsolidation of Antena 3TV from the consolidation perimeter. The slowdown in comparison with the first quarter was mainly due to two factors: on the one hand, the greater negative impact of exchange rates (which subtracted 2.1 percentage points in June compared with 1.2 percentage points in March) and, on the other hand, the lower rate of growth in the cellular business, which was announced in the first quarter report of 2004. Thus, excluding the impact of the variations in exchange rates and in the consolidation perimeter, revenues would grow by 9.4% compared with 10.3% in March.

By company, Telefónica de España Group recorded operating revenues in the first half of 2004 of 5,399.4 million euros, representing a year on year increase of 2.2%. It is important to point out that the revenues from Internet and Broadband services at the Telefónica de España parent company (33.0% higher year on year) and from Data and Solutions services (7.1% higher year on year) boosted sales and more than made up for the lower revenues from Traditional services, which were down by 3.8% year on year. One of the positive aspects worth highlighting in the second quarter was the clear acceleration in the rate of revenue growth compared with the first quarter (2.7% compared with 1.7%) due, among other factors, to the increase in the monthly fee that came into force on April 1.

The cellular business obtained operating revenues of 5,458.1 million euros in the first half of 2004, which was 14.1% more than in the first half of 2003. This growth is mainly explained by Telefónica Móviles España (up by 12.5%) and to a lesser extent by Mexico (up by 37.2% in local currency), Argentina (up by 50.2% in local currency) and Brazil (up by 27.9% in local currency). The rate of growth in revenues slowed in comparison with the first quarter (+20.4%) as a result of the lower growth in revenues from handset sales and services, mainly at Telefónica Móviles España.

Revenues at the Telefónica Latinoamérica Group recorded growth in current euros of 4.6% (3,276.1 million euros), equivalent to 10.3% in constant terms. This variation is supported by Telesp and TASA, where revenues in local currency rose by 20.0% and 7.9%, respectively. It is important to highlight that this is the fourth consecutive quarter in which the revenues of the Telefónica Latinoamérica Group have risen in current euros.

By country at the end of the second quarter, Spain accounted for 61.6% of the Group's consolidated revenues, a contribution that was down by 1.3 percentage points from June 2003 as a result of the increased contribution from Brazil (17.6% compared with 16.0%). Latin America increased its contribution to total revenues by 0.9 percentage points to 33.1%.

Telefónica Group's total **operating expenses** in the first half of 2004 amounted to 8,308.6 million euros, which was 4.3% more than in the same period of 2003, and 0.7 percentage points less than the rise recorded in the first quarter of 2004. However, the greater negative impact of exchange rates (which subtracted 2.0 percentage points in the first quarter compared with 2.7 percentage points in the first half) meant that in constant euros expenses were up by 7.0% (the same percentage as in March). Assuming, therefore, constant exchange rates and excluding the changes in the consolidation perimeter, expenses would be 9.6% higher (9.7% in the first quarter) due to the cellular telephony business and the Telefónica Latinoamérica Group.

The higher commercial costs incurred in the cellular telephony business as a result of the intensive commercial efforts made in 2004 in the main markets where Telefónica Móviles operates, particularly Spain, Brazil and Mexico, are

reflected in the increase rate in operating expenses, which were 20.2% higher than in the first half of 2003.

Operating expenses at the Telefónica Latinoamérica Group were up by 5.0% in current euros compared with the first half of 2003 (up by 11.4% in constant euros). This variation is primarily the result of the increase in long distance, ADSL and fixed -to-mobile interconnection expenses in Brazil, and the new products and services launched in Peru.

At the Telefónica de España Group, operating expenses were down by 1.6% in comparison with the first quarter of 2003, thanks to the reduction in personnel expenses (down by 9.8%) related to the 2003-2007 Redundancy Program. This caption made up for the 14.2% increase in the external services item linked to the company's increased commercial efforts aimed at increasing the revenues function.

Bad debt management continued to show good performance: bad debt provision as a percentage of revenues (excluding prepayment revenues) stood at 1.3% at June 2004 an improvement of 0.6 percentage points year on year and of 0.2 percentage points compared to the first quarter. By business lines and in comparison with June 2003, noteworthy was the 0.9 percentage points improvement in the mobile telephony business (0.9% of revenues) and of 0.7 percentage points at both the Telefónica de España Group (0.5% of revenues) and the Telefónica Latinoamérica Group (2.6% of revenues). By operators, it should be mentioned the ratio at Telesp, which was down to 3.3% of revenues, 0.8 and 0.6 percentage points better, respectively, than in June 2003 and March 2004.

As a result of the performance in revenues and expenses described above, the consolidated **EBITDA** for the first six months of the year totaled 6,367.3 million euros, 6.9% more than in the same period of the previous year, thanks to the rise at the Telefónica de España Group and the cellular business (both up by 6.2%). In comparable terms, i.e. excluding the variations in exchange rates and in the consolidation perimeter, EBITDA rose by 8.2%. Exchange rates deducted 1.2 percentage points from growth in the first half, compared with 0.1 percentage points in the first quarter.

In terms of operating profitability, the Group's EBITDA margin stood at 44.5% at the end of June, up by 0.5 percentage points year on year. The increase in the margin is due to the improvement in the margins at the Telefónica de España Group (up 1.7 percentage points to 46.1%), the Terra Lycos Group (up 15.3 percentage points to 0.9%), the directories business (up 5.3 percentage points to 27.2%) and the Atento Group (up 4.2 percentage points to 14.6%).

EBITDA at Telefónica de España Group, which is the Group's biggest contributor to EBITDA (39.1% of the total) in absolute terms, totaled 2,487.5 million euros at the end of June, 6.2% more than in the first half of 2003, with an acceleration in the year on year growth rate achieved in the first quarter (+4.2%). Thus, EBITDA in the second quarter of 2004 rose by 8.1% in comparison with the same period of 2003 and the EBITDA margin was 46.3% (up by 2.3

percentage points year on year). Consequently, the 2003-2007 Redundancy Program had a significant positive impact on the margins, even despite the increased commercial efforts mentioned before.

The cellular business EBITDA, which is the second biggest contributor in absolute terms (36.3% of the total), amounted to 2,309.2 million euros in the first half of the year and recorded growth of 6.2% in comparison with June 2003, supported by Telefónica Móviles España (+9.7%). The cellular business's EBITDA margin of 42.3% was 3.2 percentage points lower than in June 2003, as a result of the increase in commercial activity in the first six months of 2004, especially in the second quarter.

At the end of the first half, EBITDA at the Telefónica Latinoamérica Group (23.0% of the Telefónica Group total) recorded year on year growth of 2.8% in current euros (1,464.0 million euros), equivalent to 7.8% in constant euros (+7.2% in March). The EBITDA margin of 45.0% was 0.7 percentage points higher in the second quarter of 2004 than in the first quarter of 2004. However, the EBITDA margin of the Telefónica Latinoamérica Group at the end of the first half of 2004 (44.7%) was lower than in the previous year (45.4%) mainly due to the higher weight of the new businesses in Brazil.

By geographical region, Spain contributed 71.7% of the Telefónica Group's consolidated EBITDA at June 30, 2004 (71.1% a year ago) and Latin America accounted for 27.6% (29.7% in June 2003). The decline in the contribution from Latin America over the last twelve months is due to the higher losses recorded in Mexico and the lower contributions from Peru (3.7%, down by 0.8 percentage points), Chile (3.5%, down by 0.7 percentage points) and Argentina (4.3%, down by 0.3 percentage points). Brazil, however, accounted for 17.0% compared with 16.7% in 2003.

The **operating profit** for the first half of 2004 amounted to 3,421.0 million euros, which was 21.4% more than in the same period of 2003 and 7.7 percentage points lower than in March. This decline in the growth rate since March 2004 is due to the slowdown in the EBITDA growth (+6.9% compared with +10.4%), which was offset by the higher decrease in amortization (-6.1% compared with -4.7%) due to the impact of the higher exchange rate. Thus, in constant euros, amortization was down year on year by 3.5% compared with 3.0% in the first quarter. Excluding the impact of the variations in exchange rates and in the consolidation perimeter, operating profit would have grown by 21.0% compared with 25.4% in March.

The **negative results for associated** companies recorded an improvement of 80.3% to -26.2 million euros (-132.5 million euros at June 2003). This significant reduction was primarily due to the deconsolidation of Vía Digital (Sogecable was incorporated in July 2003) and Audiovisual Sport, the lower losses related to Medi Telecom, IPSE 2000 and Infonet, and the better results at Pearson.

Total **net financial costs** reached 486.9 million euros in the first half of 2004 compared to 296.5 million euros in January-June 2003. Excluding the positive impact of the Argentine peso's appreciation in both periods, and the positive result coming from the cancellation of US dollars denominated debt in the first half of 2003, the comparable results (488.8 million euros in 1H04 vs 802.4 million euros in 1H03) would drop 313.6 million euros (-39.1%). This fall in the net financial costs was due to the 12.2% decrease in the average net debt as well as the reduction of its average cost as a result of the drop in interest rates in the euro and in the Brazilian real.

The free cash flow generated by Telefónica Group during the first half of 2004 was 3,260.4 million euros, of which 973.5 million euros were devoted to dividend payments by Telefónica S.A., 1,372.4 million euros to financial investments (net of real estate divestitures) and 369.8 million euros to cancellation of commitments acquired by the Group, derived basically from the headcount reduction plan. Thus, free cash flow after financial investments and dividend payments, which corresponds to the one available for debt reduction was 544.7 million euros.

Net debt

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of Telefónica Group at the end of June 2004 stood at 18,776.3 million euros. The reduction of 459.0 million euros with respect to the consolidated debt at the end of 2003 (19,235.3 million euros) came mainly from the aforementioned generation of free cash flow after financial investments and dividend payments (544.7 million euros). Likewise, there was a 16.5 million euros increase due to the currencies movements effect on the non-euro denominated debt (mainly due to the appreciation of the dollar against the euro), as well as 69.2 million euros due to the changes in consolidation and other effect on financial statements.

The **goodwill amortization** at the end of June amounted to 211.6 million euros, 0.3% less than in the first half of 2003. By business lines, it is worth to mention the reduction in the cellular business goodwill amortization (down by 15.0% year on year), largely due to the allocation in the fourth quarter of 2003 of part of the Telefónica Móviles México goodwill as higher value of the operator's licenses. However, the content and media business rose by 46.6% in comparison with the first half of 2003, due to the inclusion of Sogecable's goodwill.

Extraordinary results

as of June 30, totaled -726.2 million euros, compared with +39.8 million euros in the first six months of 2003. This variation was explained by an extraordinary provision, which finally amounted to 653.3 million euros, related to the acceptance of the 2,362 applications received in 2004 for the 2003-2007 Redundancy Program. It is important to remember that a part of this provision (185.7 million euros) had already been allocated in the first quarter, related to the acceptance of 672 layoffs. Furthermore, other extraordinary expenses have occurred in the first half, such as the restructuring carried out at the Terra Lycos Group (-34.4 million euros) and the impact for Telefónica of the arbitration award related to the claim presented by Radio Blanca Group to Uniprex (-31.4 million euros), arbitration award that is currently being appealed by Antena 3TV under the Provincial Court.

The **tax provision** for the first six months of the year totaled 559.0 million euros, although this will mean a very reduced cash outflow in the Group due to the compensation of negative tax bases obtained in previous years.

The **results attributed to minority interests** deducted 156.9 million euros from the Group's net income in the first six months of 2004, compared with -75.3 million euros in the first half of 2003. This increase of 108.4% is mainly due to the smaller losses in Terra Lycos Group, the higher stake in this subsidiary and the increase in net income at VIVO, Telesp and CTC Chile.

Telefónica Group **CapEx** of the first half of 2004 amounted to 1,350.4 million euros, down by 11.9% year on year. However it is important to note the strong cyclical component of the investment, so this performance cannot be extrapolated to the full year.

Finally, the average **workforce** of the Telefónica Group at June 30 was 151,536 employees, a year on year decrease of 0.3% (395 employees). The layoffs carried out at Telefónica de España (2003-2007 Redundancy Program) and at Telesp in 2003 and in March 2004, together with the reduction in workforce due to changes in the consolidation perimeter, were almost offset by the increase in the number of employees of Atento to deal with the higher activity.

TELEFÓNICA GROUP

Financial Data

TELEFONICA GROUP

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

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	January - June		
	2004	2003	% Chg
Operating revenues	14,324.5	13,563.3	5.6
EBITDA	6,367.3	5,956.0	6.9
Operating profit	3,421.0	2,818.0	21.4
Income before taxes	1,970.1	2,216.6	(11.1)
Net income	1,254.2	1,425.6	(12.0)
Net income per share	0.253	0.284	(11.0)
Avg. N° of shares, millions (1)	4,955.9	5,013.8	(1.2)

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

TELEFONICA GROUP

RESULTS BY COMPANIES

Unaudited figures (Euros in millions)

	REVENUES			EBITDA			OPERATING PROFIT		
	Jun 2004	Jun 2003	% Chg	Jun 2004	Jun 2003	% Chg	Jun 2004	Jun 2003	% Chg
Telefónica de España Group	5,399.4	5,282.9	2.2	2,487.5	2,343.0	6.2	1,249.9	1,005.9	24.3
Telefónica Latinoamérica Group	3,276.1	3,132.7	4.6	1,464.0	1,423.8	2.8	639.4	546.5	17.0
Cellular Business	5,458.1	4,782.8	14.1	2,309.2	2,175.0	6.2	1,545.0	1,410.7	9.5
Directories Business	220.2	195.7	12.5	59.9	42.8	39.9	49.1	30.0	63.9
Terra Lycos Group	273.9	252.8	8.3	2.4	(36.6)	c.s.	(36.4)	(74.1)	(50.9)
Atento Group	279.4	241.9	15.5	40.9	25.3	61.3	21.4	(2.1)	c.s.
Content & Media Business	571.1	781.7	(26.9)	87.1	127.2	(31.6)	72.7	95.1	(23.5)
Other companies	445.6	417.3	6.8	(76.4)	(102.6)	(25.5)	(141.6)	(179.1)	(21.0)
Eliminations	(1,599.3)	(1,524.5)	4.9	(7.2)	(42.0)	(82.9)	21.2	(14.7)	c.s.
Group	14,324.5	13,563.3	5.6	6,367.3	5,956.0	6.9	3,421.0	2,818.0	21.4

TELEFONICA GROUP

CAPEX BY BUSINESS LINES

Unaudited figures (Euros in millions)

	January - June		
	2004	2003	% Chg
Telefónica de España Group	527.6	654.9	(19.4)
Telefónica Latinoamérica Group	237.2	270.0	(12.1)
Cellular Business	515.2	533.3	(3.4)
Directories Business	7.5	5.7	30.3

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Terra Lycos Group	11.3	38.1	(70.4)
Atento Group	8.2	6.5	25.8
Content & Media Business	12.3	18.7	(34.5)
Other companies & Eliminations	31.3	5.7	n.s.
Group	1,350.4	1,532.9	(11.9)

TELEFÓNICA GROUP

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - June			April - June		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	14,324.5	13,563.3	5.6	7,365.5	7,104.3	3.7
Internal expend capitalized in fixed assets (1)	206.5	225.9	(8.6)	110.9	123.7	(10.3)
Operating expenses	(8,093.5)	(7,700.6)	5.1	(4,196.6)	(4,005.1)	4.8
Supplies	(3,364.0)	(2,973.7)	13.1	(1,779.5)	(1,534.5)	16.0
Personnel expenses	(2,177.1)	(2,344.8)	(7.2)	(1,097.0)	(1,178.8)	(6.9)
Subcontracts	(2,303.5)	(2,155.1)	6.9	(1,197.4)	(1,169.9)	2.4
Taxes	(249.0)	(227.0)	9.7	(122.7)	(122.0)	0.5
Other net operating income (expense)	(70.1)	(132.6)	(47.1)	(24.7)	(86.0)	(71.3)
EBITDA	6,367.3	5,956.0	6.9	3,255.1	3,136.9	3.8
Depreciation and amortization	(2,946.4)	(3,138.0)	(6.1)	(1,459.0)	(1,577.0)	(7.5)
Operating profit	3,421.0	2,818.0	21.4	1,796.1	1,559.9	15.1
Profit from associated companies	(26.2)	(132.5)	(80.3)	(11.8)	(81.9)	(85.6)
Financial net income (expense)	(486.9)	(296.5)	64.2	(271.5)	(50.3)	n.s.
Amortization of goodwill	(211.6)	(212.2)	(0.3)	(106.1)	(109.3)	(2.9)
Extraordinary net income (expense)	(726.2)	39.8	c.s.	(457.8)	71.3	c.s.
Income before taxes	1,970.1	2,216.6	(11.1)	948.9	1,389.7	(31.7)
Income taxes	(559.0)	(715.7)	(21.9)	(171.2)	(452.0)	(62.1)
Net income before minority interests	1,411.1	1,500.9	(6.0)	777.7	937.7	(17.1)
Minority interests	(156.9)	(75.3)	108.4	(81.8)	(55.5)	47.4
Net income	1,254.2	1,425.6	(12.0)	695.9	882.2	(21.1)
Average shares (millions) (2)	4,955.9	5,013.8	(1.2)	4,955.9	4,973.8	(0.4)
Net income per share	0.253	0.284	(11.0)	0.140	0.177	(20.9)

(1) Including work in process.

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

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TELEFONICA GROUP
CONSOLIDATED BALANCE SHEET

Unaudited figures (Euros in millions)

	June		
	2004	2003	% Chg
Subscribed shares not paid-in	0.0	228.7	n.s
Long-term assets	43,161.6	47,634.7	(9.4)
Start up expenses	485.4	597.2	(18.7)
Intangible net assets	7,423.7	7,516.2	(1.2)
Fixed net assets	23,139.8	26,050.1	(11.2)
Investment	12,112.6	13,471.3	(10.1)
Goodwill on consolidation	6,131.2	6,345.6	(3.4)
Deferred expenses	454.8	615.5	(26.1)
Current assets	10,985.5	11,656.5	(5.8)
Inventories	599.8	422.6	41.9
Accounts receivable	6,340.9	6,167.9	2.8
Short-term investments	2,703.1	2,061.3	31.1
Cash and banks	640.0	2,652.9	(75.9)
Others	701.7	351.9	99.4
Assets = Liabilities	60,733.1	66,481.0	(8.6)
Shareholder's equity	15,218.6	16,878.9	(9.8)
Minority interests	4,336.6	5,642.7	(23.1)
Badwill on consolidation	11.7	10.5	11.3
Deferred income	548.2	873.0	(37.2)
Provisions for risks and expenses	7,965.1	6,867.0	16.0
Long-term debt	17,514.8	20,382.0	(14.1)
Accrued taxes payable	719.5	1,371.9	(47.6)
Short-term debt including current maturities	5,114.1	4,755.9	7.5
Interest payable	375.9	405.7	(7.3)
Other creditors	8,928.5	9,293.6	(3.9)
Financial Data			
Consolidated net debt (1)	18,776.3	19,990.6	(6.1)
Consolidated debt ratio (2)	47.4%	44.7%	2.8 p.p.

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

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

TELEFONICA GROUP
FREE CASH FLOW AND CHANGE IN DEBT

Unaudited figures (Euros in millions)

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		January - June		
		2004	2003	% Chg
I	Cash flows from operations	5,741.3	5,753.6	(0.2)
II	Extraord. payments related to operating activities and commitm.	(467.1)	(443.7)	
III	Net interest payment (1)	(446.4)	(759.7)	
IV	Payment for income tax	(66.8)	(114.4)	
A=I+II+III+IV	Net cash provided by operating activities	4,761.0	4,435.8	7.3
B	Payment for investment in fixed and intangible assets	(1,707.3)	(1,697.8)	
C=A+B	Net free cash flow after CAPEX	3,053.7	2,738.0	11.5
D	Cash received from sale of Real State	204.1	268.4	
E	Net payment for financial investment	(1,576.5)	(663.1)	
F	Dividends paid (2)	(1,136.6)	(134.2)	
G=C+D+E+F	Free cash flow after dividends	544.7	2,209.1	(75.3)
H	Effects of exchange rate changes on net debt	16.5	(531.4)	
I	Effects on net debt of changes in consolidation and others	69.2	198.0	
J	Net debt at beginning of period	19,235.3	22,533.1	
K=J-G+H+I	Net debt at end of period	18,776.3	19,990.6	(6.1)

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

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

TELEFONICA GROUP

RECONCILIATIONS OF CASH FLOW AND EBITDA MINUS CAPEX

Unaudited figures (Euros in millions)

		January - June		
		2004	2003	% Chg
EBITDA		6,367.3	5,956.0	6.9
- CAPEX accrued during the period (EoP exchange rate)		(1,350.4)	(1,532.9)	
- Extraord. payments related to operating activities and comm.		(467.1)	(443.7)	
- Net interest payment		(446.4)	(759.7)	
- Payment for income tax		(66.8)	(114.4)	
- Investment in working capital		(982.9)	(367.2)	
= Net Free Cash Flow after Capex		3,053.7	2,738.0	11.5
+ Cash received from sale of Real Estate		204.1	268.4	
- Net payment for financial investment		(1,576.5)	(663.1)	
-Dividends paid		(1,136.6)	(134.2)	
= Free Cash Flow after dividends		544.7	2,209.1	(75.3)

Note: At the Investor Conference held in October 2003, the concept expected "Free Cash Flow" 2003-2006 was introduced to reflect the amount of cash flow available to remunerate Telefónica S.A. Shareholders, to protect solvency levels (financial debt and commitments), and to accommodate

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strategic flexibility.

The differences with the caption "Net Free Cash Flow after Capex" included in the table presented above, are related to "Free Cash Flow" being calculated before payments related to commitments (workforce reductions and guarantees) and after dividend payments to minorities, due to cash recirculation within the Group.

	jan-jun 2004	jan-jun 2003
Net Free Cash Flow after Capex	3,053.7	2,738.0
+ Payments related to cancellation of commitments	369.8	358.2
- Dividend payments to minorities	(163.1)	(134.2)
= Free Cash Flow	3,260.4	2,962.0

TELEFONICA GROUP

NET FINANCIAL DEBT AND COMMITMENTS

Unaudited figures (Euros in millions)

	June 2004
Long-term debt	17,514.8
Short term debt including current maturities	5,114.1
Cash and Banks	(640.0)
Short and Long-term financial investments (1)	(3,212.6)
A Net Financial Debt	18,776.3
Guarantees to IPSE 2000	557.7
Guarantees to Sogecable	80.0
Guarantees to Newcomm	50.2
B Commitments related to guarantees	687.9
Gross commitments related to workforce reduction (2)	5,464.1
Value of associated Long-term assets (3)	(633.8)
Taxes receivable (4)	(1,420.7)
C Net commitments related to workforce reduction	3,409.6
A + B + C Total Debt + Commitments	22,873.9
Net Financial Debt / EBITDA (5)	1.4x