

TELEFONICA S A  
Form 6-K  
November 12, 2004

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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 November, 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):

Yes      No     

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     

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

		Spain		Morocco	
		WIRLINE T de España: 19,486		WIRELESS Medi Telecom: 2,572	
		WIRELESS T Móviles: 18,697			
		Deutschland/UK  wholesale adsl lines T Deutschland Group: 677			
LATIN AMERICA					
Argentina		Brazil		Chile	
WIRLINE T de Argentina: 4,466 WIRELESS TCP Argentina: 2,606		WIRLINE Telesp: 13,075 WIRELESS CRT Celular: 2,953 TeleSudeste Cel: 4,065 TeleLeste Celular: 1,264 Global Telecom: 2,299 Telesp Cel. Group: 8,757 TeleCentro Oeste: 5,307		WIRLINE CTC Chile: 2,579 WIRELESS CTC Móvil: 3,002  <b>Guatemala</b> WIRLINE T. Guatemala: 39 WIRELESS T. Guatemala: 298	
El Salvador				Mexico	
WIRLINE T. El Salvador: 61 WIRELESS T. El Salvador: 335				WIRELESS TEM México: 4,495  Peru  WIRLINE T del Perú: 2,269 WIRELESS T Móviles: 1,966 PAY-TV customers Cable Mágico: 383	
				Puerto Rico	
				WIRELESS NewComm Wireless: 158  Venezuela  WIRLINE CAN TV: 2,943 WIRELESS CAN TV: 2,747	
Note: The clients of BellSouth Latin American operators are not included.					

## TELEFÓNICA GROUP MARKET SIZE

Unaudited figures (Thousands)

	Totals			Weighted (*)		
	Sep 2004	Sep 2003	% Chg.	Sep 2004	Sep 2003	% Chg.
Lines in service (1)	45,594.0	43,449.7	4.9	39,661.8	37,733.0	5.1
In Spain	19,486.3	18,887.7	3.2	19,486.3	18,887.7	3.2
In other countries	26,107.6	24,562.0	6.3	20,175.4	18,845.3	7.1

Cellular customers (2)	61,519.5	50,262.0	22.4	36,040.2	29,343.7	22.8
In Spain	18,696.8	19,107.9	(2.2)	17,285.2	17,663.4	(2.1)
In other countries	42,822.7	31,154.0	37.5	18,755.1	11,680.3	60.6
Total (3)	107,496.8	94,066.7	14.3	76,078.1	67,421.6	12.8

(\* *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 nine months of 2004 are the following:

- Strong operating growth registered at the revenues (+5.2%), EBITDA (+5.5%) and Operating Profit (+18.1%) levels in comparison with the same period of 2003.
  - ◆ Sound growth at Telefónica de España Group, where revenues climbed by 2.3% and EBITDA by 6.6% respectively.
  - ◆ Telefónica Latinoamérica Group achieved growth of 2.5% in revenues and 1.8% in EBITDA respectively. In constant euros, revenues were up by 8.0% and EBITDA by 7.2% respectively.
  - ◆ The cellular business, although it slowdown its growth trend in the third quarter, experienced increases both in revenues (+12.0%) and EBITDA (3.7%) respectively compared to September 2003.
- Sustainable growth of the total customer base due to intense commercial efforts, mainly in the cellular and broadband businesses:
  - ◆ Managed clients of Telefónica Group totaled 101.8 million (+14.5% vs. September 2003). Including customers from BellSouth operators<sup>1</sup>, this figure would jump up to 114.9 million.
  - ◆ The Group had 58.8 million customers at September 30 (47.8 million twelve months ago). The net adds registered in the third quarter amounted 3.0 million clients, representing a 9.2% increase over the second quarter of 2004.
  - ◆ The Group's ADSL connections both in Spain and Latin America reached 3.4 million, with net adds in the first nine months of 2004 of 1.3 million connections.
- Increase of operating efficiency and free cash flow:
  - ◆ EBITDA margin stood at 44.7%, compared with 44.6% twelve months ago and 44.5% six months ago.

- ◆ Growth of 6.6% in the operating free cash flow (EBITDA-CapEx) generated, amounting to 7,397.7 million euros.
- **Consolidated net income of 2,117.1 million euros, with a year-on-year increase of 5.1%:**
  - ◆ Excluding the extraordinary net effect of the 2003-2007 Redundancy Program relating to 2004, net income would have risen by 25.4% to 2,526.0 million euros.
  - ◆ Strong growth in profitability, with earnings per share soaring by 5.9% over the period.
- A 12.2% decrease in net debt over the last year down to 17,976.6 million euros.
- Telefónica, S.A. expects to close the year 2004 with consolidated growths of +5/+7% in EBITDA and +7/+9% in Operating Free Cash Flow growth (EBITDA-CapEx) respectively, both in constant currency terms<sup>2</sup>.

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<sup>1</sup> Including 13.1 million subscribers from BellSouth's Latin American operators, at the end of August 2004, last month of the third fiscal quarter of BellSouth.

<sup>2</sup> All estimates are in constant currency terms, assuming constant exchange rates as of 2003 and excluding changes in consolidation. Telefónica de España Group and Telefónica Latinoamérica Group's projections include Telefónica Empresas' Spanish and Latin American businesses, respectively, in 2003 and 2004.

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## 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.

The results corresponding to the first nine months of the year reflect the more intense commercial effort in all business lines of the Telefónica Group, resulting in a solid growth in the Group's client base and a sound progress in the efficiency of operations and profitability. Thus, revenues recorded a year-on-year growth of 5.2%, EBITDA margin stood at 44.7% and net income per share increased 5.9%. Net debt dropped by 1,258.7 million euros in relation to December 2003 to 17,976.6 million euros.

Operating free cash flow generation (EBITDA-CapEx) in January-September 2004 was 7,397.7 million euros, 6.6% more than in the same period of the previous year primarily thanks to the Telefónica de España Group (2,943.2 million euros, up 16.4% year-on-year).

The Group's **managed client base** of fixed and mobile telephony and pay television stood at 101.8 million at September 30th, 14.5% up on September 2003 and 3.6% more than in June 2004. Including clients from the Latin American Bell South<sup>1</sup> operators, the number of clients managed by the Telefónica Group would reach 114.9 million.

This growth was mainly due to the strong commercial activity of Telefónica Móviles, which recorded net adds of 3.0 million clients during the last quarter and 11.0 million over the past year to reach a total of 58.8 million clients managed at September 30th. Including Bell South<sup>1</sup> clients, the total number of clients would amount 71.9 million, of which 50.6 million would correspond to Latin America.

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Including 13.1 million subscribers from BellSouth's Latin American operators, at the end of August 2004, last month of the third fiscal quarter of BellSouth.

ADSL connections in Spain and Latin America totaled 3.4 million at September 30th 2004, a year-on-year growth of 62.4%. In Spain, there were 2.2 million connections (1.4 million twelve months ago), giving the Group a 73.5% estimated market share of the total broadband market. Telefónica Group retail ADSL clients in Spain totaled 1.7 million, representing a total estimated market share of 58.1% of this total market. In Latin America, ADSL connections recorded a growth of 85.1% compared to the previous year, up to 1.2 million, highlighting the performance in Brazil (Telesp) with 0.7 million (0.4 million in September 30th 2003).

The Group's **operating revenues** total 21,926.5 million euros during the first nine months of 2004, which was 5.2% more than in the same period of 2003. In line with the trend recorded throughout 2004, all business lines recorded an increase in their sales, with the exception of the Content and Media business, which was affected by the deconsolidation of Antena 3 TV from the consolidation perimeter. Excluding the negative impact of variations in exchange rates and in the consolidation perimeter, revenues would grow 8.5%, mainly due to the contribution of the cellular business and the Telefónica Latinoamérica Group. However, there was a slight slowdown in comparison with the first half of 2004, when revenues increased by 9.4%.

The cellular business, the main contributor in the Group's growth, registered operating revenues of 8,447.1 million euros in January-September 2004, which was 12.0% more than in the same period of 2003. This growth was mainly explained by Telefónica Móviles España (+10.5%; revenues from services +9.3%), VIVO (+21.0% in local currency), Mexico (+38.2% in local currency) and Argentina (+54.3% in local currency).

The Telefónica Latinoamérica Group registered operating revenues of 5,046.0 million euros in the first nine months of 2004, experimenting a year-on-year increase of 2.5% in current euros. This growth rate rose to 8.0% in constant euros due to the good performance of Telesp (+16.0%) and TASA (+9.4%) - both in local currency - and Telefónica Empresas América (+13.8%) and TIWS (+22.7%), in constant euros. CTC, in turn, recorded a 6.8% year-on-year decrease in local currency over the same period of 2003, although it improved in comparison with the first half of 2004 (-9.4%).

Telefónica de España Group's revenues recorded a year-on-year growth of 2.3% as of September 2004 up to 8,133.3 million euros, accelerating the growth rate recorded in both the first quarter (+1.7%) and the first half of the year (+2.2%). This progressive improvement is due to the greater contribution of the Internet and broadband revenues, which more than offset the fall in revenues from traditional services at September..

By geographic areas at the end of September, Spain accounted for 61.5% of the Group's consolidated revenues, a contribution that was down by 0.7 percentage points year on year as a result of the increased contribution from Brazil (17.6% compared with 16.8% at September 2003), thus increasing the contribution of total revenues from Latin America to 33.5% (32.8% at September 2003).

The Group's total **expenses** at the end of the third quarter (12,610.6 million euros) maintained the same growth rate as observed in the first half of the year (+4.3%). This variation is due to the 12.3% year-on-year increase in supply expenses, primarily from interconnection and handset purchases, and the 7.0% year-on-year increase in subcontracts due to intensified commercial activity. In turn, personnel expenses decreased by 6.0% compared with the first nine months of 2003, mainly due to the 2003-2007 Redundancy Program at Telefónica de España. In comparable terms, i.e. excluding the variations in exchange rates and in the consolidation perimeter, total expenses would have grown 8.7% less than the 9.6% registered in the first half of the year as a result of the higher cost containment in the cellular business and in the Telefónica Latinoamérica Group.

Bad debt management continued to show good performance, as reflected in the bad debt provision as a percentage of revenues by the Telefónica Group, which stood at 1.3% at September, an improvement of 0.5 percentage points over the same period of the previous year and remaining steady in comparison with the first half of 2004. By business lines, it is important to highlight the drop in the bad debts ratio over the past twelve months for both the Telefónica de España Group (-0.6 percentage points to 0.5% of revenues) and the cellular business (-0.5 percentage points to 1.0% of revenues). The bad debt ratio as a percentage of revenues in Latin America decreased year on year to record a general improvement for all operators. TASA continued to maintain a ratio around 1% of revenues, CTC 3.7% of revenues and Telesp 3.2% of revenues.

Consolidated **EBITDA** for the first nine months of 2004 reached 9,807.0 million euros, 5.5% higher than in the same period of the previous year. Like in the case of revenues, all business lines recorded a higher EBITDA than in the first nine months of 2003, except for the Content and Media business, that was affected by the deconsolidation of Antena 3 TV from the consolidation perimeter. Assuming constant exchange rates and excluding variations in the consolidation perimeter, EBITDA showed a year on year increase of 7.1% (8.2% in the first half of 2004).

In terms of EBITDA margin as a percentage of revenues, positive progress was made as for September, reaching an EBITDA margin of 44.7% and posting, a year-on-year increase of 0.1 percentage points and a 0.2 percentage points increase over the first half of the year. The increase in the margin over the last year is due to the improvement in the margins at the Telefónica de España Group (+1.8 percentage points to 45.9%), the Atento Group (+3.5 percentage points to 15.0%), the directories business (+3.3 percentage points to 35.8%) and the Terra Networks Group (+13.1 percentage points to 1.1%).

By companies, the Telefónica de España Group is the Group's biggest contributor to EBITDA growth in absolute terms for the second consecutive quarter, amounting to 3,736.2 million euros in the first nine months of the year, 38.1% of the total. The year-on-year EBITDA growth amounted to 6.6%, with an acceleration in comparison with previous quarters (+4.2% on January-March and +6.2% on January-June) due to the higher level of revenues and the 10.3% reduction in personnel expenses following the savings obtained from the 2003-2007 Redundancy Program. In

the opposite side, the item of subcontracts increased by 14.0% due to greater commercial activity.

The cellular business EBITDA amounted to 3,577.8 million euros in the first nine months of the year, posting a year on year growth of 3.7% and contributing with 36.5% in the consolidated EBITDA. This performance is mostly due to Telefónica Móviles España, with a year-on-year increase in EBITDA of 7.7%. In comparison with the first half of the year, however, EBITDA variations in this business slowed down as a result of an increase in commercial costs on the main operating markets. Thus, the cumulative EBITDA margin at September 30th dropped to 42.4% (45.8% twelve months ago).

EBITDA at the Telefónica Latinoamérica Group stood at 2,291.8 million (23.4% of consolidation EBITDA) at the end of the third quarter, recording a year-on-year growth of 1.8%, 7.2% in constant euros. The margin as a percentage of revenues stood at 45.4% in September, 0.4 percentage points below the margin recorded twelve months ago, although a 0.7 percentage point improvement on that of the first half of the year. During the third quarter, the margin amounted to 46.8% compared with the 46.3% of July-September 2003.

Unlike its distribution of revenues, Spain increased its contribution to consolidated EBITDA by 1.3 percentage points over the past year to reach 71.4%, while Latin America's contribution dropped to 28.3% (30.5% a year ago) due to lower contributions from Brazil (17.0%, -0.6 percentage points), Argentina (4.0%, -0.4 percentage points), Peru (3.8%, -0.4 percentage points) and Chile (4.1%, -0.5 percentage points) and the higher losses recorded in Mexico (-1.0%, -0.3 percentage points).

The cumulative **operating profit** at September 2004 amounted to 5,420.5 million euros, a year-on-year growth of 18.1%. There was a slowdown in the growth obtained in June (+21.4%), as a result of lower EBITDA growth, which was not offset by the higher year-on-year decrease in amortization (-6.7% compared with -6.1% in the first half of the year). Assuming constant exchange rates and excluding variations in the consolidation perimeter, the operating profit would have grown by 18.6%, 2.4 percentage points less than in June.

The **negative results of associated companies** recorded an improvement of 112.8 million euros over the past year to -48.6 million euros at the end of September. This year-on-year reduction of 69.9% was primarily due to the merger between Vía Digital and Sogecable, the sale of Audiovisual Sport, the lower losses related to Medi Telcom and IPSE-200, the better results at Pearson<sup>2</sup> and the increased participation in Portugal Telecom.

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<sup>2</sup> On September 23rd, Telefónica sold its 4.88% stake, causing deconsolidation from the Telefónica Group consolidation perimeter as from this date.

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Total **net financial costs** at the end of September reached 817.7 million euros vs 750.6 million euros in January-September 2003. Excluding the positive impact of the Argentine peso's appreciation in the same period of

2003 and the effects of the slight depreciation in 2004, and the positive result coming from the cancellation of US dollars denominated debt in the first half of 2003, the comparable results (809.7 million euros in the first nine months of 2004 vs. 1,190.4 million euros in the same period of 2003) would drop 380.7 million euros (-32.0%). This fall in the net financial costs was due to the 11.6% 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 nine months of 2004 was 4,416.5 million euros, of which 973.4 million euros were devoted to dividend payments by Telefónica S.A., 1,548.8 million euros to financial investments (net of real estate divestitures) and 542.4 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 1,351.9 million euros.

#### Net debt

of Telefónica Group at the end of September 2004 stood at 17,976.6 million euros. The reduction of 1,258.7 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 (1,351.9 million euros). Likewise, there was a 39.1 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 54.1 million euros due to the changes in consolidation and other effect on financial statements.

#### Goodwill amortization

amounted to 320.6 million euros, 1.7% less than in the first nine months of 2003. The allocation in the fourth quarter of 2003 of part of the Telefónica Móviles Mexico goodwill as higher value of the operator's licenses explains the year-on-year reduction in the cellular business goodwill amortization. However, the inclusion of Sogecable's goodwill in July 2003 led to an increase in the Content and Media business goodwill amortization

#### Extraordinary results

as of September 30th totaled -866.4 million euros (-52.3 million euros in the same period of 2003), mostly due to the provision of 670.0 million euros related to the acceptance of the 2,417 applications received in 2004 for the 2003-2007 Redundancy Program by Telefónica de España. As an exceptional measure, 55 pre-retirement have been accepted in addition to the 2,362 applications accepted for 2004. Between the rest of extraordinary expenses, it should be highlighted: i) Restructuring of the Terra Networks Group (-37.5 million euros) and ii) Impact of the arbitration award related to the claim presented by the Radio Blanca Group to Uniprex (-31.4 million euros), which is currently being appealed by the Antena 3 TV Group under the Provincial Court.

The **tax provision** for the period January-September 2004 totaled 976.9 million euros, which will mean a 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 273.1 million euros from the Group's net income at September, compared with -168.5 million euros in January-September 2003. This increase of 62.1% is mainly due to the stake of minority interests in the increased net income at Telesp, VIVO and CTC Chile (primarily through the sale of Telefónica Móvil Chile to the Telefónica Móviles Group) and the higher stake of the Group in Terra Networks.

As a result of this, the **consolidated net income** for the first nine months of 2004 amounted to 2,117.1 million euros, posting a year-on-year growth of 5.1%. Excluding the net effect of the 2003-2007 Redundancy Program for 2004, net income would total 2,526.0 million euros, an increase of 25.4%.

#### CapEx

at the end of the third quarter amounted to 2,409.2 million euros, up by 2.2% year on year, mostly due to the higher investments made by the cellular business (+45.9%) in the rollout of the UMTS network in Spain, the GSM networks in Argentina and Mexico and to the increase in network capacity in Brazil.

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Finally, the average **workforce** of the Group at September 30th was 153,111 employees, compared with 150,370 a year ago (+1.8%). Excluding the Atento Group, there was a 9.3% year-on-year decline in the average workforce, mainly due to the layoffs carried out at Telefónica de España through the 2003-2007 Redundancy Program and at Telesp in 2003 and 2004.

### Estimates for full year 2004:

Upon the revision of Telefónica Móviles Group outlook, Telefónica, S.A. estimates to finish the year 2004<sup>3</sup> with:

- Consolidated EBITDA growth: +5/+7% (+7/+10% previously).
- Consolidated Operating Free Cash Flow (EBITDA-CapEx): +7/+9% (+8/+11% previously).

Likewise, Telefónica S.A. reiterates all published financial guidance for 2004<sup>3</sup> corresponding to its subsidiaries Telefónica de España Group and Telefónica Latinoamérica Group. Moreover, the Company reaffirms its growth targets already communicated in terms of revenues, EBIT and CapEx for the consolidated Group.

<sup>3</sup> All estimates are in constant currency terms, assuming constant exchange rates as of 2003 and excluding changes in consolidation. Telefónica de España Group and Telefónica Latinoamérica Group's projections include Telefónica Empresas' Spanish and Latin American businesses, respectively, in 2003 and 2004.

## TELEFÓNICA GROUP

### Financial Data

#### TELEFÓNICA GROUP SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - September		
	2004	2003	% Chg
Operating revenues	21,926.5	20,833.2	5.2
EBITDA	9,807.0	9,294.1	5.5
Operating profit	5,420.5	4,591.4	18.1
Income before taxes	3,367.2	3,301.1	2.0
Net income	2,117.1	2,014.4	5.1
Net income per share	0.427	0.403	5.9
Avg. N° of shares (millions) (1)	4,955.9	4,993.9	(0.8)

(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 July 24, 2003. Moreover, the number of shares in 2003 is affected by the capital reduction by amortization of treasury stock shares, from July 11, 2003, when the AGM was held, and that was recorded with the Mercantile Register on September 10, 2003. Accordingly, there was an average number of shares outstanding at the end of the period of 4,955,891,361

#### TELEFÓNICA GROUP RESULTS BY COMPANIES

Unaudited figures (Euros in millions)

	REVENUES			EBITDA			OPERATING PROFIT		
	Sep 2004	Sep 2003	% Chg	Sep 2004	Sep 2003	% Chg	Sep 2004	Sep 2003	% Chg
Telefónica de España Group	8,133.3	7,946.7	2.3	3,736.2	3,504.4	6.6	1,932.5	1,511.6	27.8

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Telefónica Latinoamérica Group	5,046.0	4,921.5	2.5	2,291.8	2,252.4	1.8	1,040.9	913.7	13.9
Cellular Business	8,447.1	7,539.4	12.0	3,577.8	3,451.3	3.7	2,416.3	2,315.4	4.4
Directories Business	452.3	425.8	6.2	162.1	138.4	17.1	145.4	118.8	22.5
Terra Networks Group	406.3	390.1	4.2	4.3	(47.1)	c.s.	(43.9)	(104.3)	(57.9)
Atento Group	432.9	356.6	21.4	64.9	41.0	58.5	36.7	0.2	n.s.
Content & Media Business	831.9	1,036.7	(19.8)	127.0	160.8	(21.1)	105.7	121.4	(12.9)
Other companies	615.4	602.6	2.1	(119.1)	(156.0)	(23.7)	(218.2)	(266.1)	(18.0)
Eliminations	(2,438.7)	(2,386.2)	2.2	(38.1)	(51.1)	(25.4)	5.0	(19.3)	c.s.
<b>Group Total</b>	<b>21,926.5</b>	<b>20,833.2</b>	<b>5.2</b>	<b>9,807.0</b>	<b>9,294.1</b>	<b>5.5</b>	<b>5,420.5</b>	<b>4,591.4</b>	<b>18.1</b>

### TELEFÓNICA GROUP

#### CAPEX BY BUSINESS LINES

Unaudited figures (Euros in millions)

	January - September		
	2004	2003	% Chg
Telefónica de España Group	793.0	976.3	(18.8)
Telefónica Latinoamérica Group	427.6	407.9	4.8
Cellular Business	1,076.8	738.1	45.9
Directories Business	12.7	10.2	23.9
Terra Networks Group	15.6	61.1	(74.4)
Atento Group	14.5	8.9	62.2
Content & Media Business	17.8	129.4	(86.2)
Other companies & Eliminations	51.3	24.9	106.4
<b>Group Total</b>	<b>2,409.2</b>	<b>2,356.9</b>	<b>2.2</b>

### TELEFÓNICA GROUP

#### CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - September			July - September		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	21,926.5	20,833.2	5.2	7,602.0	7,269.9	4.6
Internal expend capitalized in fixed assets (1)	308.6	357.0	(13.6)	102.1	131.1	(22.1)
Operating expenses	(12,271.4)	(11,694.2)	4.9	(4,177.9)	(3,993.6)	4.6
Supplies	(5,133.3)	(4,570.9)	12.3	(1,769.3)	(1,597.3)	10.8
Personnel expenses	(3,262.7)	(3,470.6)	(6.0)	(1,085.6)	(1,125.9)	(3.6)
Subcontracts	(3,501.0)	(3,273.1)	7.0	(1,197.5)	(1,117.9)	7.1
Taxes	(374.4)	(379.5)	(1.3)	(125.5)	(152.5)	(17.7)
Other net operating income (expense)	(156.7)	(201.9)	(22.4)	(86.5)	(69.3)	24.9
<b>EBITDA</b>	<b>9,807.0</b>	<b>9,294.1</b>	<b>5.5</b>	<b>3,439.6</b>	<b>3,338.1</b>	<b>3.0</b>
Depreciation and amortization	(4,386.5)	(4,702.7)	(6.7)	(1,440.1)	(1,564.8)	(8.0)
<b>Operating profit</b>	<b>5,420.5</b>	<b>4,591.4</b>	<b>18.1</b>	<b>1,999.5</b>	<b>1,773.4</b>	<b>12.8</b>
Profit from associated companies	(48.6)	(161.4)	(69.9)	(22.4)	(28.9)	(22.5)
Financial net income (expense)	(817.7)	(750.6)	8.9	(330.8)	(454.1)	(27.2)
Amortization of goodwill	(320.6)	(326.0)	(1.7)	(109.0)	(113.8)	(4.2)
Extraordinary net income (expense)	(866.4)	(52.3)	n.s.	(140.2)	(92.1)	52.3
<b>Income before taxes</b>	<b>3,367.2</b>	<b>3,301.1</b>	<b>2.0</b>	<b>1,397.1</b>	<b>1,084.4</b>	<b>28.8</b>
Income taxes	(976.9)	(1,118.2)	(12.6)	(417.9)	(402.4)	3.8

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Net income before minority interests	2,390.3	2,182.9	9.5	979.2	682.0	43.6
Minority interests	(273.1)	(168.5)	62.1	(116.3)	(93.2)	24.7
Net income	2,117.1	2,014.4	5.1	862.9	588.7	46.6
Average shares (millions) (2)	4,955.9	4,993.9	(0.8)	4,955.9	4,955.9	0.0
Net income per share	0.427	0.403	5.9	0.174	0.119	46.6

(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 July 24, 2003. Moreover, the number of shares in 2003 is affected by the capital reduction by amortization of treasury stock shares, from July 11, 2003, when the AGM was held, and that was recorded with the Mercantile Register on September 10, 2003. Accordingly, there was an average number of shares outstanding at the end of the period of 4,955,891,361.

### TELEFÓNICA GROUP

#### CONSOLIDATED BALANCE SHEET

Unaudited figures (Euros in millions)

	September		
	2004	2003	% Chg
Subscribed shares not paid-in	0.0	223.6	n.s.
Long-term assets	42,430.9	45,346.1	(6.4)
Start up expenses	448.4	566.2	(20.8)
Intangible net assets	7,288.7	7,311.5	(0.3)
Fixed net assets	23,249.0	25,034.7	(7.1)
Investment	11,444.8	12,433.7	(8.0)
Goodwill on consolidation	6,099.9	6,628.7	(8.0)
Deferred expenses	445.2	562.1	(20.8)
Current assets	12,164.0	10,508.1	15.8
Inventories	672.8	393.2	71.1
Accounts receivable	6,626.5	6,515.0	1.7
Short-term investments	3,488.9	2,708.8	28.8
Cash and banks	605.9	558.3	8.5
Others	769.9	332.7	131.4
<b>Assets = Liabilities</b>	<b>61,140.0</b>	<b>63,268.6</b>	<b>(3.4)</b>
Shareholder's equity	15,819.4	17,178.3	(7.9)
Minority interests	3,959.5	4,718.6	(16.1)
Badwill on consolidation	11.2	10.1	11.0
Deferred income	505.1	772.4	(34.6)
Provisions for risks and expenses	7,802.0	6,548.8	19.1
Long-term debt	15,009.6	19,306.4	(22.3)
Accrued taxes payable	755.8	1,300.4	(41.9)
Short-term debt including current maturities	7,571.3	4,806.4	57.5
Interest payable	288.2	271.9	6.0
Other creditors	9,417.8	8,355.4	12.7
<b>Financial Data</b>			
Consolidated net debt (1)	17,976.6	20,462.8	(12.2)
Consolidated debt ratio (2)	46.1%	46.1%	0.0 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).

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### TELEFÓNICA GROUP

#### FREE CASH FLOW AND CHANGE IN DEBT

Unaudited figures (Euros in millions)

		January - September		
		2004	2003	% Chg
I	Cash flows from operations	8,963.6	8,853.2	1.2
II	Extraord. payments related to operating activities and commitm.	(695.0)	(697.4)	
III	Net interest payment (1)	(889.9)	(1,314.3)	
IV	Payment for income tax	(151.0)	(167.8)	
<b>A=I+II+III+IV</b>	<b>Net cash provided by operating activities</b>	<b>7,227.7</b>	<b>6,673.7</b>	<b>8.3</b>
B	Payment for investment in fixed and intangible assets	(2,526.2)	(2,594.9)	
<b>C=A+B</b>	<b>Net free cash flow after CAPEX</b>	<b>4,701.5</b>	<b>4,078.8</b>	<b>15.3</b>
D	Cash received from sale of Real State	210.8	330.6	
E	Net payment for financial investment	(1,759.6)	(1,936.5)	
F	Dividends paid (2)	(1,800.8)	(821.1)	
<b>G=C+D+E+F</b>	<b>Free cash flow after dividends</b>	<b>1,351.9</b>	<b>1,651.8</b>	<b>(18.2)</b>
H	Effects of exchange rate changes on net debt	39.1	(586.8)	
I	Effects on net debt of changes in consolidation and others	54.1	168.3	
J	Net debt at beginning of period	19,235.3	22,533.1	
<b>K=J-G+H+I</b>	<b>Net debt at end of period</b>	<b>17,976.6</b>	<b>20,462.8</b>	<b>(12.1)</b>

(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.

### TELEFÓNICA GROUP

#### RECONCILIATIONS OF CASH FLOW AND EBITDA MINUS CAPEX

Unaudited figures (Euros in millions)

		January - September		
		2004	2003	% Chg
<b>EBITDA</b>		<b>9,807.0</b>	<b>9,294.1</b>	<b>5.5</b>
- CAPEX accrued during the period (EoP exchange rate)		(2,409.2)	(2,356.9)	
- Extraord. payments related to operating activities and comm.		(695.0)	(697.4)	
- Net interest payment		(889.9)	(1,314.3)	
- Payment for income tax		(151.0)	(167.8)	
- Investment in working capital		(960.3)	(678.9)	
<b>= Net Free Cash Flow after Capex</b>		<b>4,701.5</b>	<b>4,078.8</b>	<b>15.3</b>
+ Cash received from sale of Real Estate		210.8	330.6	
- Net payment for financial investment		(1,759.6)	(1,936.5)	
- Dividends paid		(1,800.8)	(821.1)	
<b>= Free Cash Flow after dividends</b>		<b>1,351.9</b>	<b>1,651.8</b>	<b>(18.2)</b>

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

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

	Jan-Sep 2004	Jan-Sep 2003
Net Free Cash Flow after Capex	4,701.5	4,078.8
+ Payments related to cancellation of commitments	542.4	556.0
- Dividend payments to minorities	(827.4)	(179.1)
<b>= Free Cash Flow</b>	<b>4,416.5</b>	<b>4,455.6</b>

## TELEFÓNICA GROUP

## NET FINANCIAL DEBT AND COMMITMENTS

Unaudited figures (Euros in millions)

	September 2004
Long-term debt	15,009.6
Short term debt including current maturities	7,547.0
Cash and Banks	(605.9)
Short and Long-term financial investments (1)	(3,974.1)
<b>A Net Financial Debt</b>	<b>17,976.6</b>
Guarantees to IPSE 2000	557.7
Guarantees to Sogecable	80.0
Guarantees to Newcomm	49.2
<b>B Commitments related to guarantees</b>	<b>686.9</b>
Gross commitments related to workforce reduction (2)	5,302.3
Value of associated Long-term assets (3)	(609.6)
Taxes receivable (4)	(1,407.6)
<b>C Net commitments related to workforce reduction</b>	<b>3,285.1</b>
<b>A + B + C Total Debt + Commitments</b>	<b>21,948.6</b>
Net Financial Debt / EBITDA (5)	1.4x
Total Debt + Commitments/ EBITDA (5)	1.7x

(1) Short term investments and certain investments in financial assets with a maturity profile longer than one year, whose amount is included in the caption "Investment" of the Balance Sheet.

(2) Mainly in Spain, except 53.7 million euros related to the provision of pension fund liabilities of corporations outside Spain. This amount is detailed in the caption "Provisions for Contingencies and Expenses" of the Balance Sheet, and is the result of adding the following items: "Provision for Pre-retirement, Social Security Expenses and Voluntary Severance", "Group Insurance", "Technical Reserves", and "Provisions for Pension Funds of Other Companies".

(3) Amount included in the caption "Investment" of the Balance Sheet, section "Other Loans". Mostly related to investments in fixed income securities and long-term deposits that cover the materialization of technical reserves of the Group insurance companies.

(4) Net present value of tax benefits arising from the future payments related to workforce reduction commitments.

(5) Calculation based on twelve months rolling EBITDA, that is from September 2003 to September 2004.

## TELEFÓNICA GROUP

## EXCHANGES RATES APPLIED

	P&L (1)		Balance Sheet and CapEx (2)	
	Jan - Sep 2004	Jan - Sep 2003	Sep 2004	Sep 2003
US Dollar / Euro	1.225	1.110	1.241	1.165
Argentinean Peso / Euro	3.592	3.287	3.699	3.397
Chilean Peso / Euro	745.789	733.788	755.584	770.162
Brasilian Real / Euro	3.639	3.457	3.547	3.406
Peruvian Nuevo Sol / Euro	4.093	3.867	4.147	4.058
Mexican Peso / Euro	13.976	12.131	14.159	12.732

(1) These exchange rates are used to convert the P&L accounts of the Group foreign subsidiaries from local currency to euros. P&L accounts for subsidiaries that use inflation adjusted accounting criteria (México, Chile, Perú, Colombia and Venezuela), are first converted to US dollars at the closing exchange rate, and then the conversion into euros is made according to the average exchange rate.

(2) Exchange rates as of 30/09/04 and 30/09/03.

## RESULTS BY BUSINESS LINES

### Fixed Line Business

#### TELEFÓNICA DE ESPAÑA GROUP

During the first nine months of the year, the Telefónica de España Group achieved growth in revenues and EBITDA of 2.3% and 6.6% respectively, with a 2.6% increase in revenues and 7.5% in EBITDA over the third quarter compared to the same quarter of 2003, as a result of the Group's increased commercial efforts and efficiency.

The success of Telefónica de España's strategy in the development of broadband services was a deciding factor in these results. The following commercial actions undertaken by the company during the last months should be highlighted:

- On September 30th, Telefónica de España began the process to double the speed of the ADSL service, 512 Kbps access becoming the lowest speed available. The speed of 94% of the ADSL access has already been doubled. This process is to be completed by November 2004. The doubling of access speeds enables ADSL clients to enjoy improved access to the Internet and the wide range of Value Added Services (VAS) marketed by Telefónica. This improvement, at not extra cost to clients, is applicable to both retail and wholesale ADSL as a drive for the market growth as a whole.
- Presentation to the CMT of a new ADSL modality known as "ADSL tailor made" for approval, with download speeds of 512 Kbps and the aim of reducing the service access barrier. On October 7th 2004, the CMT decided to approve the commercialization of the following three options:
  - ◆ Weekends (21.90 euros/month): Flat rate from 9 p.m. Friday through 8 a.m. Monday, as well as 11 hours of free Internet access outside these times.
  - ◆ Evenings (21.90 euros/month): Flat rate every day from 9 p.m. through 8 a.m. the following day plus 11 hours of free Internet access outside these times.
  - ◆ Evenings + Weekends (29.70 euros/month): Flat rate evenings and weekends plus eleven hours free Internet access outside these periods.
- "Back to school" promotion with free ADSL subscription in September and free monthly fees for the "PC security pack" over three months (antivirus + firewall).
- ADSL PC promotion, with the commercialization of three different tabletop and laptop computer configurations at very attractive prices for both current ADSL clients and those requesting subscription. PC payment can be financed into up to twelve monthly interest-free installments and are charged through the telephone bill itself.
- Strengthening of the movies catalogue for the Imagenio video-on-demand service following the agreement reached with Buenavista, one of the top movie distributors. Following this initial agreement, Telefónica plans to reach new agreements with other companies of reference in the sector in the near future. Furthermore, three new thematic channels (Eurosport, Euronews and Bloomberg) have been added to the basic Imagenio TV offer.

Other remarkable commercial actions taken by the company include:

- Free PSTN line connection fee campaign from September 20th through 30th. This campaign was notably successful, with a total of 110,000 subscriptions during the offer period.
- As of October 31st 2004, reduction in the price of fixed-to-mobile calls in compliance with the 2% price-cap (CPI-4%) established for 2004. The largest reductions were implemented during times of greatest consumption, with discounts of between 10.16% and 7.24% during this time zone, according to the target operator.
- Launching of new local traffic flat rate for calls made to five preset numbers at 5 euros per month; this new product had a great contribution to the client win-back and loss contention programs.
- International traffic gain from the growing immigrant community through a portfolio of services of which the following should be noted:
  - ◆ Wholesale international traffic card, which at very attractive prices enabled an increase of 25 percentage points in Telefónica de España's market share on prepaid traffic cards throughout 2004.
  - ◆ Decrease on international traffic prices for calls made from public payphones to a group of countries, contributing to doubling the volume of minutes of international traffic to these countries from the public payphones during the quarter.

Telefónica de España Group **revenues** totaled 8,133.3 million euros during the first nine months of the year, presenting a 2.3% growth in comparison with the same period of the previous year, in line with the 2.2% growth obtained during the first half of the year. Telefónica de España parent company contributed with revenues of 7,791.9 million euros to this result, which represented a year-on-year growth rate of 1.7% after recording revenues 133.0 million euros above those of the period January-September 2003.

Particularly noteworthy when analyzing the contribution to the growth in revenues of each of the businesses forming Telefónica de España parent company is the good progress made by revenues from the Internet and Broadband Services, which widely offset the 168.0 million euro decline in Traditional Services revenues, with 205.7 million euros. The Data and Solutions Business and the Wholesale Business contributed to growth with 12.7 and 82.7 million euros, respectively.

- Cumulative revenues as of September from Traditional Services totaled 5,285.6 million euros. The positive evolution recorded during the third quarter is noteworthy, in which revenues fell by 1.6% to confirm the progressive slowing of the rate of decline over 2004: they declined by 4.7% in the first quarter, by 3.8% in the first half and finally by 3.1% in the January-September period, in comparison with the same period 2003.

Revenues from Client Network Access amounted to 2,225.5 million euros over the first nine months of the year, which was 0.1% higher in comparison with the previous year. Along with the positive effect of the rise in the monthly fees for PSTN lines in April, the surcharges on calls made to toll-free numbers from public payphones should be added, after receiving the authorization to implement them during the third quarter. This surcharges provided a 0.6 percentage point growth in aggregate to Client Network Access revenues to September. Without this contribution, revenues would have dropped 0.5%.

The decline in Telefónica's estimated access market share continued to slow, standing at 89.0% at the end of September 2004, which was 0.3 percentage points lower than in June 2004 and 2.1 percentage points lower than in September 2003. In absolute terms, 70,122 lines (PSTN + ISDN basic access) were lost during the quarter, leading to an aggregate number of 168,575 lines lost in the first nine months of the year, compared with the 297,951 lost in the same period of 2003.

It is worth noting that of the 110,000 new lines subscribed during the free connection fee campaign, 41,000 actually began operating during September. The remaining lines will begin operations during the fourth quarter of the year.

The unbundled loops by competitors of Telefónica de España in the third quarter of the year were 16,600 as fully unbundled loops and 12,165 as shared access loops; the total number of unbundled loops being 72,187, of which 57,700 were fully unbundled and 14,487 were shared loops. A slight drop in the net gain of fully unbundled loops was observed during the quarter, offset by the higher growth in shared access loops.

Revenues from voice usage amounted to 2,436.8 million euros to September, down by 4.0% from the same period of the previous year, although the rate of decline has slowed in recent months. The lower decline in revenues is due primarily to the changes in the price and bonus discount scheme of the "Servicio Integral de Mantenimiento (SIM)" (Comprehensive Maintenance Service), the effects of which will be noted through to the first quarter of 2005.

As regards voice traffic, the estimated total volume of the market in Spain, expressed in minutes, was down 5.1% in the first nine months of the year in comparison with the same period of the previous year. Telefónica de España's estimated share of the voice market stood at 72.7% in September, only 0.1 percentage point lower than in June and 3.6 percentage points lower than September 2003. There has been a slowdown in the year-on-year loss of market share over recent quarters, amounting to 4.6 percentage points in the twelve months to June 2004 and 5.2 percentage points in the twelve months to March 2004.

The estimated total volume of minutes processed by Telefónica de España during the first nine months of the year amounted to 92,958 million, a 6.5% year-on-year decline. Total outgoing traffic (including Internet), which accounted for 55.7% of total traffic, amounted to 51,790 million minutes and fell by 15.5% compared to the same period of the previous year. Traditional outgoing traffic totaled 35,478 million minutes at the end of September, down by 11.0% year-on-year due to the negative performance of the market and the aforementioned loss in market share. The negative trend in traffic continued during the first nine months of the year, with very significant year-on-year falls in domestic fixed line-to-fixed line traffic: local traffic was down by 13.6%, provincial traffic by 11.1% and DLD traffic by 9.5%. There was also a 1.7% drop in fixed-to-mobile traffic during this period. Only international traffic maintained a positive trend, with year-on-year growth of 2.5%. The number of outgoing minutes to the Internet amounted to 16,311 million and continued to show a negative year-on-year variation of 23.8%, mainly as a result of switched Internet traffic cannibalization by broadband ADSL services. Finally, incoming traffic rose by 7.9% to 41,168 million minutes.

The total number of preselected lines stabilized over the third quarter, falling by 312 lines with regard to the total number at the end of last June and by 34,735 in relation to the maximum share reached in March. Nevertheless, the introduction of the verbal consent procedure in the preselection process could lead to positive net adds in preselected lines over the coming months. At the end of the third quarter, there were a total of 2,296,211 preselected lines.

In regard to Value-Added Services, Voice Mailbox and Caller ID services should be noted. By the end of September 2004, the number of services activated amounted to 11,793,052 and 7,341,306, respectively, with a positive progress in the quarter. The growing acceptance of the text messaging service continued, with a 3.5% increase compared with the previous quarter. The number of access + traffic modular plans "Combinados" has already reached 879,570.

- Internet and Broadband Services recorded cumulative revenues of 816.3 million euros in the first nine months of the year, representing year-on-year growth of 33.7%.

The total number of ADSL lines in service amounted to 2,157,805 by the end of September, representing a net gain of 114,077 lines during the third quarter. It must be noted that although this figure is a drop on the 126,892 accesses of the third quarter last year, Telefónica de España retail ADSL net gain reached a total of 104,051 this year compared to the 91,351 accesses of the third quarter 2003 to give a total of 1,443,798 accesses as of September. The drop in net gain of ADSL accesses was due to the wholesale service, with a migration towards services based on unbundled loops. Telefónica Group estimated retail broadband market share stood at 58.1% by September 2004, compared to that of 57.8% as of June 2004.

Value-Added Services on the retail ADSL service continued to perform solidly, amounting to 864,442 operative services. 39.4% of our retail clients have signed up to some kind of value-added service. Of the most successful services, "ADSL Solutions" recorded growth of 9.5% compared with June 2004, with a total of 153,225 operative units (44,347 Net-LAN and remote access solutions). The "Mantenimiento Integral ADSL" (ADSL Comprehensive Maintenance Service) also presents strong growth, having reached 127,687 clients.

Hence, revenues from the Telefónica de España retail broadband services grew 57.6% to reach 621.2 million euros. It is important to highlight that 9.2% of retail ADSL ARPU comes from Value-Added Services.

Narrowband Internet revenues continued to decline: they were down 9.8% to 195.1 million euros, due primarily to the migration of clients to broadband services.

- The Data and Service business recorded an aggregate growth in revenues of 1.9% and totaled 692.5 million euros at the end of September.

The main item of these revenues, comprising 55.0% of Data and Solutions revenues, relates to the planning and operating of virtual private networks. These revenues fell slightly by 0.2% as a result of the migration towards lower priced products based on IP technology, not completely offset by the increase in plant.

On the other hand, the Solutions and Value-Added Services for Businesses segment recorded a year-on-year growth of 18.5%, accounting for 26.1% of total Data and Solutions revenues and 3.7 percentage points up on last year. There are currently 169 agreements for the management or outsourcing of services for large corporations, of which 49 are client management centers operated by Telefónica, and there has been a 49.9% increase in the number of hosting servers.

- Wholesale Business contributed with 997.5 million euros to consolidated revenues, a 9.0% increase in relation to the same period of the previous year. "Other national operators services" contributed to this increase with a 29.3% growth in the quarter, thus reflecting the impact of agreements signed with large domestic operators for transit traffic carriage to Mobile networks.

27.0% of Wholesale revenues came from National interconnection services, which increased by 3.4% due, basically, to the 25.9% growth in fixed-to-mobile interconnection revenues and a slight decrease in fixed-to-fixed interconnection revenues.

In addition, it is important to highlight the substantial 46.9% growth in the wholesale ADSL services with revenues totaling 168.9 million euros.

Telefónica de España Group's **operating expenses** experienced a year-on-year decrease of 0.7% to 4,476.5 million euros. The 10.3% reduction in personnel expenses in comparison with the same period of the previous year must be noted, which amounted to a total of 1,576.6 million euros, as a result of the staff joining the 2003-2007 Redundancy Program. Telefónica de España parent company headcount reached 35,447 employees at the end of September 2004, representing a reduction of 1,612 employees since the beginning of the year. Up to the end of September 2004, 1,831 employees had left Telefónica de España under the Redundancy Program. The remaining employees included in the

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total figure of redundancies accepted by the company in 2004 will leave Telefónica de España in the remaining months of the year.

Contrary to personnel expenses evolution, company's increased commercial activities aimed at revenue growth led to a 14.0% rise in External Services & Others, which totaled 856.8 million euros.

Supplies expenses, amounting to 1,908.4 million euros, grew by 2.4% despite the slight 2.3% decrease in interconnection expenses following the reduction in fixed-to-mobile interconnection tariffs that came into effect in November 2003. The increase in expenses at Telyco linked to the handset sale business had, as a whole, a decisive impact on the evolution of supplies expenses at the Telefónica de España Group; without them, the Group's supplies expenses growth would have fallen to 0.3%.

Telefónica de España Group **EBITDA** amounted to 3,736.2 million euros, up 6.6% year-on-year. The Group's EBITDA margin reached 45.9% (1.8 percentage points higher than in the same period of the previous year). Telefónica de España parent company's EBITDA amounted to 3,718.2 million euros (+6.7% on the previous year).

Telefónica de España Group's **operating profit** amounted to 1,932.5 million euros in the first nine months of the year, +27.8% over the same period of the previous year as a result of the positive evolution of EBITDA and the 9.5% decrease in amortization and depreciation.

### CapEx

by the Telefónica de España Group dropped by 18.8% to 793.0 million euros to reach a CapEx over Revenues ratio of 9.7%, reflecting Telefónica de España's aim of taking forward the transformation process into a less capital-intensive company.

### Operating free cash flow

, defined as EBITDA minus CapEx, amounted to 2,943.2 million euros in the period January-September 2004, up by 16.4% on the same period of 2003.

## TELEFÓNICA DE ESPAÑA SELECTED OPERATING DATA

*Unaudited figures (Thousands)*

	September		
	2004	2003	% Chg
Equivalent lines (1)	19,486.3	18,887.7	3.2
PSTN Lines	14,868.7	15,123.6	(1.7)
ISDN equivalent basic access	1,850.7	1,800.8	2.8
ISDN equivalent primary accesses y 2/6 equivalent accesses	551.4	530.6	3.9
Fully unbundled local loops	57.7	12.4	365.4
ADSL connections	2,157.8	1,420.5	51.9
Telefónica de España retail ADSL	1,443.8	938.0	53.9
Traffic (minutes in millions) (2)	92,958.0	99,435.0	(6.5)
Employees (units)	35,447	42,193	(16.0)

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

(2) January - September cumulative data.

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### TELEFÓNICA DE ESPAÑA PARENT COMPANY OPERATING REVENUES

Unaudited figures (Euros in millions)

	January - September			July - September		
	2004	2003	% Chg	2004	2003	% Chg
<b>Traditional Services</b>	<b>5,285.6</b>	<b>5,453.6</b>	<b>(3.1)</b>	<b>1,760.7</b>	<b>1,789.4</b>	<b>(1.6)</b>
Client network access (1)	2,225.5	2,224.0	0.1	758.0	734.4	3.2
Voice usage (Net total) (2)	2,436.8	2,539.0	(4.0)	814.5	829.9	(1.9)
Local	575.7	603.0	(4.5)	180.8	182.9	(1.1)
Provincial	186.6	195.2	(4.4)	60.1	62.6	(4.1)
Domestic long distance	327.0	341.9	(4.4)	105.3	109.1	(3.5)
International long distance	208.6	190.2	9.6	82.0	67.8	21.0
Fixed to mobile	903.7	945.7	(4.4)	309.4	322.3	(4.0)
IRIS and others (3)	235.3	263.1	(10.5)	76.8	85.2	(9.9)
Handsets sales and maintenance	456.3	523.4	(12.8)	138.9	169.7	(18.2)
Other business lines (4)	166.9	167.2	(0.2)	49.3	55.4	(11.0)
<b>Internet and Broadband Services</b>	<b>816.3</b>	<b>610.6</b>	<b>33.7</b>	<b>285.8</b>	<b>211.7</b>	<b>35.0</b>
Narrowband	195.1	216.4	(9.8)	56.2	66.8	(15.8)
Broadband (retail)	621.2	394.3	57.6	229.6	144.9	58.5
<b>Data and Solutions Services</b>	<b>692.5</b>	<b>679.8</b>	<b>1.9</b>	<b>218.1</b>	<b>236.8</b>	<b>(7.9)</b>
Corporate networks (5)	511.5	527.1	(3.0)	164.3	182.0	(9.7)
Solutions	181.0	152.7	18.5	53.7	54.8	(1.9)
<b>Wholesale Services</b>	<b>997.5</b>	<b>914.8</b>	<b>9.0</b>	<b>351.9</b>	<b>314.8</b>	<b>11.8</b>
National interconnection	269.1	260.4	3.4	83.9	85.1	(1.4)
Wholesale ADSL (Megabase, Megavía and GigADSL)	168.9	115.0	46.9	58.2	40.2	44.6
International operators services	227.8	233.6	(2.5)	75.5	85.6	(11.8)
Other national operators services (6)	331.7	305.8	8.5	134.3	103.9	29.3
<b>Total operating revenues</b>	<b>7,791.9</b>	<b>7,658.9</b>	<b>1.7</b>	<b>2,616.4</b>	<b>2,552.5</b>	<b>2.5</b>

Note: Starting first quarter 2004, Telefónica Data España and Telefónica Soluciones results will be incorporated within Telefónica de España Group. 2003 figures are proforma for the benefit of comparison.

(1) Revenues derived from monthly and connection fees (PSTN, Public Use Telephony, ISDN and Corporate Services), public telephone booths and network services.

(2) Voice usage net of discounts, foreign participation (international long distance) and payments to Intelligent Network providers.

(3) Services included: Intelligent Network services, Special Valued Services and others.

(4) Special Projects, Services agency and others. (Broadcasting included).

(5) Included leased circuits, VPN and dedicated internet access.

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

### TELEFÓNICA DE ESPAÑA PARENT COMPANY OPERATING REVENUES - PROFORMA 2003

Unaudited figures (Euros in millions)

	2003			
	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec
<b>Traditional Services</b>	<b>1,816.2</b>	<b>3,664.3</b>	<b>5,453.6</b>	<b>7,243.3</b>
Client network access (1)	737.8	1,489.6	2,224.0	2,950.0
Voice usage (Net total) (2)	849.6	1,709.2	2,539.0	3,366.1
Local	213.6	420.2	603.0	816.9

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Provincial	66.6	132.5	195.2	259.5
Domestic long distance	116.8	232.8	341.9	461.6
International long distance	58.5	122.5	190.2	243.9
Fixed to mobile	305.9	623.5	945.7	1,257.9
IRIS and others (3)	88.3	177.9	263.1	326.3
Handsets sales and maintenance	174.8	353.7	523.4	706.0
Other business lines (4)	54.1	111.8	167.2	221.1
<b>Internet and Broadband Services</b>	<b>191.0</b>	<b>399.0</b>	<b>610.6</b>	<b>849.0</b>
Narrowband	79.9	149.6	216.4	291.9
Broadband (retail)	111.1	249.4	394.3	557.1
<b>Data and Solutions Services</b>	<b>215.3</b>	<b>443.0</b>	<b>679.8</b>	<b>928.6</b>
Corporate networks (5)	168.8	345.1	527.1	705.4
Solutions	46.4	97.9	152.7	223.3
<b>Wholesale Services</b>	<b>287.7</b>	<b>600.1</b>	<b>914.8</b>	<b>1,256.7</b>
National interconnection	83.5	175.3	260.4	356.6
Wholesale ADSL (Megabase, Megavía & GigADSL)	35.7	74.8	115.0	166.1
International operators services	71.9	148.1	233.6	309.3
Other national operators services (6)	96.5	201.9	305.8	424.7
<b>Total operating revenues</b>	<b>2,510.1</b>	<b>5,106.3</b>	<b>7,658.9</b>	<b>10,277.6</b>

*Note: Starting first quarter 2004, Telefónica Data España and Telefónica Soluciones results will be incorporated within Telefónica de España Group. 2003 figures are proforma for the benefit of comparison.*

*(1) Revenues derived from monthly and connection fees (PSTN, Public Use Telephony, ISDN and Corporate Services), public telephone booths and network services.*

*(2) Voice usage net of discounts, foreign participation (international long distance) and payments to Intelligent Network providers.*

*(3) Services included: Intelligent Network services, Special Valued Services and others.*

*(4) Special Projects, Services agency and others. (Broadcasting included).*

*(5) Included leased circuits, VPN and dedicated internet access.*

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

### TELEFÓNICA DE ESPAÑA GROUP CONSOLIDATED INCOME STATEMENT

*Unaudited figures (Euros in millions)*

	January - September			July - September		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	8,133.3	7,946.7	2.3	2,733.9	2,663.9	2.6
Internal expend capitalized in fixed assets (1)	97.2	120.8	(19.5)	30.9	37.0	(16.4)
Operating expenses	(4,476.5)	(4,506.6)	(0.7)	(1,505.2)	(1,522.9)	(1.2)
Other net operating income (expense)	(17.9)	(56.6)	(68.3)	(10.9)	(16.5)	(34.2)
<b>EBITDA</b>	<b>3,736.2</b>	<b>3,504.4</b>	<b>6.6</b>	<b>1,248.7</b>	<b>1,161.4</b>	<b>7.5</b>
Depreciation and amortization	(1,803.7)	(1,992.8)	(9.5)	(566.1)	(655.7)	(13.7)
<b>Operating profit</b>	<b>1,932.5</b>	<b>1,511.6</b>	<b>27.8</b>	<b>682.6</b>	<b>505.7</b>	<b>35.0</b>
Profit from associated companies	(0.8)	(0.7)	5.4	(0.2)	(0.2)	9.8
Financial net income (expense)	(287.6)	(340.1)	(15.4)	(89.3)	(111.7)	(20.0)
Amortization of goodwill	(2.5)	0.2	c.s.	(0.8)	0.0	c.s.
Extraordinary net income (expense)	(652.8)	21.5	c.s.	(41.8)	2.8	c.s.
<b>Income before taxes</b>	<b>988.8</b>	<b>1,192.5</b>	<b>(17.1)</b>	<b>550.5</b>	<b>396.7</b>	<b>38.8</b>
Income taxes	(295.2)	(340.5)	(13.3)	(182.3)	(114.1)	59.7
<b>Net income before minority interests</b>	<b>693.6</b>	<b>852.0</b>	<b>(18.6)</b>	<b>368.1</b>	<b>282.5</b>	<b>30.3</b>
Minority interests	(0.2)	(0.0)	225.0	(0.1)	0.0	n.s.
<b>Net income</b>	<b>693.4</b>	<b>851.9</b>	<b>(18.6)</b>	<b>368.0</b>	<b>282.5</b>	<b>30.3</b>

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Note: Starting first quarter 2004, Telefónica Data España and Telefónica Soluciones results will be incorporated within Telefónica de España Group. 2003 figures are proforma for the benefit of comparison.

(1) Including work in process.

### TELEFÓNICA DE ESPAÑA GROUP CONSOLIDATED INCOME STATEMENT - PROFORMA 2003

Unaudited figures (Euros in millions)

	2003			
	Jan - Mar	Jan - Jun	Jan - Sep	Jan - Dec
Operating revenues	2,590.0	5,282.9	7,946.7	10,695.4
Internal expend capitalized in fixed assets (1)	41.2	83.8	120.8	174.6
Operating expenses	(1,460.6)	(2,983.7)	(4,506.6)	(6,048.7)
Other net operating income (expense)	(12.5)	(40.1)	(56.6)	(58.9)
<b>EBITDA</b>	<b>1,158.2</b>	<b>2,343.0</b>	<b>3,504.4</b>	<b>4,762.4</b>
Depreciation and amortization	(675.7)	(1,337.1)	(1,992.8)	(2,638.8)
<b>Operating profit</b>	<b>482.5</b>	<b>1,005.9</b>	<b>1,511.6</b>	<b>2,123.6</b>
Profit from associated companies	(0.4)	(0.6)	(0.7)	(0.9)
Financial net income (expense)	(117.1)	(228.4)	(340.1)	(447.5)
Amortization of goodwill	(0.7)	0.2	0.2	(2.8)
Extraordinary net income (expense)	(3.0)	18.7	21.5	(1,374.1)
<b>Income before taxes</b>	<b>361.3</b>	<b>795.8</b>	<b>1,192.5</b>	<b>298.2</b>
Income taxes	(104.4)	(226.4)	(340.5)	(18.1)
<b>Net income before minority interests</b>	<b>257.0</b>	<b>569.4</b>	<b>852.0</b>	<b>280.1</b>
Minority interests	(0.0)	(0.1)	(0.0)	(0.0)
<b>Net income</b>	<b>256.9</b>	<b>569.4</b>	<b>851.9</b>	<b>280.1</b>

Note: The incorporation of the assets corresponding to Telefónica Empresas into Telefónica de España Group in 2004, implies the presentation of Telefónica de España Group proforma financial statements for fiscal year 2003, under the same criteria, for the benefit of comparisons. In February 27th, 2004, the company notified the main metrics of these proforma financial statements for fiscal year 2003 under the new consolidation perimeter. The final definition of the assets to be incorporated to Telefónica de España Group makes these metrics to vary slightly with respect to the ones previously presented (-4.4 million euros in revenues and -10.4 million euros in EBITDA), a change that does not imply modifications in neither Telefónica de España Group nor Telefónica Group published accounts in the above mentioned fiscal year.

(1) Including work in process.

### RESULTS BY BUSINESS LINES

#### Fixed Line Business

### TELEFÓNICA LATINOAMÉRICA GROUP

Results at Telefónica Latinoamérica, in terms of both operating revenues and EBITDA, continued to record positive growth in current euros. In the third quarter of the year, almost all Latin American currencies appreciated against the dollar (with the exception of the Argentine peso, which depreciated slightly). Furthermore, the average dollar/euro exchange rate remained almost unchanged throughout this quarter of the year. However, in the first nine months of 2004, on a year on year basis, these currencies continued to record levels of depreciation against the dollar that were higher than those of the first half of 2004 (except for the Peruvian sol), which had a negative impact on the revenues for the third quarter.

#### Operating revenues

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amounted to 5,046.0 million euros, representing year on year growth of 2.5%, which in constant euros becomes 8.0%, slowing down the growth of previous quarters slightly. The evolution of the revenues in constant euros reflects the behavior of revenues at:

- Telesp (up 16.0% in local currency), as a result of the positive progress made by the traditional business (up 14.8%), assisted by the good performance of the new businesses (SMP, long distance outside Sao Paulo, ...), the July and September 2004 tariff increases and the increase in fixed-to-mobile and public telephone traffic.
- TASA (up 9.4% in local currency), due to the good performance of the plant and traffic operating variables in comparison with 2003, despite the tariff freeze in force since January 2002, which made it possible to achieve growth of 7.5% in local currency in revenues from traditional services.
- CTC recorded a fall in revenues of 6.8% in local currency, with a slow down in the decreasing rate recorded in the first half (-9.4%) due to the updated impact of the tariff decree in line with the new version published in September, which gives a slight improvement on tariffs issued in the decree initially published in May, the flexibility of tariffs for heavy consumers, and the minute plans. However, the drop in traffic due to the high level of competition on the market and the replacement effect of mobile telephony continued.
- TdP, with a 14.1% increase year on year in its plant of equivalent lines, recorded a slight growth in revenue of 0.2% in local currency. The 2.5% fall in Traditional business revenues in local currency, due to the greater contribution of lines associated to the new tariff plans, was offset by the 60.8% rise in Internet (narrowband and broadband) revenues in local currency.
- Telefónica Empresas América and TIWS, where the positive trend of the previous quarter continued with growth of 13.8% and 22.7%, respectively, in constant euros.

The total **operating expenses** of Telefónica Latinoamérica stood at 2,813.4 million euros at September 30, 2004, which was 2.5% more in current euros than in 2003. In constant euros, these expenses rose by 7.9%, compared with 11.4% in the first half, as a result of the smaller growth in expenses in local currency at Telesp and TdP, which offset the slowing down in the decreasing costs at CTC and the increase in costs at TASA, in this case due to the continued increase in activity. Expenses at Telefónica Empresas also made a positive contribution and, despite rising 8.5% in constant euros due to increased activity, slowed down their growth rate in comparison with the first six months of the year (up 12.4%). TIWS succeeded in reducing its expenses (by 3.8% in constant euros) despite the large increase in revenues.

### EBITDA

at the end of the third quarter stood at 2,291.8 million euros, representing growth of 1.8%, which rises to 7.2% in constant euros (7.8% to June), achieving an EBITDA margin of 45.4% in the first nine months of the year, compared to 44.7% in the first half, mostly due to the general improvement in the margin on fixed telephony operators. The decrease in depreciation and amortization expense (-1.9% in constant euros), as a result of the drop in the rhythm of investment over recent years, made it possible to achieve an operating profit of 1,040.9 million euros, representing an improvement of 20.7% in constant euros.

In the first nine months of the year, Telefónica Latinoamérica recorded **extraordinary net income** of 418.4 million euros, compared with the negative 84.8 million euros of the same period of the previous year. The July sale of Telefónica Móvil Chile (until then a 100% subsidiary of CTC) to Telefónica Móviles had a determining impact, contributing to extraordinary net income with 425.5 million euros. The **financial results** stood at -240.1 million euros, compared with the previous years -71.8 million euros. Excluding the impact of the exchange rate differences, which in 2003 had a great positive impact due to exchange rate gains recorded by Argentine companies (around 140 million euros) and the profit recorded in 2003 as a result of the cancellation of the debt denominated in dollars (around 250 million euros), Telefónica Latinoamérica net financial results were down 42.6% as a result of the lower interest expenses connected with the lower volume of debt and lower interest rates.

These results, together with a tax provision of 195.0 million euros, allowed Telefónica Latinoamérica to record a **net income** of 645.6 million euros, with a year-on-year increase of 89.7%.

### CapEx

at Telefónica Latinoamérica amounted to 427.6 million euros, which was 4.8% more than in 2003 (+8.1% in constant euros). The containment of investments and the growth in EBITDA led to an **operating free cash flow** (EBITDA-CapEx) generated at Telefónica Latinoamérica in the first nine months of the year amounting to 1,864.2 million euros, with year on year growth of 1.1% (+7.0% in constant euros).

Telefónica Latinoamérica's plant of equivalent lines totaled 22.4 million, which was 3.7% more than in September 2003, thanks to the efforts made in the broadband business, which are reflected in the strong growth of the plant with 443,025 new clients since the beginning of the year. At September 30, the total number of Telefónica Latinoamérica broadband connections totaled 1.2 million, an 85.1% growth compared to September 2003. It should be highlighted that the growth rate of broadband connections continues to accelerate (+78.6% in the first half of 2004), now representing 5.4% of equivalent lines compared with 3.0% in September 2003.

In turn, traditional business lines totaled 21.2 million, showing a year on year increase of 1.2% more, since the growth recorded at TdP (+9.4%) and TASA (+3.6%) and the stabilizing of the Telesp plant (+0.05%) exceeded the losses of lines at CTC (-3.6%) affected by the disconnections made in 2003 because of bad debt problems. There was a net gain of 323,005 lines in the first nine months of 2004, with the biggest contribution being made by TASA and TdP, with a net gain of 147,002 and 132,414 lines, respectively.

### Telesp

On July 2<sup>nd</sup>, Telesp increased tariffs approved by Anatel, leading to a rise in local telephony basket tariffs by an average of 6.89% and domestic long distance tariffs by 3.2%, in line with the conditions of the privatization contract, according to the IGP-DI (wholesale price index). Moreover, under the judgment handed down by the Higher Court of

Justice that ruled in favor of allowing fixed line telephony operators an additional increase in tariffs in compensation for the difference between the 2003 tariff increase and the result of applying the IGP-DI as the reference index, as approved by Anatel, since September 4<sup>th</sup> Telesp has raised tariffs by 4.1%, a second increase of 3.9% remaining pending for November.

At the end of the third quarter, the equivalent lines in service (traditional business + ADSL) at Telesp amounted to 13.1 million, 2.3% higher than in September 2003 due to the strong increase recorded in the ADSL plant (+69.0%) and the stability of traditional lines. Telesp was able to reverse the trend of traditional plant loss experienced during the first half of the year (net gain of 138,370 lines in the last quarter compared with the -76,143 in the first six months of the year) thanks to the launch of new products aimed at clients with low income (economic and super-economic lines), subscription to which has been extremely popular over recent months.

Telesp continued to pursue its priority of broadband expansion to give fixed lines greater value. Telesp totaled 715,600 users at the end of September, a year-on-year increase of 69.0%, to achieve a record net gain during the quarter of 110,052 connections, compared with the 87,373 connections of the second quarter 2004 and the 33,782 of the first. The growth in Telefónica's ISP (itelefonica) users continued, reaching a total of 1.94 million users and a market share of around 25%.

Insofar as the long distance market, Telesp launched several commercial initiatives in the third quarter to increase its market share and to counteract the negative effects of the decline in the global market on operator revenues. Thus, its estimated share in the domestic intra-state long-distance market stood at around 88%, 1 percentage point up on the last quarter. In inter-state long distance, the company had a 57% estimated market share, which was slightly more than 3 percentage points more in comparison with June, while the international long distance estimated market share remained stable at around 47% with regard to June.

Telesp obtained **operating revenues** of 2,734.3 million euros, an increase of 16.0% compared to the same period in 2003 in local currency, thanks to the increase in tariffs, the good performance of new businesses (SMP, long distance outside Sao Paulo, etc.), the notable progress of value-added services and the increase in fixed-to-mobile traffic and public telephones traffic, leading to a 14.8% growth in traditional business revenues in local currency. In addition to this, there was a notable increase in broadband revenues (+69.0% in local currency) due to the growth in the customer base, leading to an 37.0% increase in Internet revenues (broadband + narrowband) in local currency to contribute 6.3% of the operator's total operating revenues.

Although **operating expenses** were 20.0% higher in local currency than in the same period 2003, the rate of increase had slowed progressively (-4.5 percentage points lower than June). This increase was the result of the higher interconnection expenses (+28.5% in local currency) associated with the increased fixed-to-mobile, SMP and long distance traffic revenues. Personnel expenses were 7.3% lower in local currency as a result of the reduction in the average workforce due to the lay-offs that took place in 2003 and in the second quarter of 2004. Subcontracting expenses rose by 19.7% due to the increased commercial activity, higher co-billing expenses and the indexing of certain contracts.

Bad debt provision as a percentage of revenues continued to drop in September to 3.2% (0.8 percentage points down on the previous year), mostly due to new products that are more closely adapted to the different client profiles.

Telesp's **EBITDA** stood at 1,237.7 million euros, which represented a year-on-year increase of 7.7% in local currency. Although the EBITDA margin as a percentage of revenues was down 3.5 percentage points in comparison with the previous year due to the higher proportion of revenues accounted for by businesses with associated interconnection (fixed-to-mobile, long distance outside Sao Paulo, SMP), it continued to recover and was 1.0 percentage point up on June to total 45.3% for the first nine months (47.2% in the third quarter).

CapEx

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dropped by 7.5% in local currency with regard to the previous year to stand at 221.0 million euros, due to the execution of projects depending on their profitability and the strategic nature of the investment. Accordingly, the **operating free cash flow** (EBITDA - CapEx) generated amounted to 1,016.7 million euros, an increase of 11.5% year on year in local currency.

Telesp had 7,008 **employees** as of September end, a year-on-year decrease of 14.8% due to the lay-off schemes implemented in 2003 and second quarter of 2004.

### Telefónica de Argentina

The relative stability of the macroeconomic situation continued in Argentina during the third quarter. Particularly of note is the stability of the peso against the dollar, with a slight 1.7% depreciation in the exchange rate from December 2003 to September 30, 2004. Furthermore, the Telecommunications sector continued to grow thanks to the gradually recovery of the fixed line telephony market, the strong growth of broadband and the sustained increase in the mobile market. Along these lines, the management of Telefónica de Argentina remained in keeping with the recovery of the market, which caused that plant and traffic operating indicators performed positively.

The plant of traditional lines recorded growth of 3.6% with respect to 2003, accelerating the growth rate recorded during the first half of the year (+2.2%) to stand at 4.3 million lines, thanks to the good performance in demand (46.6% year-on-year increase in gross additions). The net gain recorded during the first nine months of the year amounted to 147,002 lines (compared with the loss of 15,500 in the same period of 2003), of which an increasing proportion were prepaid and consumption control (28.0% of the total plant, 1.5 percentage points up on September 2003). The good performance in total traffic per line continued, which was 8.5% higher than in 2003, driven mainly by the increase in prepaid traffic, both in cards and prepaid lines. There was also a substantial increase in the ADSL plant (up by 167.9%), which stood at 149,728 lines with a net gain of 41,517 lines in the quarter, compared with 23,464 lines in the second quarter and 15,410 from January through March. This growth has enabled the company to increase its estimated broadband market share in the Southern area by 13.3 percentage points since September 2003 (to 78.8%). The ratio of lines to employee stood at 554 lines, representing an increase of 4.8% over September 2003.

Thanks to the good performance of the operating variables with respect to 2003, TASA **operating revenues** recorded a year-on-year increase of 9.4% in local currency, compared with the 7.9% of the first half, to reach 602.4 million euros, despite the tariff freeze in place since January 2002. When comparing the figures for 2004 with those of the previous year, is important to remember that it was in the second quarter of 2003 that the impact of agreements with operators for mutual invoicing applying CER (inflation indexing of wholesale offerings) was recorded for the whole of 2002. Excluding this effect, TASA's revenues rose by 12.0% in local currency. Broken down by business, revenues from traditional services (accounting for 92.9% of the total) rose 7.5% in local currency due to the growth in traffic and plant, while revenues from the Internet (Narrowband + Broadband) business rose 42.2% thanks to expansion of the ADSL plant.

The strong growth rate of revenues is coupled with an 8.6% increase in **operating expenses** in local currency, despite the fact that TASA continued to apply a strict policy for cost rationalization and control, adopted as a result of the crisis in 2002. Of particular note over the year was the effective management of bad debts, which has made it possible to maximize debt recovery and place bad debt provision as a percentage of revenues at around 1%.

Cost control, together with the increased sales, enabled TASA to achieve **EBITDA** of 361.6 million euros over the year, an increase in local currency of 10.0% over the same period of 2003. Comparison of EBITDA in uniform terms (excluding the impact on 2003 revenues of CER invoicing related to 2002) gives a year-on-year growth rate of 13.3%. The EBITDA margin was 0.4 percentage points higher than in the same period of 2003, at 60.0%.

The good performance of EBITDA enabled the company to achieve an **operating free cash flow** (EBITDA-CapEx) of 291.0 million euros, 6.7% less in local currency than in 2003, due to the sharp increase in investment, in line with the recovery of demand. This investment focused primarily on massive ADSL rollout, which accounted for 40.2% of

## CapEx.

The CapEx to revenues ratio stood at 12.1% in local currency.

## Telefónica CTC Chile

On September 21<sup>st</sup>, the Chilean General Controller published a review of the 2004-2009 Tariff Decree in which most of the suggestions made by CTC were accepted. This review has meant an increase in tariffs with regard to the version of the Decree published in May this year. Although the final version is yet to be approved and these conditions to be applied to the market, since early May CTC's accounts have included the impact of the initial Decree and in September the effects of the new version of the Decree were recorded, the effect of which were also retroactive to May.

The traditional plant improved with regard to the previous quarter, recording a slight net gain of 733 lines compared with the loss of 22,183 lines in the second quarter. This improvement was mostly due to July's launch of new services: the minute plans (which in September totaled 116,000 clients) and the Controlled Line (low consumption line). The traditional line plant totaled 2,398,137 lines at the end of September.

In terms of the Broadband business, it must be highlighted that CTC launched the 2V (double broadband speed without increase in prices for customers) in September. CTC users totaled 180,487 at September end, a year-on-year increase of 67.8%.

Although the domestic long distance market continued to decline (down 8.5% year on year), as observed in previous quarters, CTC succeeded in increasing its market share by 4.6 percentage points over September 2003, giving it a market share of 44.8%. CTC also improved its share of the international long distance market, which recorded a growth of 1.5% with regard to September 2003, by 1.6 percentage points to 30.6%.

## Operating revenues

for the first nine months of the year amounted to 648.2 million euros, which were 6.8% lower in local currency than for the same period of 2003, in line with the improvement seen in the previous quarter (excluding the effect of the CPP tariff reduction in force since the beginning of the year, the variation would be only -2.6%). This progress compares favorably with the 9.4% decline in local currency of the first half of the year, thanks to the better performance of traditional business revenues, down 8.8% in local currency (-11.4% in the first half), favored by plant stability in the third quarter, the good acceptance of the minute plans and by the new tariff situation following the last review. Furthermore, Internet (Narrowband + Broadband) revenues maintained their high growth rate (up 46.8% in local currency), accounting for 5.6% of CTC operating revenues.

## Operating expenses

remained at levels below those of 2003, 10.4% down in local currency at September. The general cost containment policy is reflected in all items, except those related to commercial management, one of the priorities of the company. The lower fixed-to-mobile traffic tariffs also favored this result, as the volume of interconnection costs declined (-26.2% in local currency). The ratio of bad debts to revenues was down from 3.8% in the same period of 2003 to 3.7%. **EBITDA** stood at 296.2 million euros at the end of the third quarter, which was 1.8% less in local currency than in 2003, a 4.7 percentage point improvement with regard to the fall in EBITDA during the first half, mainly due to the improvement in revenues evolution.

The investments made up to the end of September placed **CapEx** at 53.5 million euros, which was 2.6% less in local currency than in the same period of 2003. This, and the improved performance of EBITDA during this last quarter, meant that the **operating free cash flow** (EBITDA-CapEx) generated was almost the same as in 2003, only 1.7% less in local currency than that of the previous year, compared with the 10.0% fall in the first half of the year.

## Telefónica del Perú

On September 1<sup>st</sup>, Telefónica del Perú started to apply the new productivity factor for the price cap system (CPI-x) that regulates the local and long distance telephony tariffs of the company. This new factor, set at 10.07% for baskets C (installation fee) and D (monthly fee and local calls), and 7.8% for long distance tariffs, came into force for a period of 3 years.

Telefónica del Perú continued to accelerate its growth in the plant of equivalent lines (up 14.1% year-on-year, 0.7 percentage points higher than in the previous quarter), thanks to the 9.4% growth in traditional lines (largely as a result of the marketing of new tariff plans since March 2003), as well as the growth in broadband connections (up by 144.7%) which, with a net gain of 76,201 connections in the first nine months of 2004 (up 125.4% year on year), totaled 166,890 lines.

#### Operating revenues

totaled 771.8 million euros, representing year-on-year growth of 0.2% in local currency thanks to the 60.8% increase in Internet revenues (narrowband + broadband), which accounted for 6.7% of operating revenues and made up for the 2.5% fall in revenues from the Traditional Business. Traditional Services were affected (i) by the impact of migrations to new plans, representing 68.4% of the traditional plant (7.6 percentage points higher than the previous quarter), (ii) by the application of new Conditions for Use since May leading to users being refunded the amounts corresponding to monthly fees for periods of line disconnection and revenues from the payment of packages and that of associated value added services (i.e. memobox - voicemail) and (iii) by the entering into force of the new productivity factor for the price cap system as of September 1<sup>st</sup>.

The Long Distance business continued to be affected by competition from prepaid cards. At the end of September, the company's shares of the domestic and international markets stood at 70.1% and 57.2%, respectively, which represented slight reductions with regard to the previous quarter (down 2.1 percentage points and 0.3 percentage points, respectively), due to the enforcement imposed by OSIPTEL since July to publish detailed information on TdP clients for knowledge of the competition.

The cost containment policy implemented by TdP, together with the lower interconnection expenses (-5.5%) due to the decrease in traffic terminating on mobile networks, resulted in a slight increase of only 0.1% in **operating expenses**, despite the higher level of activity and the 4.5% increase in personnel expenses due to the increase in the average workforce. As in previous quarters, TdP recorded an improvement in the level of bad debts as a result of the prepaid plant, the bad debt to revenues ratio standing at 2.6% in comparison with the 3.2% of the same period in 2003.

The company's **EBITDA** remained stable in local currency in relation to September 2003 at 339.7 million euros.

CapEx also remained stable in local currency in comparison with the same period of last year and, therefore, the control of investments (46.4 million euros) made it possible to achieve an **operating free cash flow** (EBITDA-CapEx) of 293.3 million euros, in line with the third quarter of 2003.

At September 30<sup>th</sup>, the company had a **workforce** of 3,198 employees, which was 1.9% lower year on year (including the workforce at subsidiaries, the total number of employees was 5,084, up by 5.0%). As a result, the productivity ratio stood at 709 lines per employee, up by 16.4% year on year.

#### TELEFÓNICA EMPRESAS AMÉRICA

#### Operating revenues

amounted to 332.3 million euros, representing year-on-year growth of 13.8% in constant terms. Noteworthy was the growth and the contribution to Value Added Services recorded by Solutions revenues, with a 45.5% growth in constant terms to represent 13.2% of total revenues, and Hosting/ASP, which recorded a 55.1% growth in constant currency. Continuing with the policy for the optimization of resource management, **EBITDA** recorded growth of 92.2% (+98.9% in constant terms) and totaled 37.9 million euros, thereby achieving an EBITDA margin of 11.4% (up

by 5.0 percentage points in comparison with the same period of 2003). All of this, together with the a growth-oriented CapEx policy (particularly in Brazil, Chile and Argentina), enabled Telefónica Empresas América to record an **operating free cash flow** (EBITDA - CapEx) of +13.0 million euros at September end, compared with the negative figure reached at the end of September 2003.

Telefónica Empresas Brazil continued to account for more than a third of operating revenues at Telefónica Empresas América with a growth of 14.9% in local currency year on year. EBITDA rose by 58.3% in local currency year on year, maintaining the 5 percentage point improvement in the EBITDA margin recorded in the first half of the year.

Argentina, Chile and Perú, whose joint EBITDA amounted to 31.1 million euros, continued to generate positive operating free cash flow (EBITDA-CapEx) totaling 21.7 million euros. Of particular note is the performance of Chile, which achieved growth in local currency of 11.6% in revenues and 26.2% in EBITDA.

With regard to the other countries, it must be noted that Colombia recorded a positive EBITDA of 1.9 million euros and generated positive operating free cash flow. Mexico and the United States, which together contributed around 13% of Telefónica Empresas América sales, showed substantial growth in operating revenues in local currency at the end of September (+102.7% and +15.2%, respectively). Both operations continued to achieve improvements in the EBITDA margin with regard to 2003 (+18.9 percentage points and +6.1 percentage points, respectively), by recording joint EBITDA of -12.0 million euros compared with -13.6 million euros in the same period of 2003.

#### TELEFÓNICA INTERNATIONAL WHOLESALE SERVICES (TIWS)

TIWS continued to focus on increasing profitability. In the first nine months of 2004, the company recorded growth of 17.2% in its **operating revenues**, which totaled 114.2 million euros, continuing with the positive trend of previous quarters. Sales from the international IP services remained its main contributor with a growth of 31.5%. Despite the high level of growth in revenues, **operating expenses** continued to decrease (down by 10.8% year on year), thanks to the fall in supplies (down 12.7%) and subcontracts (down by 16.9%). As a result, TIWS obtained an **EBITDA** margin of 29.3%, representing a 22.4 percentage point improvement on the same period of 2003. The improvement in **operating free cash flow** (EBITDA-CapEx), which amounted to 22.9 million euros, therefore continued.

#### TELEFÓNICA LATINOAMÉRICA GROUP

##### SELECTED OPERATING DATA

Unaudited figures (Thousands)

	September		
	2004	2003	% Chg
<b>Telesp</b>			
Lines (1)	13,074.8	12,776.9	2.3
PSTN Lines	11,282.3	11,191.9	0.8
ISDN equivalent accesses	27.7	31.4	(11.8)
2/6 Accesses for PBX and Ibercom	1,049.2	1,130.0	(7.2)
ADSL connections	715.6	423.5	69.0
Employees (units) (2)	7,008	8,229	(14.8)
Traffic (millions of minutes) (3)	61,357.6	63,612.0	(3.5)
<b>Telefónica de Argentina</b>			
Lines (1) *	4,465.6	4,222.6	5.8
PSTN Lines	4,234.5	4,086.5	3.6
ISDN equivalent accesses	6.2	6.3	(2.2)
2/6 Accesses for PBX and Ibercom	75.2	74.0	1.7
ADSL connections	149.7	55.9	167.9

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Employees (units) (2)	8,061	7,990	0.9
Traffic (millions of minutes) (3)	29,435.6	26,548.2	10.9
<b>Telefónica CTC Chile</b>			
Lines (1) *	2,578.6	2,594.5	(0.6)
PSTN Lines	2,247.2	2,336.4	(3.8)
ISDN equivalent accesses	96.1	93.3	2.9
2/6 Accesses for PBX and Ibercom	54.8	57.2	(4.1)
ADSL connections	180.5	107.6	67.8
Employees (units) (2)	3,213	3,236	(0.7)
Traffic (millions of minutes) (3)	16,856.3	18,202.0	(7.4)
<b>Telefónica del Perú</b>			
Lines (1)	2,268.7	1,989.0	14.1
PSTN Lines	2,068.3	1,886.0	9.7
ISDN equivalent accesses	33.5	34.8	(4.0)
2/6 Accesses for PBX and Ibercom	0.0	0.0	n.d
ADSL connections	166.9	68.2	144.7
Employees (units) (2)	5,084	4,843	5.0
Traffic (millions of minutes) (3)	9,777.1	9,878.1	(1.0)
<b>TELEFÓNICA LATINOAMÉRICA GROUP</b>			
Lines (1)	22,387.6	21,583.0	3.7
PSTN Lines	19,832.3	19,500.7	1.7
ISDN equivalent accesses	163.4	165.9	(1.5)
2/6 Accesses for PBX and Ibercom	1,179.2	1,261.2	(6.5)
ADSL connections	1,212.7	655.2	85.1
Employees (units) (4)	23,366	24,298	(3.8)
Traffic (millions of minutes) (3)	117,426.6	118,240.2	(0.7)

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

(1) PSTN (including Public Use Telephony) (x 1) - ISDN Basic access (x 2) - ISDN Primary access (x 30) - 2/6 Accesses (x 30) - ADSL Lines (x1) and Cablemodem (in Perú).

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

(3) Including total invoiced incoming and outgoing traffic: Local, PUTs, DLD and ILD. January-September accumulated data.

(4) Calculated with the wireline company staff of the fixed telephone operator (OTF) and the subsidiaries that are consolidated by the full integration method. Does not included the employees of Telefónica Empresas América and those of TIWS. As of 30/09/04 day were 2,402 and 249 respectively.

### TELEFÓNICA LATINOAMÉRICA GROUP

#### SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - September		
	2004	2003	% Chg
<b>Telesp</b>			
Operating revenues (1)	2,734.3	2,482.9	10.1
EBITDA	1,237.7	1,210.0	2.3
EBITDA margin	45.3%	48.7%	(3.5 p.p.)
<b>Telefonica de Argentina</b>			
Operating revenues	602.4	601.9	0.1
EBITDA	361.6	359.1	0.7
EBITDA margin (2)	60.0%	59.7%	0.4 p.p.
<b>Telefonica CTC Chile</b>			
Operating revenues	648.2	706.0	(8.2)

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EBITDA	296.2	306.2	(3.3)
EBITDA margin	45.7%	43.4%	2.3 p.p.
<b>Telefonica del Perú</b>			
Operating revenues	771.8	815.6	(5.4)
EBITDA	339.7	359.4	(5.5)
EBITDA margin	44.0%	44.1%	(0.1 p.p.)
<b>Telefónica Empresas América</b>			
Operating revenues	332.3	309.9	7.2
EBITDA	37.9	19.7	92.2
EBITDA margin	11.4%	6.4%	5.0 p.p.
<b>TIWS</b>			
Operating revenues	114.2	97.5	17.2
EBITDA	33.5	6.6	406.4
EBITDA margin	29.3%	6.8%	22.5 p.p.

*Note: EBITDA before management fees. Data for Telefónica de Argentina include the ISP business of Advance, while those of Telefónica del Perú includes CableMágico.*

*(1) Net of international accounting payments, homogeneous within Latin America operators. Criteria applied retroactively in 2003.*

*(2) Net of fixed to mobile interconnection.*

### TELEFÓNICA LATINOAMÉRICA GROUP CONSOLIDATED INCOME STATEMENT

*Unaudited figures (Euros in millions)*

	January - September			July - September		
	2004	2003	% Chg	2004	2003	% Chg
Operating revenues	5,046.0	4,921.5	2.5	1,769.9	1,788.7	(1.1)
Internal expend capitalized in fixed assets (1)	30.3	34.5	(12.2)	11.0	12.3	(10.4)
Operating expenses	(2,665.9)	(2,583.8)	3.2	(917.1)	(932.8)	(1.7)
Other net operating income (expense)	(118.7)	(119.8)	(1.0)	(36.0)	(39.6)	(9.0)
<b>EBITDA</b>	<b>2,291.8</b>	<b>2,252.4</b>	<b>1.8</b>	<b>827.8</b>	<b>828.6</b>	<b>(0.1)</b>
Depreciation and amortization	(1,250.9)	(1,338.7)	(6.6)	(426.3)	(461.4)	(7.6)
<b>Operating profit</b>	<b>1,040.9</b>	<b>913.7</b>	<b>13.9</b>	<b>401.5</b>	<b>367.2</b>	<b>9.3</b>
Profit from associated companies	(0.6)	1.0	c.s.	0.1	(1.3)	c.s.
Financial net income (expense)	(240.1)	(71.8)	234.2	(83.0)	(200.9)	(58.7)
Amortization of goodwill	(65.0)	(68.8)	(5.5)	(21.7)	(22.3)	(2.4)
Extraordinary net income (expense)	418.4	(84.8)	c.s.	408.0	(37.9)	c.s.
<b>Income before taxes</b>	<b>1,153.5</b>	<b>689.3</b>	<b>67.4</b>	<b>704.9</b>	<b>104.9</b>	<b>n.s.</b>
Income taxes						