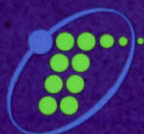


Telefónica

Annual
Report 1994



JANUARY

- The COCELCO consortium (60% Colombian capital, 35% Telefónica Group and 5% Venezuelan group CIMAS) obtains one of the three licenses for operating the cellular mobile Telephony Service in Colombia. Telefónica now manages cellular networks in Argentina, Chile, Venezuela, Colombia and Romania.

FEBRUARY

- Telefónica bids successfully for the contracts arising out of the privatization of the companies Entel-Peru and CPT-Peru, being granted licenses for all telecommunications services for a period of 20 years, with the option of renewal.

- The news agency EFE and Telefónica sign a contract for the provision of a satellite communications service based on a Vsat Network. This will enable all types of communication, including images, to be sent and received between EFE headquarters in Madrid and all its delegations.

- For the first time since its creation in 1988, The Art and Technology Foundation appears at the ARCO '94 Fair, presenting a fibre optics interactive installation called "Human-Light-Human", a new experience in interaction between humans and the new technologies through art.

MARCH

- Telefónica joins the FLAG project, the longest fibre optics underwater cable in the world, which will link thirteen countries between Great Britain and Japan, offering communications between Europe, the Middle East and the Far East.

- Radio Red, an affiliate of Telefónica Mobile Services, obtains one of the licenses for operating the Closed Group radiotelephony service ("Trunking") in the eight geographical areas covered in the competition.

APRIL

- On the 15th of April, Telefónica's chairman, Cándido Velázquez-Gaztelu presents the results for 1993 to the General Meeting of Shareholders. A highlight is the fact that the Company, for the first time in its history, has managed to break the vicious circle between "service quality" and "financial health", and this in the year in which it celebrates its 70th anniversary (1924-94).

- Telefónica Sistemas joins the "RAMA" Programme for remote access to multimedia information in museum archives, part of the European Community RACE programme. Telefónica Sistemas de Satélites presents the "VIGIA 2000" Forest Fire Early Warning System, which uses satellite communications, and the ET-SIT Teleeducation project.

MAY

- CETESA relaunches its data transmission products, with the Tourist Line becoming the Leisure and Travel Guide, in both the telephone service and the Ibertex network.

- The transfer to Telefónica international of the ownership (35% of the share capital) and management of the Compañía Peruana de Teléfonos (CPT), Entel Peru and their subsidiaries is ratified in Lima. The transaction involves the payment of 1,392 million dollars to the Peruvian government and the reinvestment of 610 million dollars in the Compañía Peruana de Teléfonos (CPT).

JUNE

- Telefónica I+D's RECIBA project (Broadband Integrated Communications Experimental Network) is chosen, along with three other laboratories, to form a pan-European Laboratory created by EURESCOM for testing the ATM network management Systems (broadband). It also receives the Fundesco Award for Research.

- CTC of Chile acquires 80% of INTERCOM, S.A., a major cable TV company based in Santiago de Chile which offers total interactive and multimedia services, and a combined network of data, voice and video.

JULY

- Unisource and Telefónica announce the formal commitment to the Spanish operator's integration into the European consortium as a fourth partner on an equal footing. Since the December 1993 agreement, both groups have been working on joint projects in the areas of business networks and satellites. This new agreement allows Telefónica to participate in all areas of Unisource's business.

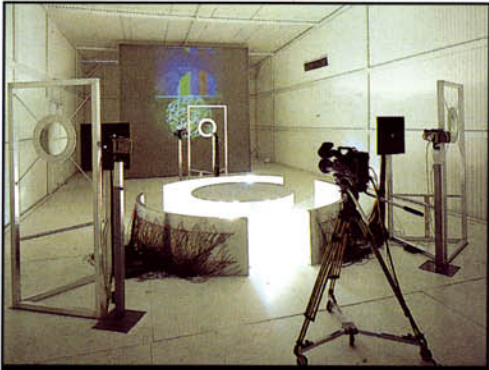
- As a member of the COCELCO consortium, Telefónica puts into operation the Columbian Moviline cellular telephony service, with nearly 2,000 users in the first week.

- In Spain, the Moviline service reaches 300,000 users, after the introduction of new service contract modes: business, personal and general.

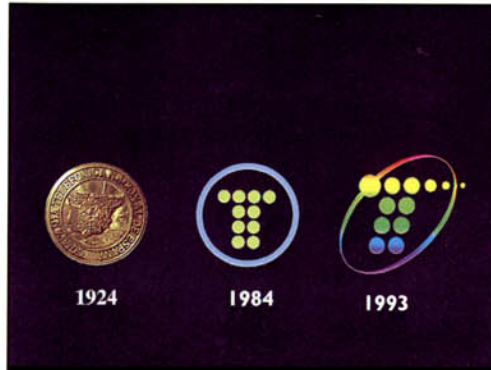
- Telefónica Internacional exchanges its 20% holding in Entel-Chile (18,525,598) for the Chemical Banking Corporation's 4.33% holding in Cointel, plus 46 million dollars (this sum yet to be finally decided). In this way, Telefónica strengthens its position as the majority shareholder in Cointel, which in turn has a 60.5% share in Telefónica de Argentina.

AUGUST

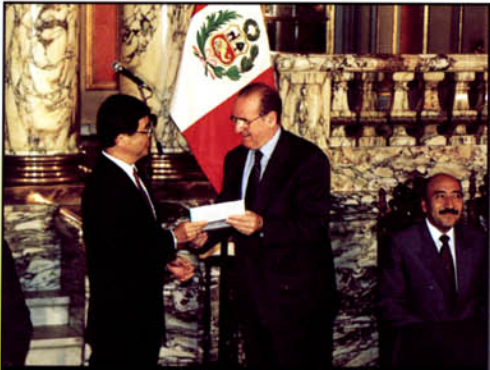
- Telefónica automates the maritime Radiotelephony service, for ship to shore communications in the Mediterranean-Balearic Islands area.



February



AprilAbril



May



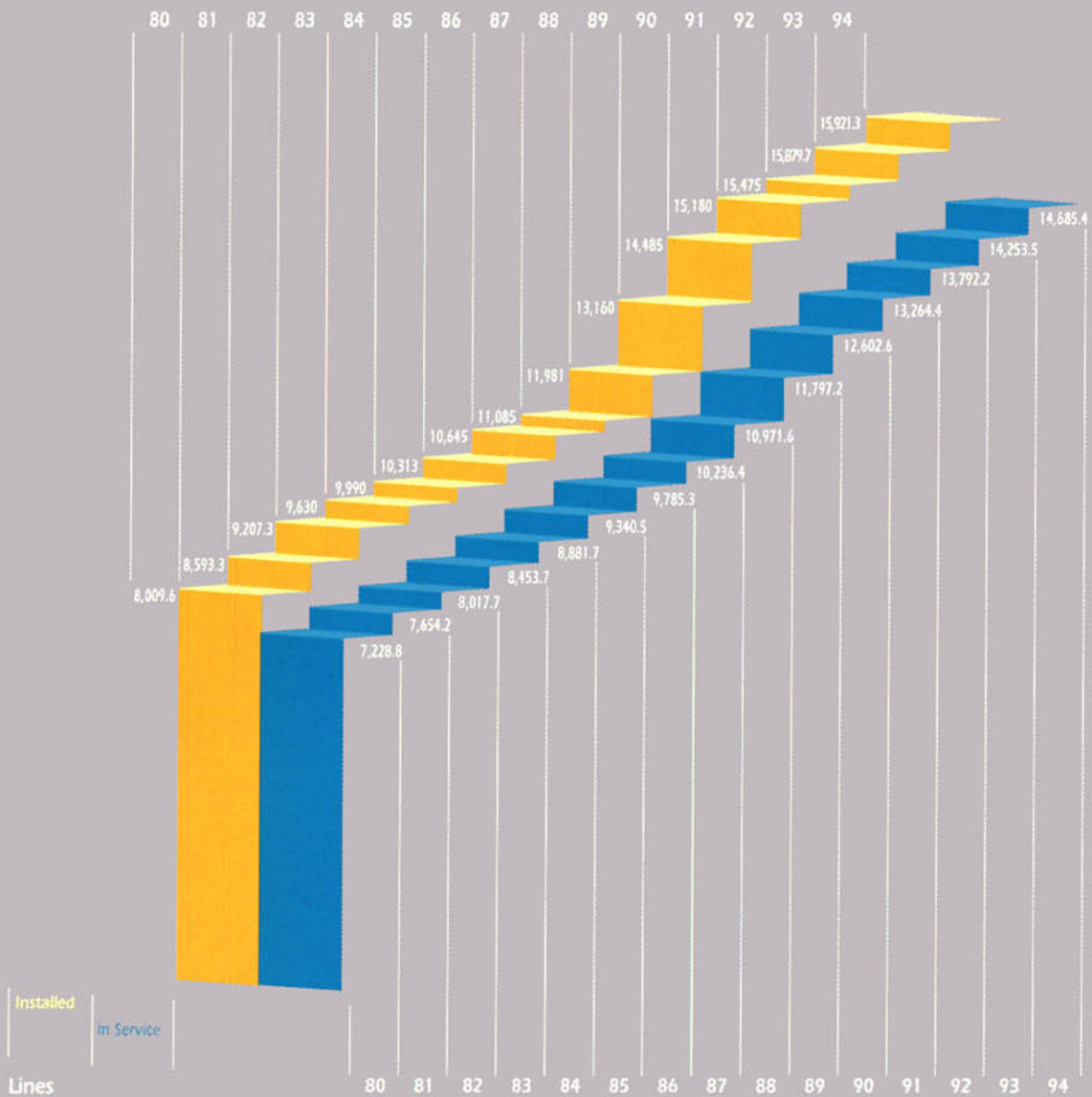
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Telefónica
Annual
Report **1994**

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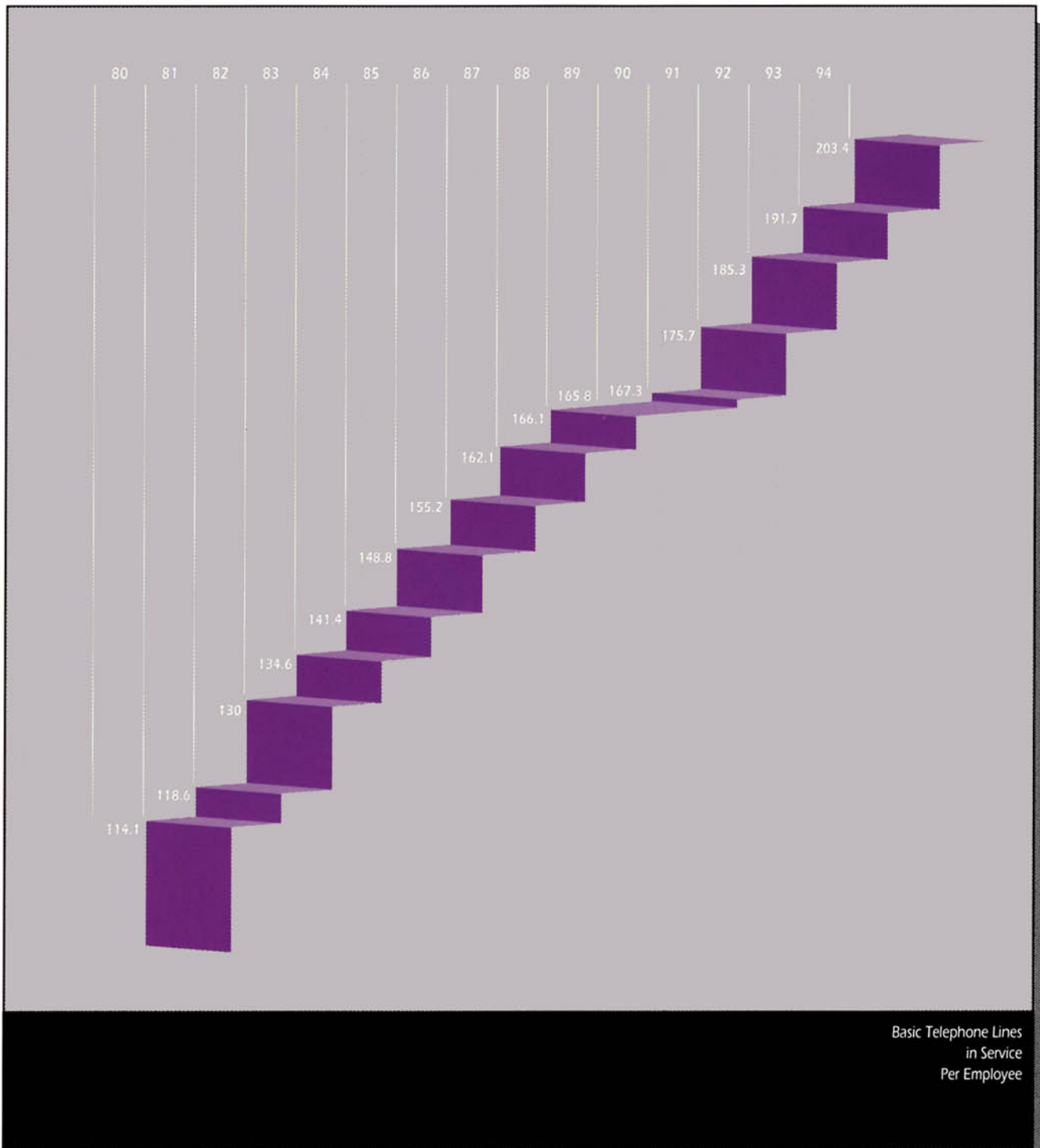


Basic Telephone Lines
Installed and in Service
(Thousands)

HIGHLIGHTS

	1990	1991	1992	1993	1994
Lines in service (thousands)					
Basic Telephony	12,602.6	13,264.4	13,792.2	14,253.5	14,685.4
IBERCOM	255.5	375	481.6	572.5	656.7
Automatic Mobile Telephony	54.7	108.5	180.3	257.3	411.9
Basic Telephone lines in service per 100 inhab.	32.4	34.1	35.3	36.4	37.5
% Average growth in line usage	2.3	4.1	4.1	-3.5	1.2*
Employees	75,350	75,499	74,437	74,340	72,207
Basic Telephone lines in service per employee	67.3	175.7	185.3	191.7	203.4

(*) Since 1994 consumption is measured in minutes



HIGHLIGHTS

	1990	1991	1992	1993	1994
Demand for new basic Telephone and IBERCOM lines (thousands)	1,444.6	1,237.8	1,205.4	1,261	1,334.2
Operating revenue (ptas. millions)	852.542	1,008.031	1,154.696.0	1,220.084	1,283.536
Financial debt ratio (%)	51.9	55.1	58.4	57.1	54.7
Capital expenditure in fixed assets (ptas. millions)(*)	708.545	616.026	439.391	381.507	406.882
Cash-flow (ptas. millions)	344.906	402.149	466.365	491.440	559.008
Net income (ptas. millions)	75.788	80.847	83.899	84.837	91.734

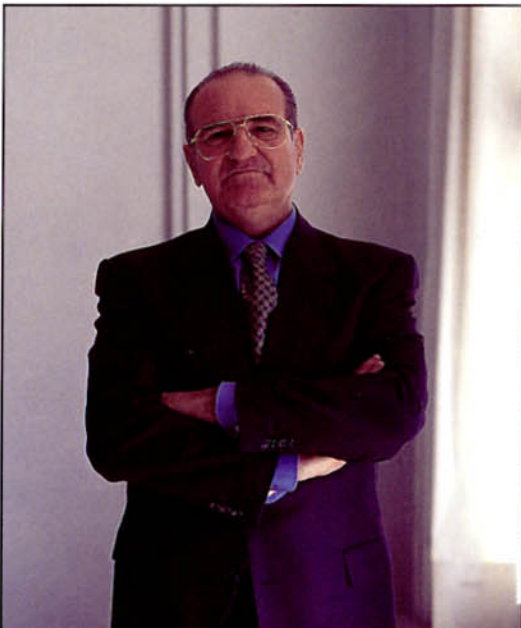
(*) Tangible and intangible

Dear shareholder,

During the past year it became clear once again that the process of gradual introduction of competition in the telecommunications sector was tending to accelerate. After the liberalization in Spain of public telephony (with the exception, for the moment, of public telephone booths), last October the Government approved a programme of transitory measures until January 1, 1998 which will give a further boost to competition. These include the granting of a second license for operating the GSM mobile telephony system and the bringing forward to January 1, 1995 of the authorization of the resale of leased circuit capacity. European Union Telecommunications Ministers also agreed on the liberalization of infrastructure, coinciding with the total liberalization of voice telephony as from January 1, 1998.

In Telefónica we have closely monitored these regulatory trends, which have come as no surprise to us as for some time now we have been preparing ourselves to act in a competitive market by orienting our organization more and more towards a business area structure, a process which was intensified by the reorganization carried out at the end of last year. In this new scenario of liberalization of telecommunications, this response by Telefónica in the area of its organizational structure is an essential element in the new strategic focus for its activity. This new focus consists of a balanced combination of the delegation of responsibilities, to allow us to react flexibly to the demands of a competitive market, with the necessary degree of corporate control to ensure the correct definition of the Group's strategy, the efficient management of the different business areas and the best possible use of all the synergies we have at our disposal.

Another cornerstone of our action during the past year, and clearly the basis on which we were able to contain rising costs and maintain the competitiveness of Telefónica, was bringing the size of our workforce in



Cándido Velázquez-Gaztelu Ruiz
Chairman of Telefónica de España

to line with our real needs. Through a program of voluntary early retirement we reduced our workforce by more than two thousand, achieving for the first time a level of productivity above two hundred fixed lines per employee. Although this now places us among the leading European companies in this area, the policy should continue and will therefore have to be complemented with other early retirement and voluntary severance programmes, without forgetting the need to transfer personnel to business areas with greater growth potential.

Without underestimating its importance, Telefónica however does not wish to base its future competitiveness solely on cost reduction, but rather to set itself targets for expansion and growth which will strengthen its leadership and increase its profits. The takeover of the companies CPT and Entel Perú (now merged in the new company Telefónica del Perú) and the strengthening of relations with other European operators were significant landmarks during the year, forming part of our strategy of international alliances and the inevitable process of globalization of services. But also of great importance was the development of new domestic and international services, among them the ISDN, which expand the catalog of new services with which the Company measures its potential for growth in the future. All this has brought about a notable increase in the Telefónica Group's turnover and a correlative increase in profits, compatible not only with an improvement in quality, but also with a reduction in nominal terms of the average price of services. We also achieved a new record in the self-financing of our investments, 121%, and reduced our borrowing rate, thus further improving the financial health of our Company.

These are the trends which we want to consolidate in the coming years, to the benefit of our shareholders and employees, and at the service of our clients.

With kind regards

Cándido Velázquez-Gaztelu Ruiz
Chairman of the Board of Telefónica de España

THE LEGAL
FRAMEWORK

From 1987, the year in which the Telecommunications Act was passed, right up to the present day, the legal framework for the provision of telecommunications services has undergone almost constant modification. All the modifications, including the major

changes made to the Act at the end of 1992 and the recent government agreement on telecommunications policy, have tended to work towards the ending of monopoly situations. Bearing in mind that Telefónica was almost the only supplier of the whole range of telecommunications services, these changes have considerably affected its activity. At the moment the only remaining exclusive right, and not for much longer, is that for the provision of fixed network voice services, but that must be weighed against the obligation to provide a universal service.

It could be said, then, that the process of telecommunications liberalization which began in the United States in 1984, and which in the European Union dates from the 1987 Green Paper, is about to reach its peak, with not only the total liberalization of services, but of infrastructure as well, on January 1, 1998. But it would be erroneous to focus our attention solely on fixed network vocal telephony, even though it is here that the most serious problems from the point of view of liberalization are raised - those concerning the development of networks, bringing tariffs back into balance and defining the scope of the universal service and its financing. These problems account for why the liberalization process has been slower here than in the other services.

Neither would it be correct to see the different telecommunications services as watertight compartments. In fact, services which meet certain needs in the same segments of the market can always be replaced by

EUROPEAN DIRECTIVES

- 1987 • Green Paper on Telecommunications Act
- 1988 • Liberalization of terminals
- 1990 • Liberalization of services and ONP
• Liberalization of voice telephony for Groups
Closed User and Business Networks
- 1991
- 1992 • ONP leased circuits Directive
- 1993 • Agreement for liberalization of
voice services by January 1, 1998
- 1994 • Agreement on liberalization
of infrastructure by January 1, 1998
• Resolution on Universal Service
• Infrastructure Green Paper (part 1)
- 1995 • Satellite communications
open to competition
• Infrastructure Green Paper (part 2)
- 1996 • Automatic Mobile Telephony
open to competition
- 1998

SPANISH LEGISLATION

- Telecommunications Act (LOT)
- Liberalization of terminals
- Modification of LOT
• Radiopaging service open
to competition
- Data transmission, Closed Group
radio telephony and local radiopaging
services open to competition.
• Correos and Retevisión awarded
support Service for VSAT.
- Automatic Mobile Telephony
open to competition
• Trunking licenses granted
• Second GSM license granted
• Correos and Retevisión granted
circuit leasing for TMA (GSM)
• Public Telephony open to com
petition (except public booths)
• Cable Telecommunications Bill
- Resale of leased circuit capacity
authorized
• Liberalization of VSAT services
- Basic Telephony and Infrastruc
ture open to competition



2.- Germán Ancochea Soto

3.- Antonio López-Barajas y García-Valdecasas

4.- Manuel A. Blanco Losada

5.- Rafael Hernández García

6.- Francisco Ros Perán



1.- Cándido Velázquez-Gaztelu Ruiz

7.- Francisco Mochón Morcillo

8.- José Caballero Guerrero

9.- Heliodoro Alcaraz García de la Barrera

10.- Guillermo Fernández Vidal

11.- Ignacio Santillana del Barrio

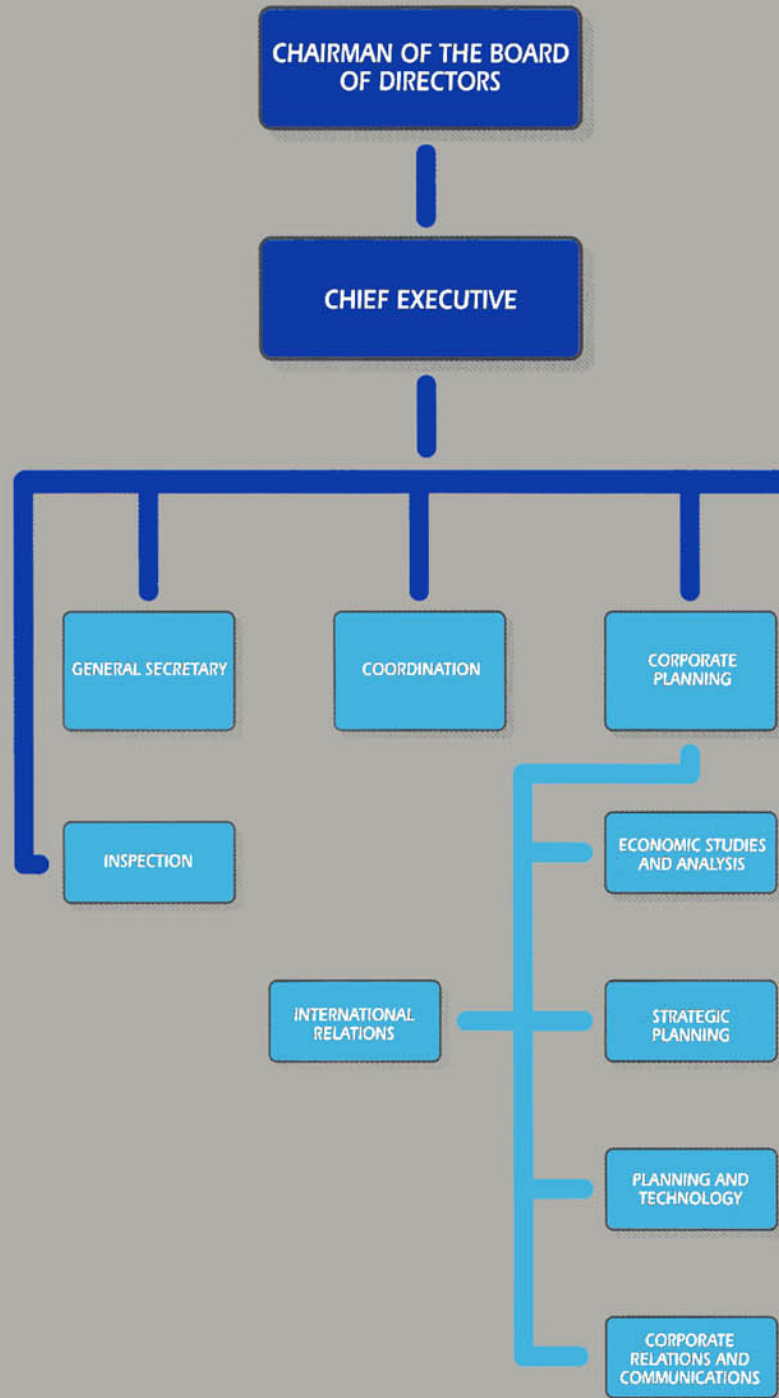
12.- Luis Lada Díaz

each other, and are therefore competitors, whatever technology they are based on. Many examples could be quoted here, the most obvious being that of mobile telephony, which meets the needs of voice communication in exactly the same way as a fixed line. The domination of the market which derives from the possession of exclusive rights for the provision of certain services is therefore not just a legal issue, but also technological and economical. It could thus be said that apart from the more liberal framework which has been emerging recently, competition is in fact more deeply rooted than it would seem from a simple examination of the legal situation.

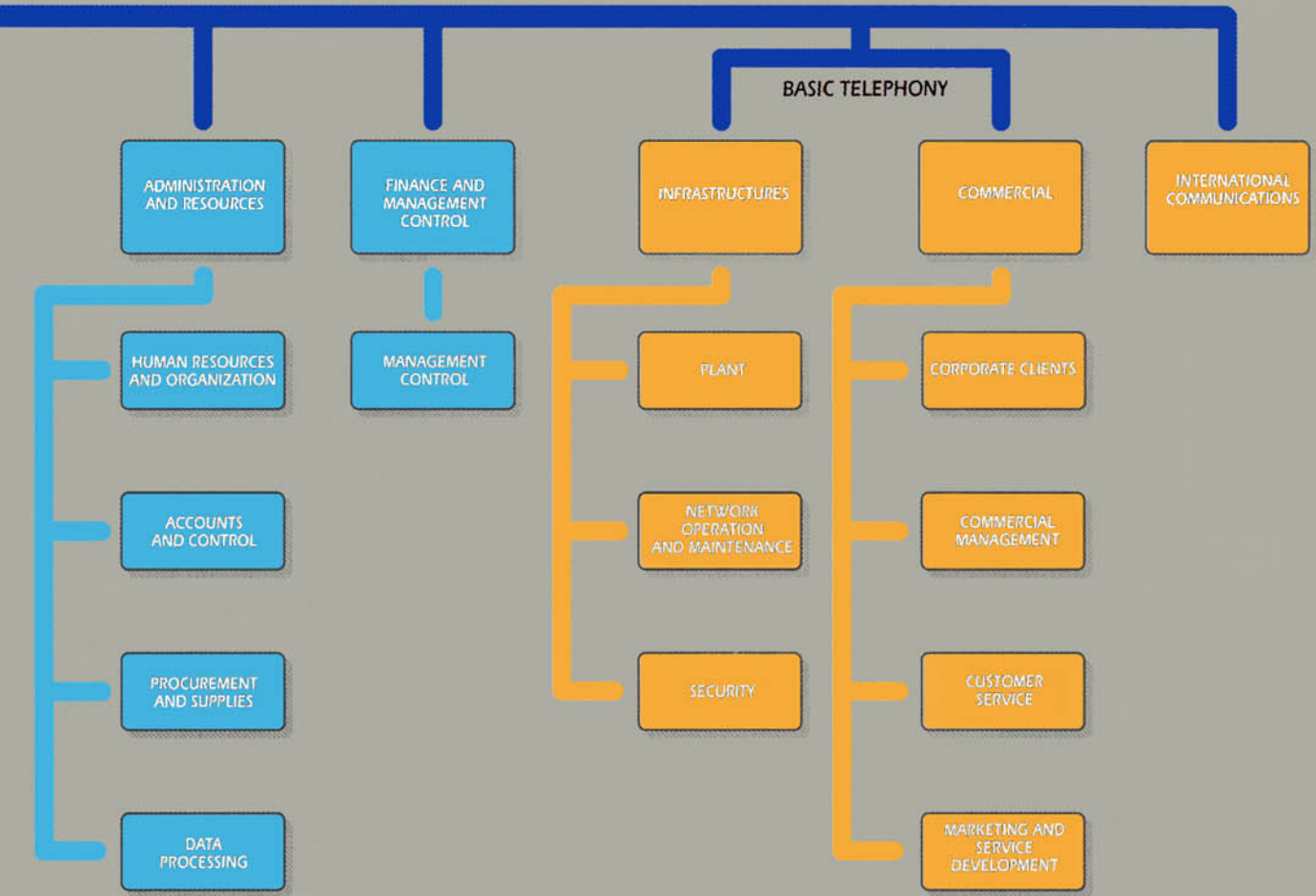
REORGANIZATION AS A STRATEGIC RESPONSE

The different Strategic Plans that Telefónica has carried out in recent years have not only aimed to improve the Company's image and the quality and diversity of its services and modernize its networks, but have also inspired the necessary cultural and organizational change which the new competitive environment resulting from liberalization demanded. One of the most important aspects of the 1995-1999 Strategic Plan, which the Company's Management approved at the end of last year, was the reorganization in terms of business areas, thus culminating the process in which a business area focus had been prominent over several years.

This made the organization itself a key element in Telefónica's strategic



CORPORATE MANAGEMENT



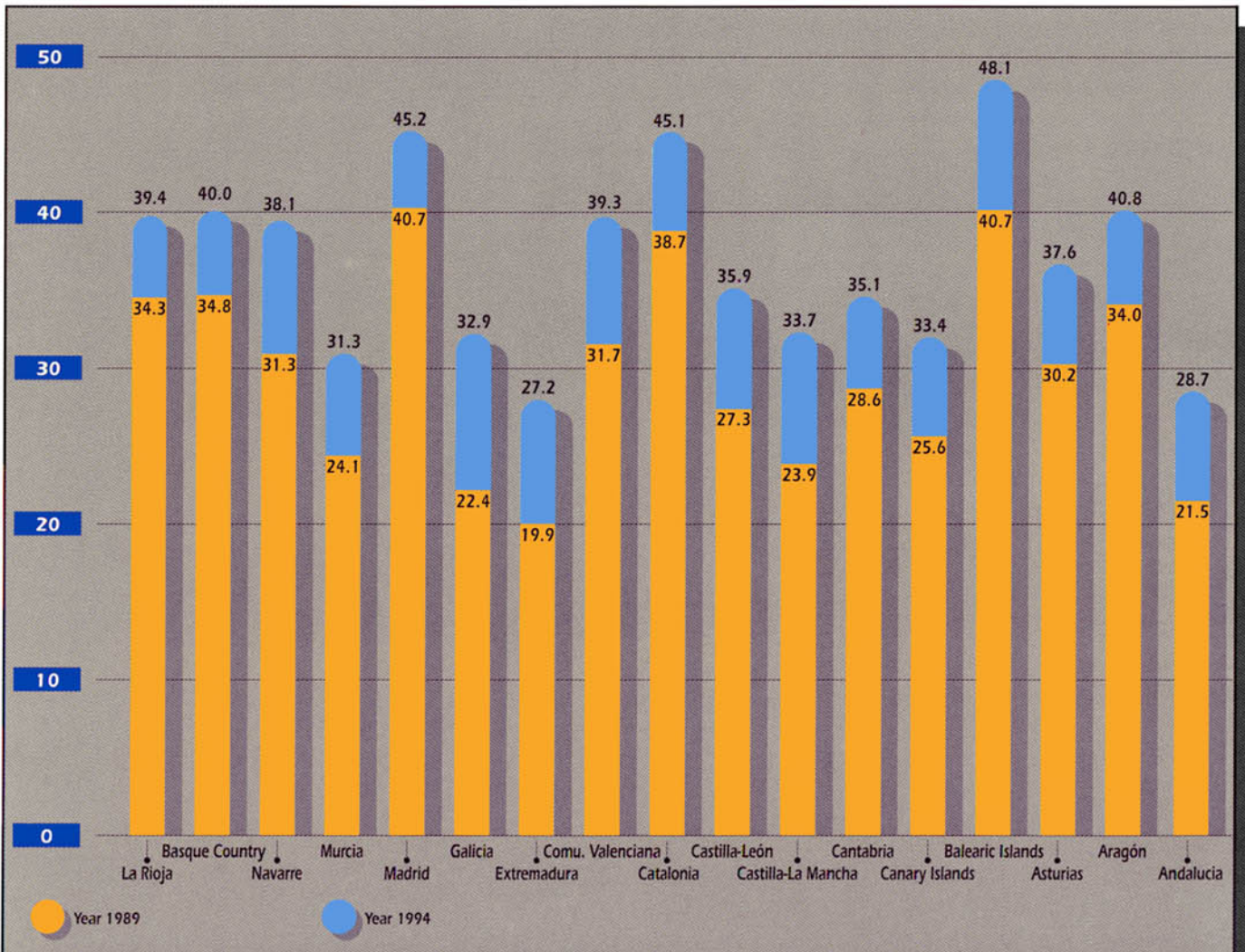
BUSINESS MANAGEMENT

response to the new environment in which it has to carry out its activity.

The thinking behind this reorganization is that it was felt desirable to move towards a decentralization in which the people responsible for the different areas have a higher profile and take more initiative. We also expected this to lead to improvements in terms of more efficient management.

Thus emerges a new Telefónica, a Group made up of the parent company Telefónica de España and a group of companies which take on the name of the type of service provision which is transferred to them. This

business concept has been reinforced by the fact that, along with this decentralization of the business areas, the management of the Group as a whole revolves around a Group Management Committee and several corporate General Directorates which support it. These, although they form part of the organizational structure of the parent company, have an area of responsibility which covers the whole business conglomerate. This "corporate core" has then as its main missions those of defining the Group strategy and coordinating and controlling an op-

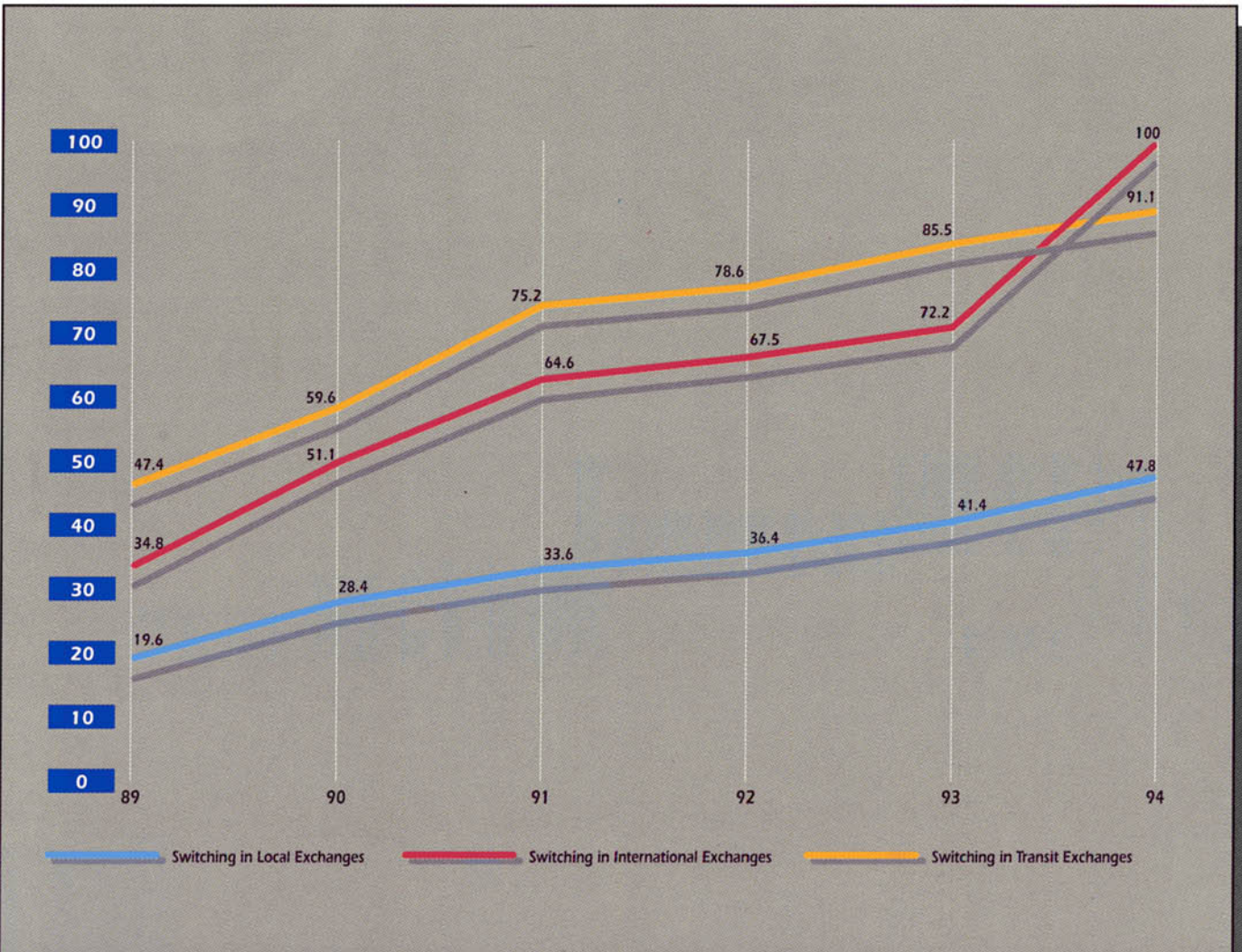


Basic Telephone Service Density
in autonomous regions
Lines per 100 inhabitants

erational level all the Group's business activity, with the aim of capitalizing on all the possible synergies and avoiding dispersal of effort.

The reorganization distinguishes between the Basic Telephone Service, which is the core of the Company's activity, and other services such as Data Transmission, Mobiles, Public Telephony, Information and Advertising and Multimedia, which can be transferred to different specialized companies, some of which have been in existence for some time. International Communications is also seen as a separate business area from the

Basic Telephone Service, and for the moment remains within the structure of Telefónica de España. International Business, an essential part of which are the holdings in foreign operators, will continue to be managed by Telefónica Internacional. Nevertheless, except in the case of the data transmission and international communications businesses, whose globalization demand integration at at least the European level, the Group companies are affiliates over whom it is always desirable for Telefónica de España to exercise a high degree of control.



Network digitization levels

SERVICE PRICE REDUCTIONS

As has been repeatedly pointed out in many forums, the restructuring of telephone tariffs is of great importance as it is a condition for the total liberalization of voice services under conditions of fair competition which is planned to take place on January 1, 1998. However, this competition will be impaired if tariffs are not brought into line with the real cost of services, and this was the understanding of the Council of Telecommunications Ministers of the European Union in their historic agreement of June 1993.

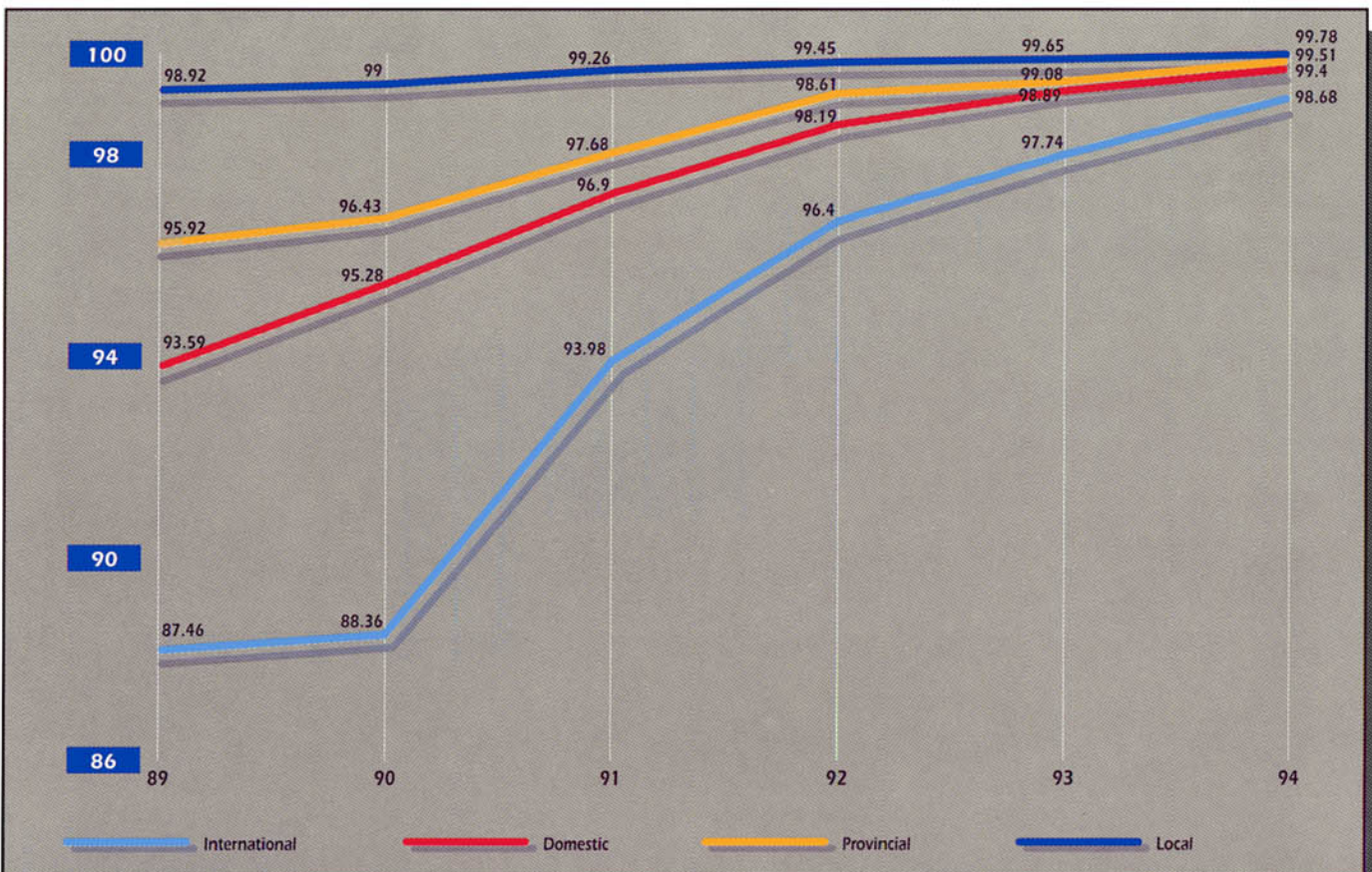
In the case of Spanish telephone tariffs, where the imbalance between

local and long distance tariffs was particularly significant, this restructuring was even more necessary, despite advances made in this regard since 1990.

Last year another step in the right direction was taken when the Government authorized a substantial increase in local tariffs, which was almost totally made up for by reductions in provincial, domestic and international tariffs.

However, it should not be forgotten that Telefónica supplies quite a lot more than conventional fixed network telephone services.

The circuit leasing service, which is essential for the development of information technology and data



transmission networks all over the country, had its tariffs reduced by over 20%. The ever more popular mobile services had their tariffs reduced by 15%.

The result of the above is that the price index of Telefónica's services taken as a whole and weighted according to their monetary values in the base year 1993 fell in 1994 in nominal terms. Or to put it another way, the fall in prices in real terms was greater than the inflation rate.

This meant that Telefónica was able to pass on to its customers savings of at least 50,000 million pesetas, thanks to the improvement in productivity and the reduction of unit costs in 1994.

Such a price reduction is virtually without precedent in the Company's history, and clearly shows the extent to which the improvements in efficiency in its internal management procedures are already allowing Telefónica to respond competitively in price terms, in the way it has already been in terms of service quality.

TYPES OF SERVICE	RATE OF CHANGE
Monthly standing charge	+ 3,2
Connection fee	- 10,3
Local service and fixed-rate special services	+ 30,7
Provincial service	- 29,8
Domestic service	+0,2
Fixed-mobile service	- 0,8
Public service telephone	- 3,4
Automatic service to E.U.	- 6,3
Automatic service to rest of W. Europe	- 22,3
Automatic service to rest of Europe	0
Automatic service to USA and Canada	- 9,5
Automatic service to rest of America	- 0,1
Automatic service to Japan	- 12,9
Automatic service to rest of the world	- 4,7
Circuit leasing service	- 23,6
Automatic mobile service	- 15,0
Other non-regulated services	-3,3

Percentage change in prices of main Telefónica de España services in 1994

BASIC TELEPHONE SERVICE

During 1994 the basic telephone service continued to develop both in terms of the number of installations and the standards of the services available to our clients. This led to an overall improvement in Telefónica's services, especially in crucial aspects such as the reduction of waiting time, and the achievement of greater service density and better quality indicators.

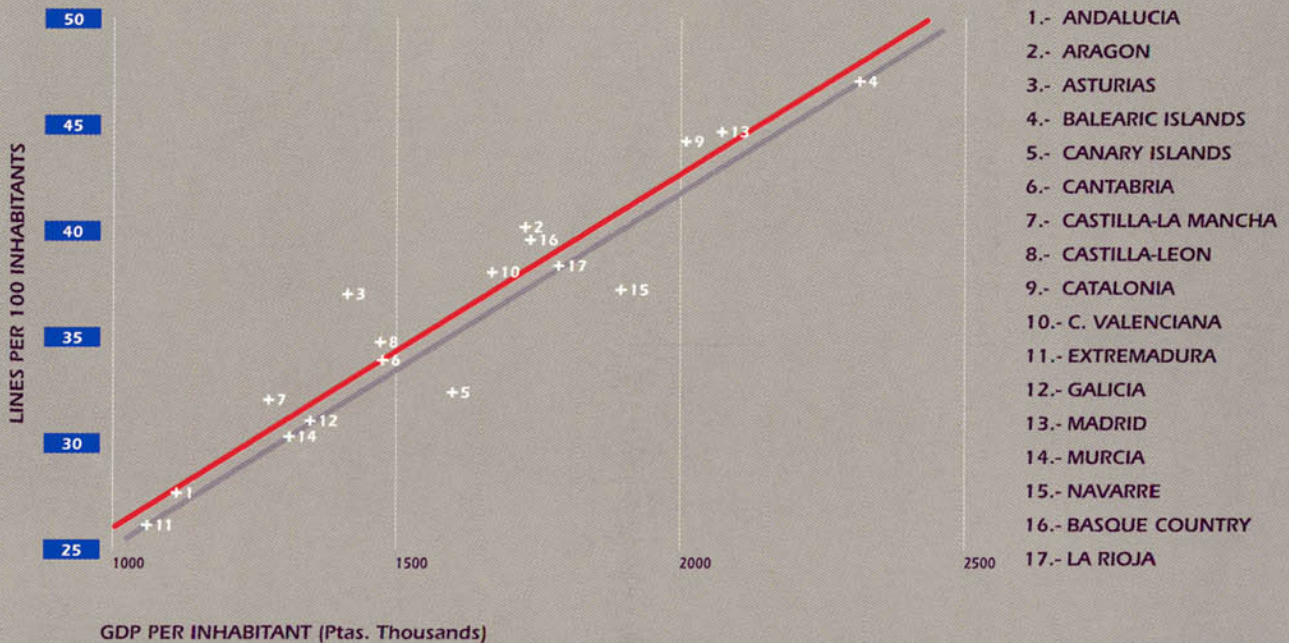
New investments and improved management procedures reduced the average waiting time for the installation of a new line from **8 days** in 1993 to **5.1 days** in 1994, which means that requests are now attended to practically on demand.

In 1994 there were **1,221,687** telephone line applications, **7.5%** more than the previous year. During the year telephone usage returned to positive figures, with an average growth of **1.2%** per line.

At year-end, the Basic Telephone Network had **14,685,406** local lines in service, with an annual growth of **3%**, and **146,419** lines carried by cellular access technology.

With this plant, the Basic Telephone Service density stood at **37.5** local lines per 100 inhabitants in December 1994.

To these figures should be added the **656,700** Ibercom advanced telephony lines in service.



Basic Telephony Density
GDP per inhabitant 1993
Source: Telefónica, INE, FIES

Thanks to the continuing development of the basic telephone service waiting time was reduced and quality indicators were up. In the photograph, a Network maintenance work group.



DEVELOPMENT AND MODERNIZATION OF THE BASIC NETWORK

In 1994 **1,066,694** local lines were installed, practically all of which had digital technology. Of these, **216,379** were installed in response to demand, **835,327** substituted analog lines, and **14,988** were used to bring the service to new local zones. These installations enabled us to reach a digitization level of **47.8%**.

As part of this modernization process, the existing analog plant was brought up to date, thus widening the tariff levels for new Intelligent Network Services and Ibertex. And the majority of the digital exchanges had the new VPR (Virtual Private Network) categories introduced.

The coming into service of four new digital transit exchanges, with **47,880** trunk lines, enabled us to reach a historic landmark in the total digitization of the Interprovincial Transit Network, with the last ten secondary analog exchanges going out of service.

At year-end 1994 **28** provinces had the necessary structure for ISDN, due to the increase in the number of trunk lines in service in the Transit Network which use Common Channel n° 7 Signalling. These installations meant that **70** exchanges in the Domestic Network were ready to carry ISDN traffic.

In the area of the Domestic Network we achieved the total diversification of Ibermic Network circuits, Mobile Networks, and Basic Telephony final routes. Taken together, the digitization level in trunk lines stood at **91.1%**.

As regards Transmission, testing and development of the specifications for the forthcoming installation of Synchronous Digital Hierarchy (SDH) equipment continued.

The fibre optics cable Domestic Network also continued to expand, with **1,373** Km. being installed in the Transit Network.

As part of the strategy of bringing fibre optics to the customer (Fotón Plan), fibre optics trunk networks were installed in 200 exchange areas in 36 towns and villages in thirteen provinces.

For these networks **1,816** Km. of fibre optics cable was laid for **33,500** blocks, with a density of over 90%.

SERVICE EXPANSION IN THE RURAL COMMUNITY

In 1994 Telefónica and the Local Authorities continued to collaborate to enable total coverage of the basic telephone service in rural areas to be a reality in the near future. It should be remembered that Telefónica has committed itself to the complete universalization of the telephone service by 1996, guaranteeing all citizens access under equal price and quality conditions, irrespective of their place of residence.

The fact that both mobile cellular and conventional technology were available enabled us to reach **112,601** new connections through Service Expansion during the year, **77,395** of which used TRAC technology. This brought the accumulated results of the Operational Plan for Service Expansion in the Rural Community at year-end 1994 to **250,054** connections, of which **142,385** were through TRAC and the other **107,669** by conventional means. By the end of the year the Plan had achieved its aims in the Autonomous Regions of Galicia and Castilla-La Mancha, where all new telephone line applications are now considered local.



In 1994 the historic landmark of the total digitization of the Transit Network was reached.

TELEPHONE SERVICE QUALITY

Improvements to Plant carried out during the year contributed to the achievement of quality indicators superior to those of the previous year. In December 1994 the efficiency rates for the different types of call were as follows:

Local:	99.78%
Provincial:.....	99.51%
Domestic:.....	99.40%
International:.....	98.68%

Similarly, there was a noticeable improvement in the area of repairs, with a fall in the number of calls per 100 lines and month to an annual average of **1.74**.

Repairs were also carried out more quickly, and this enabled us to reduce the average duration of service fault to **10.04** hours, compared with 12.6 hours the year before.

In 1994 the Spanish Standardization Association (AENOR) certified Telefónica's Quality System in six provinces according to UNE standard 66-901-89, which is equivalent to international standard ISO 9001.

This began a process which will continue in 1995 in all the provinces. This certification fits into the framework of the Company Total Quality Project set up by Telefónica in 1992, to which the whole organization is committed.

The number of quality improvement teams rose to **759**, with **4,000** employees taking part.

The aim of the Project is to foster a new management style which will put the client at the centre of all decisions.

ITEMIZED BILL SERVICE

The process of providing clients with free itemized bills which had begun the previous year continued in 1994.

At year-end the number of lines for which itemized bills were available had risen to **7,969,053**.

As is known, Telefónica has undertaken to provide this facility for all its clients by 1997.

OPERATION AND INFORMATION SERVICES

In 1994 these Services continued to improve customer service quality.

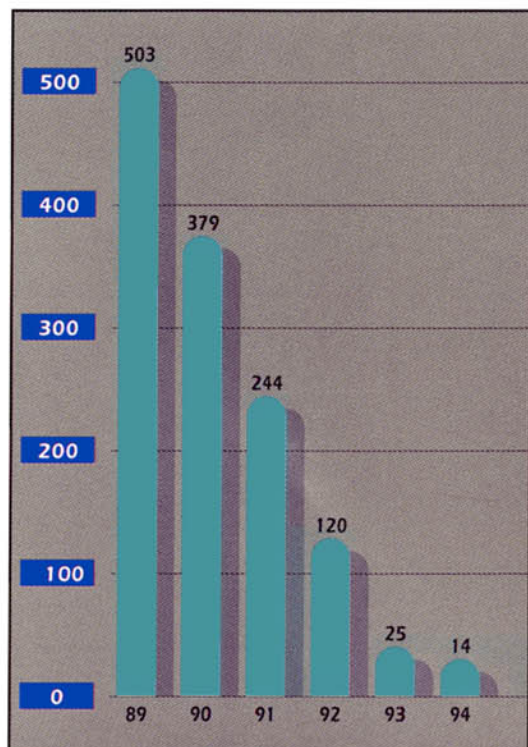
We were able to achieve an appreciable reduction in the average answering time for calls attended to during the year, with the Technical Assistance Service (002) standing at 4 seconds, and the Information Service (003) at 6.9.

The other 09X Information Services also continued to make good progress in customer service.

As for technical innovations carried out during the year, it is worth mentioning the introduction nationwide of the Automatic Audible Reply System (SARA) and the System's recordings in Catalan and Spanish for Catalonia.

SUPPLEMENTARY TELEPHONE SERVICES

During 1994 Selective Call Diversion, Call Waiting and Conference Calls maintained their popularity. At year-end **1,320,048** services were contracted, a net annual increase of **36,741**.



Basic Telephony
Waiting List
Thousands

INTELLIGENT NETWORK SERVICES

At year-end 1994 the Intelligent Network reached **4,634** numbers in service, an annual increase of **7.6%**. Flexible Billing Services (Line 900, 901 and 902) continued to stand out for their popularity, representing more than **86%** of the total.

During the year these Services registered **104.3** million calls.

INTEGRATED SERVICES DIGITAL NETWORK

The incorporation in 1994 of **211** new service areas brought the ISDN's available capacity to **26,636** Basic Accesses and **2,009** Primary Accesses, with coverage now reaching **70%** of the Spanish provinces. In 1994 tariffs were reduced, and this together with a fall in equipment and terminal prices, brought the products and prices on offer into line with market conditions.

VIRTUAL PRIVATE NETWORKS

1994 saw the completion of the infrastructure for the Virtual Private Network Service for voice communi-

cation and circuit switching based on the Intelligent Network. This Service offers clients all the facilities of a private network, even though they are based on the public network. Among the facilities available are the Private Numbering Plan, the Personalized Billing Plan and Client Management. The Service can be accessed through the Basic Telephone Network, the ISDN or the Ibercom Service.

BUSINESS NETWORKS

At year-end the Service reached **20** corporate clients with a total of **50,000** lines contracted.

The Service offers a high-quality global response, providing packet and circuit switching communications within a Virtual Private Network framework for the treatment of all types of information: Voice, Data, Text, Image and Multimedia.

LEASED CIRCUITS

In 1994 there was a shift in demand from analog to digital circuits. Overall, high-speed circuits saw a growth of **25.4%** over the previous year, while low-speed circuits fell by **19.8%**. As for tariffs, there was a **28%** reduction for circuits tarified by distance.



Digital exchange aerial
at Albéniz (Madrid)

Eliminando Barreras



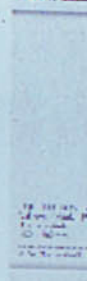
Discapacitados

Menú Principal



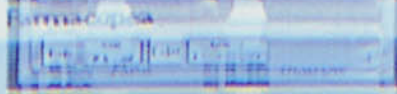
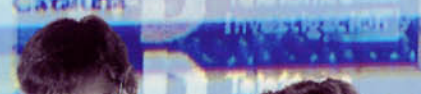
Allimentaria

Tele-Banca



Arcodata

By 1994 year-end the Integrated Services Digital Network covered 70% of the Spanish Provinces, with 26,636 basic and 2,009 primary accesses.



BASIC TELEPHONE SERVICE IN THE SPANISH PROVINCES (AT 31.12.94)

	Lines in service	Population (n° inhab.)	Extension (Km ²)	Density (Inhab./Km. ²)	Lines per 100 inhab.	Lines per Km ²
ALAVA	109,393	274,523	3,047	90.10	39.85	35,90
ALBACETE	105,655	344,047	14,862	23.15	30.71	7,11
ALICANTE	522,530	1,316,693	5,863	224.58	39.69	89,12
ALMERIA	137,956	462,283	8,774	52.69	29.84	15,72
ASTURIAS	410,212	1,090,257	10,565	103.20	37.63	38,83
AVILA	66,971	172,738	8,048	21.46	38.77	8,32
BADAJOS	170,272	651,186	21,657	30.07	26.15	7,86
BALEARIC ISLANDS	346,119	719,154	5,014	143.43	48.13	69,03
BARCELONA	2,116,070	4,684,346	7,733	605.76	45.17	273,64
BURGOS	133,491	352,179	14,309	24.61	37.90	9,33
CACERES	119,023	411,304	19,945	20.62	28.94	5,97
CADIZ	304,281	1,178,812	7,385	159.62	25.81	41,20
CANTABRIA	185,718	529,431	5,289	100.10	35.08	35,11
CASTELLON	181,138	450,101	6,679	67.39	40.24	27,12
CIUDAD REAL	142,886	476,320	19,749	24.12	30.00	7,24
CORDOBA	205,988	761,806	13,718	55.53	27.04	15,02
LA CORUÑA	371,275	1,096,378	7,876	139.20	33.86	47,14
CUENCA	67,485	203,928	17,061	11.95	33.09	3,96
GERONA	252,431	516,411	5,886	87.74	48.88	42,89
GRANADA	238,227	798,155	12,531	63.69	29.85	19,01
GUADALAJARA	66,016	145,682	12,190	11.95	45.32	5,42
GUIPUZCOA	273,514	676,224	1,997	338.62	40.45	136,96
HUELVA	117,678	448,090	10,085	44.43	26.26	11,6
HUESCA	83,350	207,522	15,613	13.29	40.16	5,34
JAEN	164,581	640,862	13,498	47.48	25.68	12,19
LEON	179,664	525,433	15,468	33.97	34.19	11,62
LERIDA	141,191	354,327	12,028	29.46	39.85	11,74
LUGO	120,870	379,205	9,803	38.68	31.87	12,33

BASIC TELEPHONE SERVICE IN THE SPANISH PROVINCES (AT 31.12.94)

	Lines in service	Population (n° inhab.)	Extension (Km ²)	Density (Inhab./Km. ²)	Lines per 100 inhab.	Lines per Km ²
MADRID	2,267,430	5,016,183	7,995	627.42	45.20	283.61
MALAGA	404,823	1,241,296	7,276	170.60	32.61	55.64
MURCIA	332,272	1,062,724	11,317	93.91	31.27	29.36
NAVARRRE	199,086	521,893	10,421	50.08	38.15	19.10
ORENSE	116,870	339,025	7,278	46.58	34.47	16.0
PALENCIA	62,963	184,649	8,035	22.98	34.10	7.84
LAS PALMAS	256,104	778,685	4,072	191.23	32.89	62.89
PONTEVEDRA	285,536	899,933	4,477	201.01	31.73	63.78
LA RIOJA	104,326	264,506	5,034	52.54	39.44	20.72
SALAMANCA	123,657	357,979	12,336	29.02	34.54	10.02
SEGOVIA	59,580	146,553	6,949	21.09	40.65	8.57
SEVILLE	489,370	1,649,911	14,001	117.84	29.66	34.95
SORIA	35,410	93,559	10,287	9.09	37.85	3.44
TARRAGONA	241,312	547,902	6,283	87.20	44.04	38.41
TENERIFE	248,994	733,717	3,170	231.46	33.94	78.55
TERUEL	51,323	142,316	14,785	9.63	36.06	3.47
TOLEDO	178,181	492,506	15,368	32.05	36.18	11.59
VALENCIA	831,63	2,135,533	10,763	198.41	38.94	77.27
VALLADOLID	178,530	496,566	8,202	60.54	35.95	21.77
VIZCAYA	459,846	1,153,758	2,217	520.41	39.86	207.42
ZAMORA	73,069	211,539	10,559	20.03	34.54	6.92
ZARAGOZA	351,100	842,080	17,252	48.81	41.69	20.35
TOTAL NACIONAL	14,685,406	39,180,210	504,750	77.62	37.5	29.1

Source: Population estimates based on the 1991 census; Area, Instituto Geográfico Nacional.

INTERNATIONAL COMMUNICATIONS

In 1994 a modernization process essential for the development of International Communications was culminated - the total digitization of the Network. To this end, analog switching plant was eliminated and all the circuits which used analog transmission means were digitized.

INTERNATIONAL LAND EXCHANGES AND NETWORK

At year-end the International Network had risen to **24,687** circuits, a **4.3%** increase over the year before.

Among the highlights of 1994 were the coming into service of the new ISDN International Exchange at Madrid-Alcobendas, the extension of the Barcelona-Castellbisbal International exchange, the ATM Node for the Madrid-Alcobendas Broadband ISDN Service, the connection of all the International Exchanges to the Automatic Traffic Management System and the Automatic Call Management Equipment developed with Telefónica's own technology. This last allows the Spain Direct Service to function automatically without the need for an operator.

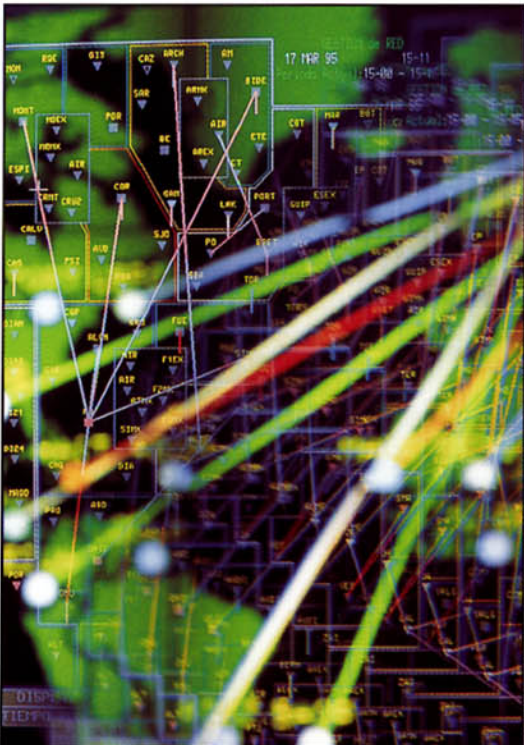
INTERNATIONAL UNDERWATER CABLES

In 1994 two new international underwater cables came into service: Columbus-2 and Estepona-Tetuán. The first links southern Europe with North America, with one of its moorings in Gran Canaria. It has a capacity of **23,040** basic 64 Kbit/sec circuits and a length of **10,205** kms.

The Estepona-Tetuán cable has a capacity of **7,680** basic 64 Kbit/sec circuits and is **110** kms. in length. Including these two new cables, the total length of underwater fibre optics cable moored in Spanish territory is **14,980** kms.. These developments allowed Telefónica to maintain its privileged position among the leading operators.

INTERNATIONAL LEASED CIRCUITS

At year-end the number of international leased circuits had reached **1,217**. In addition, two new agreements were signed with Chilean (ENTEL) and South African operators to provide the One-stop Shopping facility to the clients of these circuits.



Detail of the Control Room
at the Alcobendas International Exchange

IBERPAC INTERNATIONAL

This international service continued to expand, by year-end reaching **204** networks in **95** countries, and marketing new service facilities such as International Permanent Virtual Circuits (CPUI) and Closed User Group (GCU). During the year a total consumption of **2,270,460** Kilo-service segments was recorded, an increase of **11.5%** over the previous year.

OTHER INTERNATIONAL SERVICES

In 1994 the International Videoconferencing Network reached **24** countries. This network's technical capacity enabled International videoconferencing to be equipped with speeds of 2 Mbit/sec and 768 Kbit/sec. Also carried out was the interconnection between the ISDN and the Videoconferencing Network. International access to the ISDN is available through the **18** leading operators in the sector based in 17 countries.

1994 also saw an increase in the use of the Spain Direct Service, with **1.15**

million calls registered, an annual increase of 70%. At the same time the international coverage of the Virtual Private Network Service was extended.

UNISOURCE

In July Telefónica agreed to join UNISOURCE, a company originally formed by PPT Telecom of Holland, Swiss Telecom PPT of Switzerland, and Telia of Sweden. Telefónica's incorporation with a 25% holding brought the number of partners to four, each with an equal share.

UNISOURCE is currently the leading pan-European supplier of telecommunications services, with a wide range of international services for corporate clients, particularly data transmission, advanced services and satellite communications. Among the services supplied by Telefónica de España which are soon to be taken over by UNISOURCE are packet switching data transmission services.



Among the installations which came into service in 1994 were the Madrid-Alcobendas ISDN international exchange and the automatic call management equipment developed by Telefónica

PUBLIC TELEPHONY

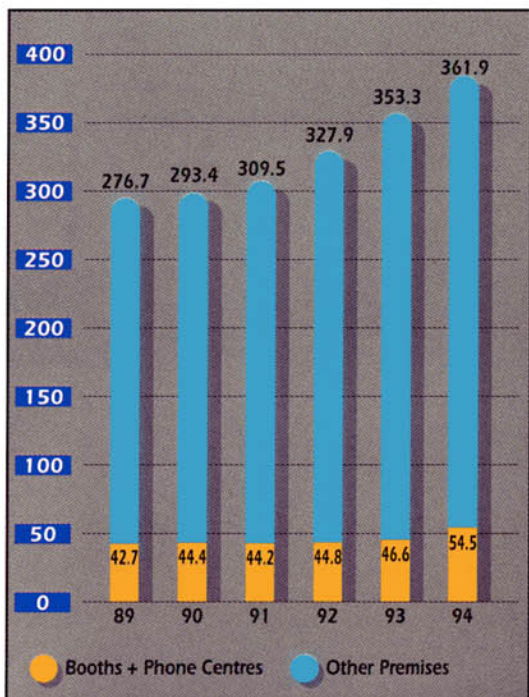
This service continued to grow in terms of plant and the facilities offered, especially those which allow electronic means of payment.

This expansion of plant in terms of public telephone booths meant that by year-end 1994 there were **53,147** telephones available, which when added to the **1,315** in telephone centres, brought the number to **54,462**, **16.9%** up on the previous year. Modernization of the booths also continued with the installation of Modular Telephones, the number of phones rising to **44,490** as opposed to 32,297 at the end of 1993.


The same energy went into the installation of payphones adapted for electronic payment, with **13,005** units being reached during the year.

As for Telefónica prepaid phone cards for use in Modular Telephones, more than **6.7** million units were sold in 1994, more than doubling the previous year's sales.

In 1994 Telefónica Telecomunicaciones Públicas, S.A. was formed, a subsidiary created with the aim of bringing together all the activities related with the operation of public telephony services (booths, payphones and telephone centres), phone cards and advertising in booths and on cards.



Public Service Telephone Lines
(Thousands)

A woman with dark hair, wearing a dark blue jacket, is shown in profile from the back, talking on a mobile phone. The background is a blurred, brightly lit public space with green and blue light streaks, suggesting a busy environment like a transit station or a public square. The overall mood is dynamic and modern.

The expansion of plant in public telephone booths brought a 16.9% increase in the number of booths and telephones.

MOBILE SERVICES

The year 1994 was decisive for the development of mobile telephony in Spain. This was due as much to the liberalization process as to the changes that have taken place in the market, which has begun to see mobile telephony as an everyday service. Another factor which helped bring about these changes was the energy Telefónica put into promoting the Moviline service through its mobile services affiliate.

Further highlights of the year were the reduction of the connection fee to 10,000 pesetas (a 65% decrease), the extension of personal tariffs and the greater capillarity of the distribution network.

1994 also saw the incorporation of Telefónica's showrooms and practically all the large department stores into the Moviline sales network. Together with the chain stores and specialized shops this formed a network which grew in one year from 600 to nearly 3,000 sales outlets. This boost to the sales network enabled the service to reach 411,930 clients in 1994, 154,669 more than in 1993, which meant that it now exceeded 1% penetration in the Spanish population. This considerable increase in the number

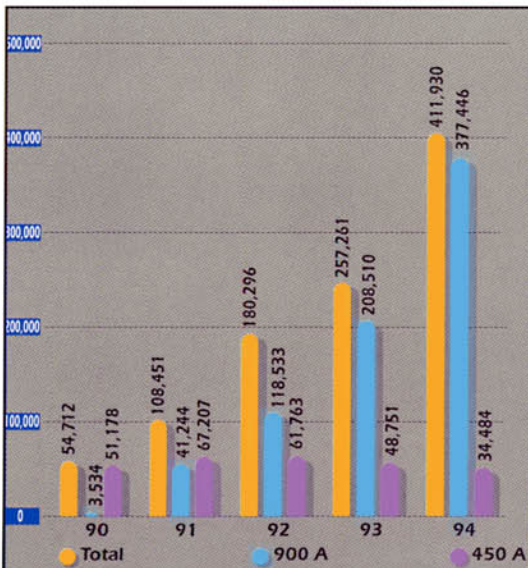
of Moviline Service clients, nearly 60% up on 1993, was accompanied by improvements in quality, especially in the areas of coverage and customer service. Coverage was increased considerably to reach 90% of Spanish territory and 98% of the population.

As regards improved customer service, there was a major expansion to the Customer Service Centre (C.A.C.), which saw a sharp increase in the number of calls.


This attention to the customer was also shown in the use of the TACS-900 mobile network to support Cellular Access Rural Telephony (TRAC), which brings the basic service to more than 142,000 customers in various Spanish regions with low population density.

Apart from the above mentioned activities, a lot of work went into developing what will be the mobile communications business in the forthcoming years.

The GSM digital network continued to be widely developed, along with the systems and processes of the Movistar digital system, bringing to perfection the tasks and procedures which will give clients excellent service right from its launch in 1995. We are also playing a very active role in the global-



Automatic Mobile Telephony
Trends in the n° of Connections
to each System

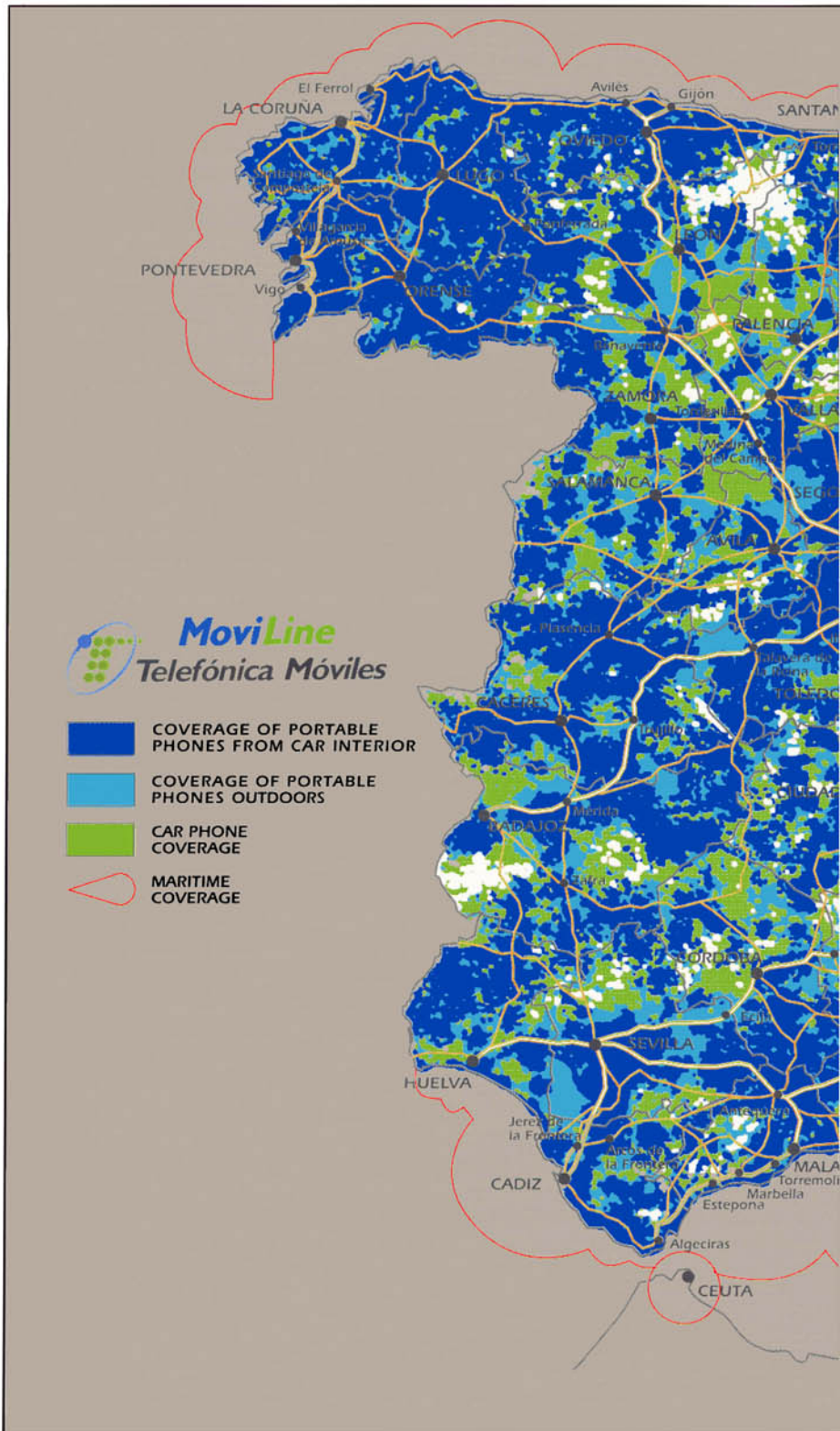


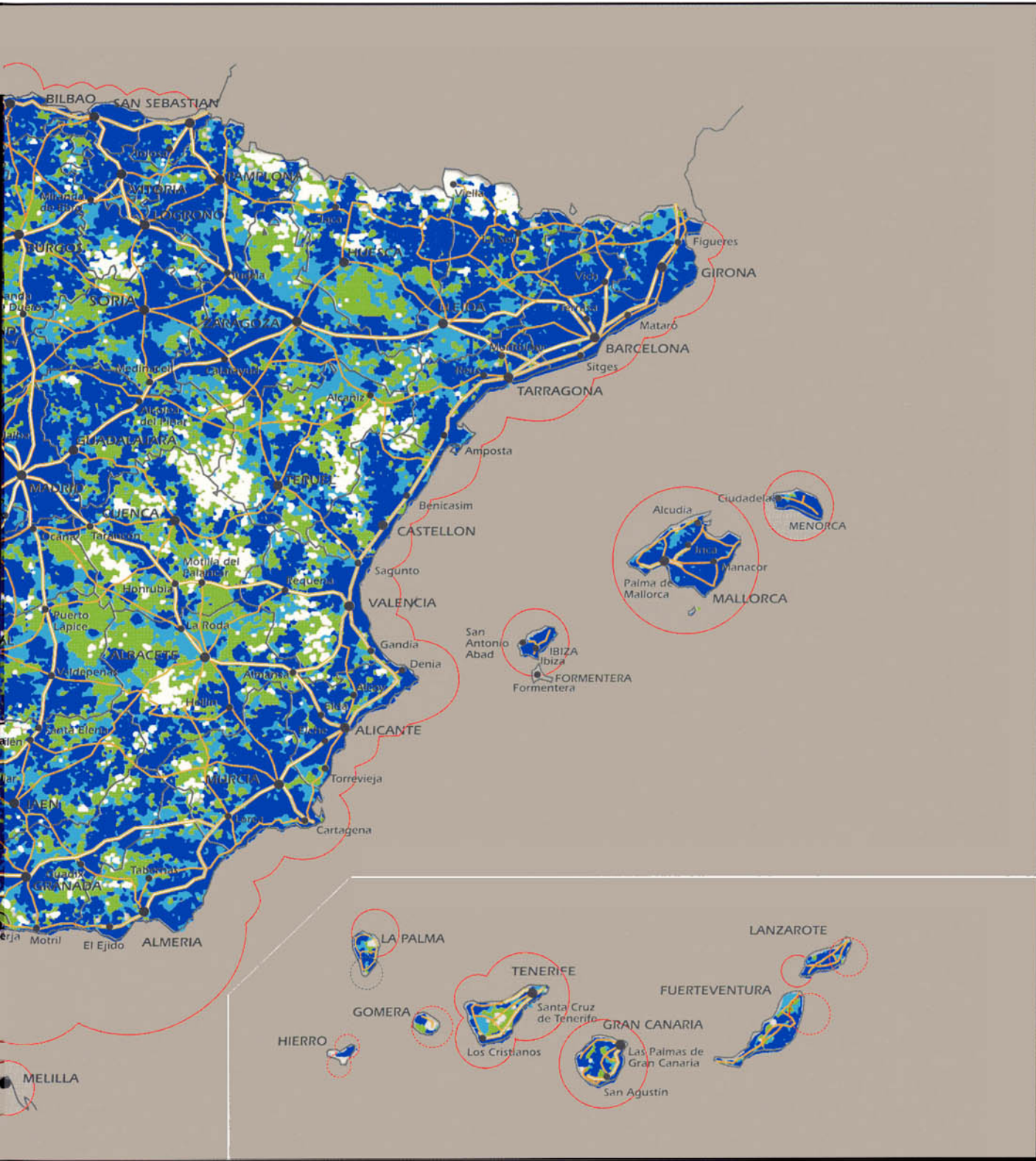
In 1995 it is expected that the figure of 700,000 Moviline Service clients will be reached

ization of the telecommunications sector, through the Unisource and Inmarsat - P projects.

As part of the Unisource Mobile project, Telefónica and its partners are promoting the expansion of operating areas in third countries, as well as the creation of powerful business platforms in the European sector, whose role will be to contribute to the future development of mobile services, both in the partners' countries and in other markets.

As for the Inmarsat-P project, the complementarity of satellite services with those based on land cellular infrastructure will enable additional international services, both cellular mobile and satellite, to be provided through a single terminal by the year 2,000.





Moveline Service: 1995
Coverage target

DATA TRANSMISSION

In 1994 an upgrading and modernization plan was carried out for these services, and this has allowed Telefónica to maintain the position among the leading operators in Europe it had attained in recent years, especially in the field of packet switching Data Transmission.

IBERPAC NETWORK

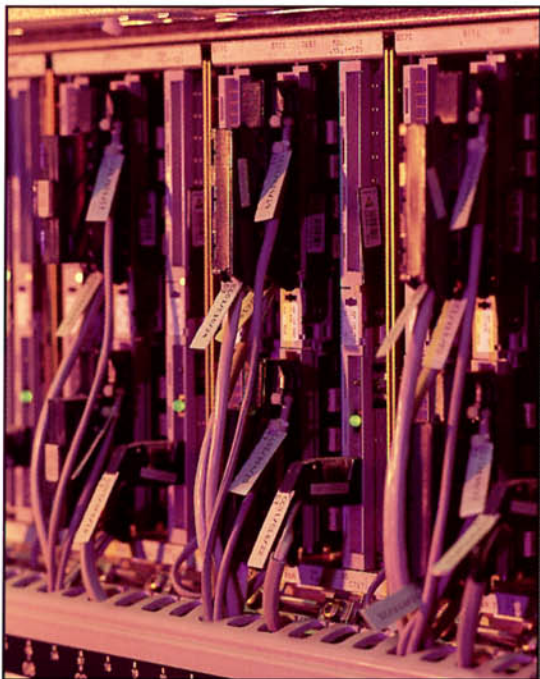
The Iberpac Packet Switching Data Transmission Network continued to grow with the incorporation of **51** new centres, allowing network capacity to increase by **11.1%** and the number of direct access connections by **6.4%**.

The Iberpac-Plus Service, which offers clients flat rate and the back-up option, was consolidated, reaching **4,264** clients by year-end. The Iberpac-UNO Service, which aims to meet the Virtual Private Network data communication requirements of our corporate clients, also continued to expand, with **26,478** direct access connections distributed among **77** clients.

In line with this steady improvement in quality, the Datex 28 and Datex 32 Services had their access speeds increased to **9,600 bps.** and **14,400 bps.** respectively.

IBERTEX SERVICE

Ibertex continued to consolidate its position as the service which brings data transmission to the public at large. Quality and the provision of accessible services were upgraded, with the number of Service Centres growing to **806**. More than **11.5** million calls were made in 1994, with **1.5** million usage hours. The number of terminals with access capacity was estimated at **575,000**.



The Iberpac data transmission Network continued to expand its capacity with the incorporation of 51 new centres.

The Ibertex Service continued to strengthen its position as the service which brings data transmission to the public at large. There are now 806 Service Centres offering an extremely wide range of information.



INTERNATIONAL
BUSINESS

That Telefónica Internacional's activity in foreign markets was reinforced during 1994 could be seen by the fact that, at year-end, the holding companies had consolidated their business, new markets such as those of Peru and Columbia were being opened up, and new business ventures, particularly multimedia and cable TV, were launched.

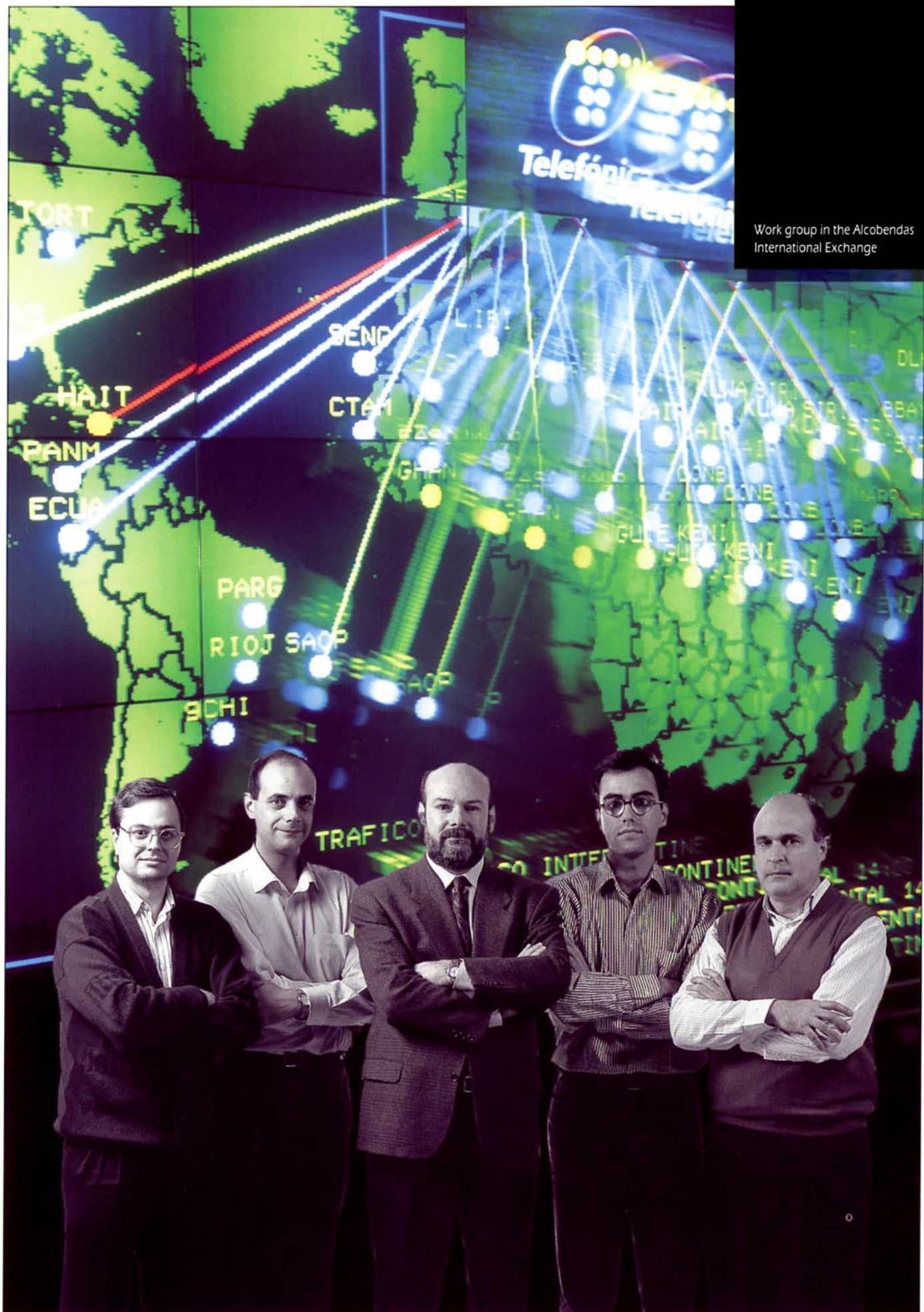
At the end of 1994, the holding companies in carrying out their programs had more than achieved the aims they had set themselves in terms of service expansion and quality, with over a million telephone lines installed during the year.

At year-end Telefónica Internacional's holding companies managed over **7.3** million lines in service, representing a **58%** growth since making the investment. Of this total, **300,000** were cellular mobile telephony clients and **50,000** cable TV.

As for the opening up of new markets, the main area of interest continued to be the Latin American sector. In February 1994 Telefónica Internacional bid successfully for the contract arising out of the privatization of the Peruvian operators CPT and Entel-Perú, thus moving into one of the markets with the greatest growth potential in the region. Since then the installation program has expanded considerably, with **180,168** lines installed at year-end, **45%** more than the figure agreed in the contract. Telefónica Internacional also moved into the Colombian market as part of the Cocolco consortium, which was awarded a license for operating cellular mobile telephony in the fastest growing region of Colombia, the coffee-producing area which includes the cities of Cali and Medellín. In the following months, Cocolco reached nearly **20,000** clients, with a market share of **65%**.



A telephone booth in the centre of Buenos Aires.



Work group in the Alcobendas International Exchange

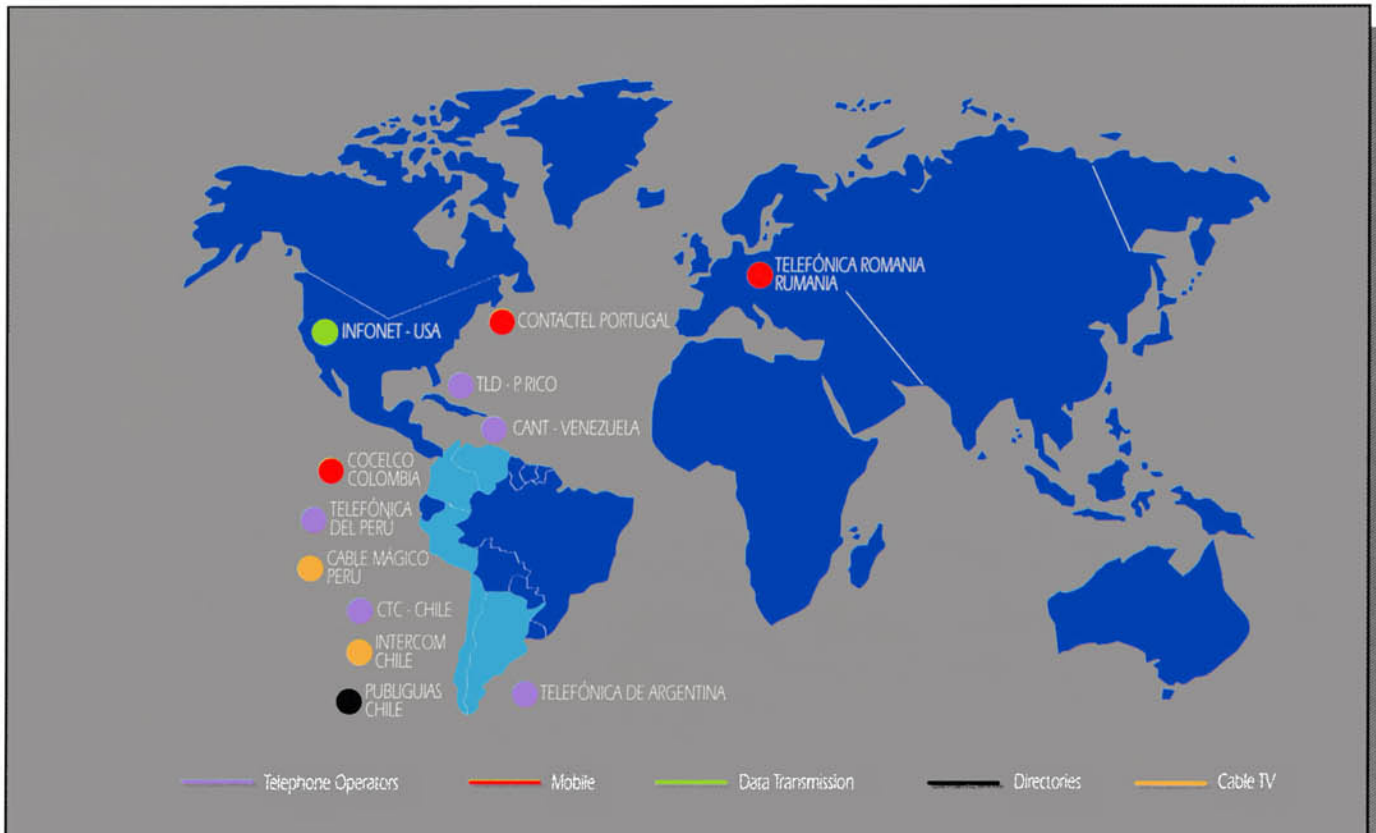
As regards the consolidation of markets in which Telefónica Internacional was already active, the Chilean company CTC's move into the domestic and international long distance market through its affiliate CTC Mundo should be noted. Also significant was CTC's acquisition of 80% of Intercom, a Chilean cable television operator which had almost **50,000** clients at year-end.

In August 1994, the holding in Telefónica Argentina was increased to **22%** through the exchange of 20% of Entel-Chile for a 4.33% share in COINTEL. In the Puerto Rican market, the Federal Communications Commission (FCC) authorized TLD to open direct routes with the Ba-

hamas and Holland and to participate in the Americas I and Columbus II underwater cable projects.

Telefónica Internacional's presence in the North American market was strengthened by the capital increase carried out by Infonet, the holding increasing to **7.74%**.

Regarding European investments, Telefónica Romania expanded its cellular market to new areas such as Constanza and Brasov. In Portugal, Contactel doubled its 1993 total of radiopaging clients.

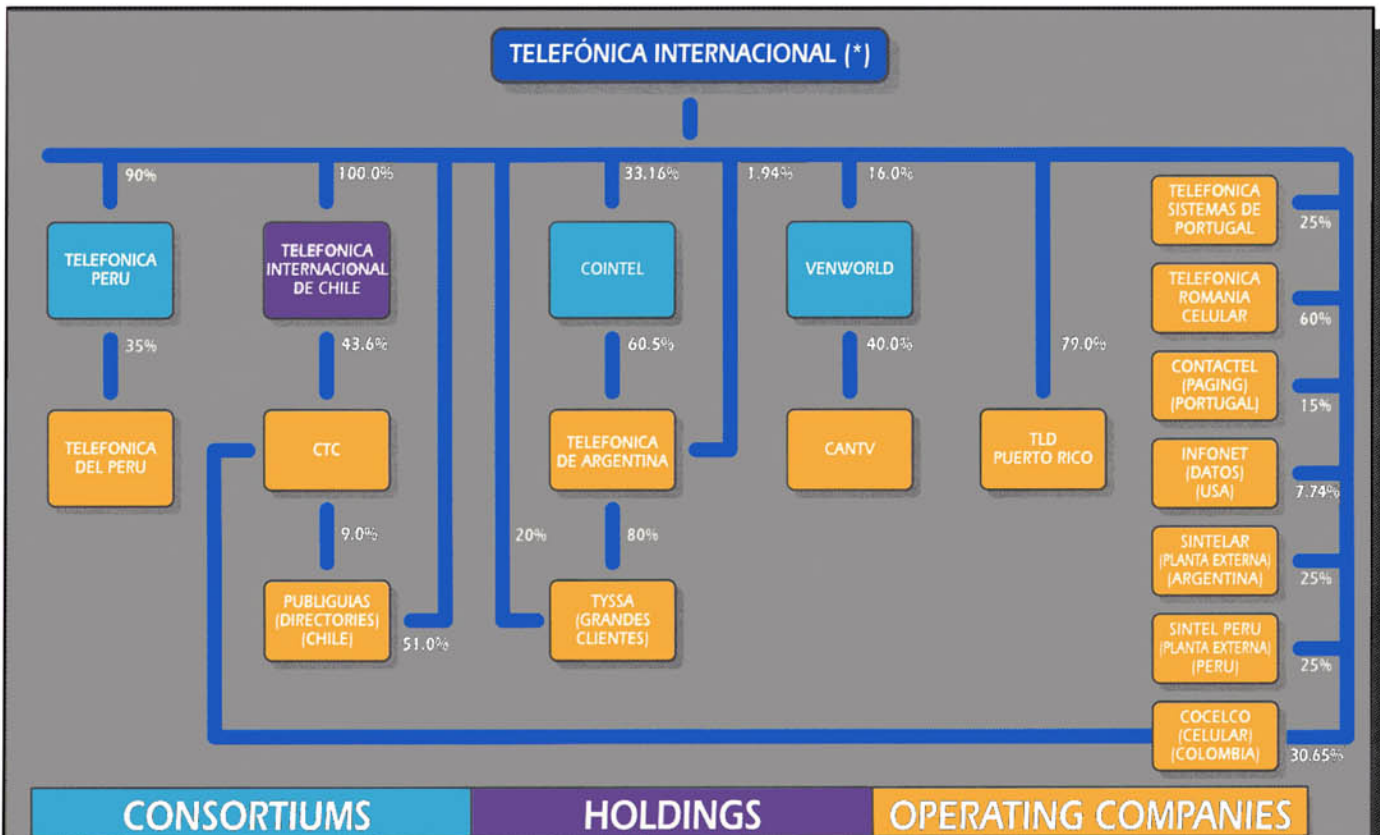


INTERNATIONAL COOPERATION

During 1994 Telefónica played a particularly active role in International Organisations, especially in the ETNO and the ETSI. Telefónica's ETNO presidency allowed it to step up its relations with different organisations and institutions, especially the European Commission. The issues focused on were aspects of EU satellite and mobile communications regulations, development of the ONP, Community I+D programs and service quality. Telefónica also contributed to ETSI activity, holding the presidency of the Network Aspects Technical Committee, the Multimedia Management Pro-

ject Committee and the General Assembly. The highlight of the year in the ETSI was the consensus reached regarding the necessary revision of standardization processes.

In collaboration with the Latin American holding companies and AH-CIET advice was given on the introduction of European standards for new networks and services in the region, especially for the Integrated Services Digital Network.



(*) In August 1994 Telefónica Internacional exchanged its holding in Entel-Chile for an increase in its holding in CoinTEL from 28.83% to 33.16%.

EUROPEAN UNION REGIONAL PROGRAMS

During 1994, Telefónica continued to take part in the programs promoted by the European Regional Development Fund (FEDER) aimed at correcting imbalances through action in the field of telecommunications.

Developments were made in the modernization of infrastructures, the promotion of advanced services and the development of new services under the TELEMATICA, ARCO and PRISMA Programs. 1994 also saw the beginning of a new period for the application of European Union aid under the terms of the Community Support Framework 1994-1999. In this area, Telefónica began to take part in twelve programs, and expects to play a more active role in the future.

MULTIMEDIA SERVICES

In 1994 the company Telefónica Multimedia S.A. was formed with the aim of marketing and operating entertainment and leisure services.

Initially it will offer cable TV services, but later it will move into interactive multimedia services. All of these services will use Telefónica's networks.

INFORMATION AND ADVERTISING

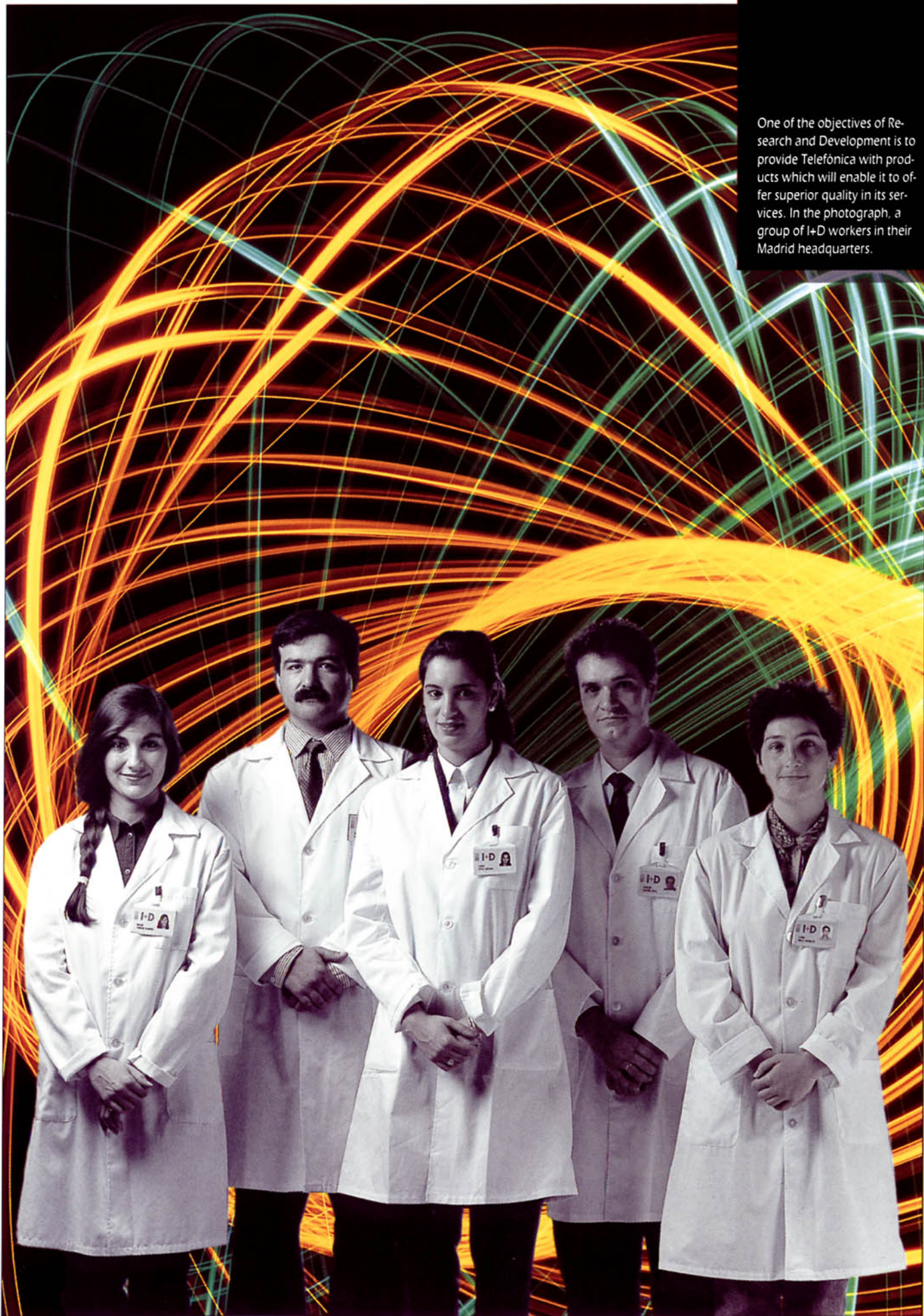
During 1994 19 Phone Directories were published, representing the edition of 9.17 million volumes. As for the marketing of Yellow Pages, eleven sales campaigns were carried out during the year.

It was decided to set up the new business line Information and Advertising, aimed at boosting CETESA by turning it into a supplier of information and advertising services.



Telephone booth outside Telefónica del Perú's central office in Lima.

One of the objectives of Research and Development is to provide Telefónica with products which will enable it to offer superior quality in its services. In the photograph, a group of I+D workers in their Madrid headquarters.



RESEARCH AND DEVELOPMENT

Research and development activity in 1994 continued to focus on providing Telefónica with products which will enable it to offer superior quality in the provision of its services.

With customer service very much in mind in an increasingly competitive market, Telefónica has a range of products which are constantly being developed to respond at the highest technological level in the sector.

Among the I+D products developed during the year, those aimed at the itemized bill service, operating technologies, Intelligent Network Services and multimedia stood out particularly. In response to the needs of the item

ized bill service, the MORE system for the modernization of the PC-1000 and ARF exchanges was developed and tested. In operating technologies the introduction into the plant of the new version of the Operation and Maintenance System (SOC) was authorized. This system integrates the operation of Switching, Transmission and Exterior Plant. In Intelligent Network Services the facilities for incorporating the Virtual Private Networks Service (RPV) and the functioning of ISDN accesses in Intelligent Network agencies were expanded. Finally, in the area of multimedia services, work began in 1994 on the setting up of a pilot scheme with 100 clients.

As a result of this wide-ranging activity in I+D during 1994, at year-end Telefónica had **1,142** title deeds, covering technologies in all areas of telecommunications.



In multimedia Services, a pilot scheme to bring cable TV to 100 clients began last year

ACCESS TO TELECOMMUNICATIONS FOR PEOPLE WITH SPECIAL NEEDS

In 1994 a Plan for facilitating access to telecommunications for people with special needs was initiated and presented in a document to the Ministry of Social Affairs, various associations and the media. Under this plan an experimental customer service centre was set up. In line with this interest in persons with special needs, new telephones were designed with special features such as sound amplifiers, luminous signs and automatic push-button calling.

HUMAN RESOURCES

At 1994 year-end Telefónica had a total workforce of **72,207** employees, a net decrease of **2,133** employees during the year. This decrease allowed us to make progress in bringing the workforce into line with our real needs, thus increasing productivity considerably. The most significant result was the achievement of **203** lines in service per employee, one of the highest figures in Europe.

In March the 1993-1995 General Agreement with the unions was signed, some of the most important measures being those to enable us to find new ways of providing Services, improve customer service, and use resources more rationally - all important issues in the new competitive environment.

An important aspect of the Agreement was the voluntary early retirement program, which was taken up by **1,710** employees during the year, amounting to **65.92%** of those over 60.

During the year, the Company's Pension Plan was finally consolidated, with **92.16%** of the workforce, or **66,540** employees, subscribed.



During the year a plan for facilitating access to telecommunications for people with special needs was initiated. As part of the plan we opened an experimental customer service centre and designed new telephones for this important sector of society.

SELECTED OPERATING DATA

TELEPHONE AND DATA TRANSMISSION SERVICE

	31-12-90	31-12-91	31-12-92	31-12-93	31-12-94
Local lines in service (thousands)	12,602.6	13,264.4	13,792.2	14,253.5	14,685.4
of which Public Telephony Services	337.8	353.6	372.7	399.9	416.4
Cellular Access			7.1	65.6	146.4
Cellular Mobile Services (thousands)	54.7	108.5	180.3	257.3	411.9
IBERCOM lines in service (thousands)	255.5	375	481.6	548.3	656.7
Numbers of Intelligent Network in service				4,307	4,634
IBERPAC network connections (% growth)	15.9	11.7	4.9	5.8	6.4
Data transmission (D/T) circuits (% growth)	12.9	5.5	4.5	-0.2	-3.6
ISDN equivalent lines in service				640	5,392
Dataphones (thousands of terminals) (*)	163.1	171.2	183.2	192.3	204.8
IBERTEX (thousands of terminals) (*)	120	300	390	485	575
Videoconferencing (n° of Conference Rooms)	15	26	41	50	42
Automatic trunk circuits (thousands)	519.1	661.8	738.9	766	806.1
International circuits (thousands)	16.5	19.8	25.8	23.7	24.7

(*) Estimate

INFRASTRUCTURE

	31-12-90	31-12-91	31-12-92	31-12-93	31-12-94
Local lines installed (thousands)	14,485.2	15,180.6	15,475.1	15,879.7	15,921.3
of which digital lines (thousands)	4,115	5,100.8	5,628.9	6,574.5	7,608.3
(% total)	28.4	33.6	36.4	41.4	47.8
Trunk lines (thousands)	2,311	2,644	2,705.5	2,677	2,581.2
of which digital (thousands)	1,377	1,989.4	2,127.2	2,288.2	2,351.7
(% total)	59.6	75.2	78.6	85.5	91.1
International trunk lines (thousands)	65.1	89.8	98.9	97.4	83.6
of which digital (thousands)	33.2	58	67	70.2	83.6
(% total)	51.1	64.6	67.5	72.2	100
Coaxial Cable (km.)	10,566	10,634	10,707	10,706	10,526
Fibre-optics cable (km.)	15,131	20,290	22,056	24,857	29,339
Trunk pair cable (km.)	57,280	58,034	58,554	59,109	59,016
Subscriber cables (thousands of km.-par)	51,591	54,928	57,763	59,975	61,451
Underwater cables (circuits x km.) (thousands)	50,164	63,423	114,943	117,811	134,334
of which digital	26,202	39,461	90,981	93,849	116,095
(% total)	52.2	62.2	79.2	79.5	86.4
Satellite earth stations (n° stations)	46	64	72	74	70

TRENDS IN USAGE PER LINE AND DEMAND FOR NEW LINES

	1990	1991	1992	1993	1994
Average growth in usage per line	2.3	4.1	4.1	-3.5	1.2*
Applications for new telephone lines (thousands)	1,316.9	1,118	1,068.5	1,136.1	1,221.7
(% annual growth rate)	-5.5	-15.1	-4.4	6.3	7.5
Applications for new IBERCOM lines (thousands)	127.6	119.8	136.9	124.9	112.5
(% annual growth rate)	27.3	-6.1	14.3	-8.8	-9.9

(*) Since 1994, usage is measured in minutes

INTERNATIONAL BROADCASTING

	1990	1991	1992	1993	1994
Radio (thousands of minutes)	413.7	647	508.8	448.3	380
TV (thousands of minutes)	133.2	203.8	194.7	67.7	81.7



Free translation from the original in Spanish

Independent auditor's report on the annual accounts

To the Shareholders of Telefónica de España, S.A.

1. We have audited the annual accounts of Telefónica de España, S.A. and the consolidated annual accounts of Telefónica de España, S.A. and its subsidiaries ("Telefónica consolidated Group") at December 31, 1994 and 1993 consisting of the balance sheets, the profit and loss accounts and the notes for the years then ended, whose preparation is the responsibility of the parent company's Directors. Our responsibility is to express an opinion of the aforementioned annual accounts as a whole, based on our audit carried out in accordance with generally accepted auditing standards, which require examining on a test basis, evidence supporting the annual accounts, as well as evaluating the overall annual accounts presentation, assessing the accounting principles applied and the estimates made. Our work on the consolidated annual accounts of Telefónica de España, S.A. and its subsidiaries, in so far as it relates to the participation in the group companies mentioned in Note 1.2, is based on the examination and report of other auditors.
2. As indicated in Note 1 to the annual accounts, Telefónica de España, S.A. falls within the group of regulated entities whose peculiarities permit that both income and expenses may be attributable to each period not only on the accrual basis but also when the related specific concepts of revenue and cost are computed as part of the approved tariffs. On this basis, the recovery of the amounts invested or included in the assets of the Company, particularly deferred exchange differences, will depend upon the adequate future consideration, in tariffs, of the recovery of these concepts.
3. In our opinion, based on our audit and on the reports of other auditors, the attached annual accounts present fairly, in all material respects, the shareholders' equity and financial position of Telefónica de España, S.A. and Telefónica Consolidated Group at December 31, 1994 and 1993, the results of their operations and the consolidated resources obtained and applied for the years then ended and they contain the necessary and relevant information in order to adequately interpret and understand them, in conformity with generally accepted accounting principles in Spain consistently applied.
4. The accompanying Directors' Reports of Telefónica de España, S.A. and Telefónica Consolidated Group for 1994 contain the information that the Directors of Telefónica de España, S.A. consider relevant to the Company's and the Group's situation, the evolution of their business and of other matters, and do not form an integral part of the annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Reports coincides with that of the annual accounts for 1994. Our work as auditors is limited to verifying the Directors' Reports within the scope already mentioned in this paragraph and it does not include the review of information other than that obtained from the Company's accounting records.

Price Waterhouse Auditores, S.A.

ROAC Member n°. S0242

Sergio Lwoff

March 30, 1995

Audiberia

Osorio, Navarro y Cia. S.R.C.
ROAC Member n°. 80677

Alfonso Osorio Iturmendi

Telefónica de España, S.A. and Telefónica Consolidated Group.

In millions of pesetas	Parent Company		Consolidated group	
ASSETS	1994	1993	1994	1993
A. SUBSCRIBED SHARES NOT PAID-IN (UNCALLED PAYMENTS)	-	-	23	-
B. LONG TERM ASSETS	3 382 127	3 343 388	3 992 550	3 436 855
I. Cost of new equity capital	157	162	349	226
II. Intangible assets (Note 5)	70 831	55 520	300 207	63 207
Research and development expenses	63 614	50 454	60 193	48 812
Finance leasing	5 846	-	9 132	3 505
Other intangible assets	41 437	30 670	276 668	38 863
Accumulated amortization	(40 066)	(25 604)	(45 786)	(27 973)
III. Fixed assets (Note 6)	3 109 222	3 181 505	3 559 584	3 172 110
Land and buildings	479 951	438 189	529 777	441 443
Technical installations and machinery	119 540	116 795	132 412	129 800
Telephone installations	4 658 588	4 538 490	5 189 741	4 502 870
Furniture, equipment and other	129 297	113 059	188 039	127 986
Construction in progress	177 218	250 007	247 143	249 356
Advance payments for fixed assets	11 730	16 589	8 221	14 977
Installation equipment	16 194	16 605	16 194	16 605
Accumulated depreciation	(2 483 296)	(2 308 229)	(2 751 943)	(2 310 927)
IV. Investments (Note 7)	201 917	106 201	132 410	201 312
Investments in group companies	118 993	84 055	-	-
Investments in associated companies	14 348	11 578	88 843	151 679
Other investments	11 176	17 437	36 406	28 330
Credits to group companies	66 888	1 060	-	-
Other credits	601	795	10 490	22 057
Long-term deposits and financial guarantees	1 026	1 077	1 313	1 405
Depreciation Reserve	(11 115)	(9 801)	(4 642)	(2 159)
C. GOODWILL ON CONSOLIDATION (Note 8)	-	-	53 741	48 236
D. DEFERRED EXPENSES (Note 9)	181 307	224 113	186 473	225 589
E. LONG TERM PREPAID TAXES (Note 11)	30 764	13 616	31 230	14 109
F. CURRENT ASSETS	302 822	328 977	495 203	377 094
I. Subscribed shares not paid-in	-	-	-	22
II. Inventories	4 292	3 832	25 362	16 505
Inventories	4 292	3 832	24 760	17 074
Advances	-	-	1 233	400
Provisions	-	-	(631)	(969)
III. Accounts receivable	288 428	317 323	369 798	332 841
Subscribers and customers (Note 12)	253 960	288 378	338 418	308 964
Group companies	9 522	11 165	-	-
Associated companies	448	751	3 359	4 359
Sundry accounts receivable	39 593	38 001	46 105	43 970
Personnel	8 882	9 498	12 837	10 047
Taxes receivable (Note 20)	12 791	6 726	20 392	8 703
Reserve for bad debts (Note 12)	(29 649)	(30 429)	(44 053)	(36 288)
Reserve for sundry accounts receivable	(7 119)	(6 767)	(7 260)	(6 914)
IV. Short term investments	3 358	1 201	73 066	11 804
Credits to group companies	3 358	1 080	515	-
Short-term securities portfolio	-	121	3 111	11 167
Other credits	-	-	69 748	637
Provisions	-	-	(308)	-
V. Cash and banks	4 699	5 031	17 941	7 996
VI. Prepayments	2 045	1 590	9 036	7 926
TOTAL ASSETS (A+B+C+D+E)	3 897 020	3 910 094	4 759 220	4 101 883

Balance sheets at December 31

LIABILITIES AND SHAREHOLDERS' EQUITY	Parent Company		Consolidated group	
	1994	1993	1994	1993
A. SHAREHOLDERS' EQUITY (Note 13)	1 454 684	1 397 712	1 512 031	1 437 055
I. Share capital	469 735	469 735	469 735	469 735
II. Share premium	43 067	43 067	43 067	43 067
III. Revaluation reserve	653 780	653 780	649 316	649 316
IV. Reserves	196 277	169 394	237 214	201 671
Legal reserve	66 279	57 796	66 279	57 796
Other reserves	129 998	111 598	107 280	92 125
Consolidation reserve (Note 13)	-	-	32 035	20 653
Differences foreign currency translation for consolidation (Note 14)	-	-	31 620	31 097
V. Retained earnings	91	86	91	86
VI. Group profit and loss (Note 14)	91 734	84 837	112 608	96 367
Profit for year	91 734	84 837	122 549	81 771
Profit from associated companies	-	-	18 513	20 177
Profit attributed to outside shareholders	-	-	(28 454)	(5 581)
VII. Interim dividend	-	(23 187)	-	(23 187)
B. OUTSIDE SHAREHOLDERS' INTERESTS (Note 15)	-	-	292 293	41 798
C. DEFERRED INCOME (Note 16)	67 531	54 765	75 029	55 326
Capital grants	60 136	49 860	60 136	49 860
Deferred unrealized exchange gains	2 085	-	8 684	44
External contributions not repayable	5 310	4 905	6 209	5 422
D. PROVISIONS FOR RISKS AND EXPENSES (Note 17)	232 412	216 094	270 876	231 775
E. LONG TERM DEFERRED TAXES (Note 11)	52 273	53 003	74 447	57 131
F. LONG TERM CREDITORS	1 450 726	1 529 151	1 773 321	1 569 568
I. Debentures, bonds and other issues (Note 18)	636 533	685 614	721 323	708 440
Debentures and non-convertible bonds	636 533	679 494	690 127	681 345
Debentures and convertible bonds	-	-	14 728	9 300
Other negotiable documents issued	-	6 120	16 468	17 795
II. Debts with financial institutions (Note 19)	558 700	540 494	917 607	681 881
III. Debts with group and associated companies (Note 20)	140 447	122 403	217	-
IV. Other accounts payable	112 384	180 040	134 124	179 161
Other debts	111 280	132 497	133 020	131 618
Accounts payable for long term traffic operations	-	-	-	-
Notes payable	1 104	47 543	1 104	47 543
V. Uncalled subscriptions on shares (Note 7)	2 662	600	50	86
Group companies	2 662	600	-	-
Other companies	-	-	50	86
G. SHORT TERM CREDITORS	639 394	659 369	761 223	709 230
I. Debentures, bonds and other issues	125 094	167 267	126 360	167 271
Debentures (Note 18)	69 179	118 671	76 542	118 666
Other negotiable documents issued	42 620	32 631	36 500	32 631
Interest on debentures and other negotiable documents	13 295	15 965	13 318	15 974
II. Debts with financial institutions (Note 19)	82 526	59 197	132 339	87 815
Loans and other debts	73 861	47 426	119 566	74 717
Interest due	8 665	11 771	12 773	13 098
III. Debts with group and associated companies (Note 20)	37 968	41 459	11 286	19 358
Group companies	27 110	24 326	-	-
Associated companies	10 858	17 133	11 286	19 358
IV. Trade creditors	209 933	179 470	266 927	211 046
Advance payments received on orders	-	-	4 446	6 016
Debts for purchases and services rendered	150 517	118 059	196 613	140 403
Notes payable	59 416	61 411	65 868	64 627
V. Other non-trade debts	158 512	195 149	191 378	205 592
Taxes payable (Note 21)	79 445	71 516	88 454	75 372
Other (Note 22)	79 067	123 633	102 924	130 220
VI. Accruals	25 361	16 827	32 933	18 148
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D+E+F)	3 897 020	3 910 094	4 759 220	4 101 883

Telefónica de España, S.A. and Telefónica Consolidated Group.

Profit an

In millions of pesetas	Parent Company		Consolidated group	
DEBIT	1994	1993	1994	1993
EXPENSES				
Reduction in inventories	-	-	2 720	2 268
Supplies	-	-	103 886	63 067
Other purchases	-	-	74 231	33 210
Purchases from other companies	-	-	29 655	29 857
Personnel costs (Note 26.2)	421 624	408 103	520 918	448 402
Depreciation and amortization	413 134	372 401	454 530	374 259
Tangible	398 627	360 674	436 865	361 506
Intangible	14 462	11 368	17 582	12 260
Expenses	45	359	83	493
Trade provisions	22 573	24 115	27 286	25 816
Variation in provision for inventories	-	-	(187)	-
Variation in provision for doubtful accounts receivable	17 911	22 077	19 137	22 432
Variation in other provisions	4 662	2 038	8 336	3 384
Other operating expenses	158 025	149 560	190 722	159 050
Subsidiary companies external services	26 574	21 755	-	-
External services	94 432	93 427	155 042	123 783
Taxes	25 569	23 871	25 826	23 981
Other operating expenses	11 450	10 507	9 854	11 286
I. OPERATING PROFIT	366 938	365 279	432 397	369 726
Financial expenses with subsidiary companies	7 900	8 816	-	-
Financial expenses with associated companies	-	-	22	38
Other financial expenses	174 980	194 308	205 518	208 694
Amortization of deferred financial expenses	5 226	4 952	5 481	4 954
Variation in provisions for investments	-	-	438	25
Losses on exchange (Note 10)	24 533	27 243	24 642	28 631
II. FINANCIAL INCOME	-	-	-	-
Participation in losses of associated companies	-	-	2 329	3 467
Amortization of goodwill on consolidation	-	-	6 191	4 798
III. PROFIT FROM NORMAL OPERATIONS	168 687	140 151	230 756	153 294
Variation in investments provision for investments in group companies	1 314	2 461	2 483	(100)
Losses on fixed assets	37 470	21 931	36 807	22 136
Losses on disposal of investment in consolidated companies	-	-	2 423	205
Extraordinary expenses (Note 26.3)	49 972	16 683	57 598	19 164
VI. EXTRAORDINARY NET PROFIT	-	-	-	-
V. PROFIT BEFORE TAX	109 604	107 468	171 651	126 793
Corporate income tax (Note 25)	17 870	22 631	30 589	24 845
VI. NET CONSOLIDATED PROFIT	91 734	84 837	141 062	101 948
Profit attributed to the shareholders' interests	-	-	28 693	5 620
VII. NET PROFIT FOR YEAR	91 734	84 837	112 608	96 367

loss accounts for the years ended December 31, 1994 and 1993

CREDIT	Parent Company		Consolidated group	
	1994	1993	1994	1993
INCOME				
Net sales to group companies (Note 26.1)	21 455	17 256	-	-
Net sales and services rendered (Note 26.1)	1 262 081	1 202 828	1 578 850	1 297 437
Increase in inventories	-	-	1 992	2 980
Work carried out by Company on own fixed assets	73 766	75 742	121 391	109 103
Other operating income	24 992	23 632	30 226	33 068
Sundry trade income	24 871	23 479	26 438	32 620
Grants	121	153	373	318
Excess provision for risk and expenses	-	-	3 415	130
I. OPERATING LOSS	-	-	-	-
Income from shareholdings	5 463	6 717	2 498	1 456
Group companies	2 954	5 270	-	-
Associated companies	117	25	22	25
Other companies	2 392	1 422	2 476	1 431
Income from other negotiable documents and credits	8 925	3 474	14 860	6 381
Group companies	4 583	322	-	-
Associated companies	-	-	636	570
Other companies	4 242	3 152	14 224	5 811
Gains on exchange	-	-	4 780	2 695
II. FINANCIAL LOSS	198 251	225 128	213 963	231 810
Participation in profit of companies consolidated by the equity method	-	-	20 842	23 643
III. LOSS ON NORMAL OPERATIONS	-	-	-	-
Profit on sales of fixed assets	17 723	809	16 934	5 011
Profit on sales of shareholdings in consolidated companies	-	-	4 457	-
Capital grants (Note 16.2)	6 432	5 377	6 432	5 377
Extraordinary income (Note 26.3)	5 518	2 206	12 383	4 516
IV. EXTRAORDINARY LOSS	59 083	32 683	59 105	26 501
V. CONSOLIDATED LOSSES BEFORE TAX	-	-	-	-
VI. LOSS BEFORE TAX	-	-	-	-
Profit attributed to the shareholders' interests	-	-	239	39
VII. NET LOSS FOR YEAR	-	-	-	-

Notes to the annual accounts of Telefónica de España, S.A. and of Telefónica Consolidated

NOTE I. OPERATIONS AND GENERAL INFORMATION

I.1 Parent company

a) Telefónica de España, S.A. (Telefónica or "the Company") is a commercial corporation which was incorporated in Madrid on April 19, 1924. Its main corporate purpose is to provide and operate all types of public and private telecommunication services, and for this purpose, it is the Spanish State's licensee for the supply of certain public services, according to the Contract of Concession undersigned with the State's Administration on December 26, 1991.

b) Concession

In accordance with the new State Contract and the standing legislation in telecommunications, some of these services, especially the basic telephone services, in its different modalities, continue being rendered in a monopoly arrangement.

Nevertheless the process of liberalization of some telecommunications services that has proceeded in the last months, being supplied by Telefónica in a regime of either free or restricted competition.

The Cabinet Agreement dated October 7, 1994 has defined the Telecommunications policy during the transitional period 1995/1998 and has established the previous conditions that will determinate the complete liberalization of the basic telephone services including long distance calls and international services being the dead line January 1, 1998.

The new State Contract also gives Telefónica the right to maintain the overall financial balance of the contract in accordance with Article 74 and related provisions of the State Contract Law.

c) Regulation of tariffs

As the concessionaire of public services, and according to the aforementioned contract, Telefónica is subject to regulated prices and to a tariffs regime; the tariffs regulations for services will allow the principle of universality for the supplying of basic telephone services and the overall financial balance of the concession to be safeguarded. For that purpose, within the framework of costs and effective management of the productive resources of the concessionaire company, the tariff regulations must ensure that Telefónica can cover both its operating expenses and the requirements for reserves and capital contributions, in the context of an alignment of the tariff structure to that of costs.

d) Tax regime

According to the Telefónica Taxation Law 15/1987 of July 30, 1987 and Royal Decree 1334/1988 of November 4, 1988, as from January 1, 1988 Telefónica is subject to the general tax regulations for State taxes. As regards of local taxes Telefónica, is required to pay local property taxes but other local and Autonomous Community taxes are substituted by an annual payment equivalent to two per cent of gross turnover.

By Ministerial Order dated December 27, 1989 Telefónica obtained authorization from the Spanish tax authorities to file consolidated income tax returns for the years 1990, 1991 and 1992, which was extended to the years 1993, 1994 and 1995 by Ministerial Order dated July 21, 1993. Such authorization is subject to compliance with certain requirements established by current legislation (Royal Decree Law 15/1977 of February 25, 1977 and Law 18/1982 of May 26, 1982).

e) In scope of consolidation

The new corporations, which have been added to the group are Telefónica Finance Ltd (Isle of Man), Telefónica Servicios Multimedia, S.A., Telefónica Transmisión de Datos S.A. Telefónica Telecomunicaciones Públicas, S.A. TYSSA Telecomunicaciones y Sistemas (Argentina), Sintel Venezuela and Sintel Perú. Outstanding the incorporation by full integration method of CPT Telefónica de Perú, S.A. Telefónica Internacional de España, S.A. acquired on May 16, 1994 through Telefónica Perú Holding, S.A. a 20% share of Compañía Peruana de Teléfonos, S.A. (CPT) and a 35% share of Empresa Nacional de Telecomunicaciones de Perú, S.A. (ENTEL Perú), both located in Lima. At the same time, capital was increased in the first increase fully subscribed by Telefónica Perú Holding, S.A. with a payment of US \$ 610,7 million, until it reached a share of 35%. Both companies merged in December 31, 1994 by a takeover of the second by the first one. The merged company was named CPT Telefónica del Perú, S.A. In this company, Telefónica Internacional Group has the power to appoint or replace the majority of the members of the Board of Directors, for that reason it consolidates by a full integration method.

The addition to the consolidation of this company has produced the following increases in the main figures of the balance sheet and profit and loss account:

	Millions of pesetas
Intangible assets	222 279
Tangible assets	120 208
Current assets	82 529
Current liabilities	29 433
Long-term liabilities	9 324
Income	64 201

Compañía de Teléfonos de Chile "CTC" (Chile), located in Santiago de Chile consolidates for the first time by a full integration method. The share in this company reached up to a 43,62% and Telefónica Internacional de España, S.A. Group has appointed exclusively with its votes the majority of the members of the Board of Directors who were at their position when this consolidated annual accounts are formulated and the two previous years.

This company consolidated by equity method in the annual accounts at December 31, 1993 due to the uncertainty existing at that moment in the continuity of the investment, motivated by the ruling of the Resolution Committee of the Antimonopoly Law dated April 7, 1992, that established that the group could not maintain at the same time shareholdings in CTC and in Empresa Nacional de Telecomunicaciones, S.A. (ENTEL). In order to comply with that ruling approved by Supreme Court of Chile on April 19, 1993 Telefónica Internacional decided during 1994 to sell its share in ENTEL so the investment in CTC acquired a permanent character and started to consolidate by full consolidation method.

Group for the years ended December 31, 1994 and 1993

The disposal of ENTEL shares was carried out by an exchange operation with Chemical Venture Partners Group, receiving a 4,33% share of COINTEL plus US \$ 46 million in cash. With this exchange the share in COINTEL increased from 28,83% up to 33,16% and a profit of 4,053 million pesetas has been recorded in 1994 under the heading "Profit on sale of shareholdings in consolidated companies".

The following associated companies have been added to the group: Bitel Baleares Innovación Telemática, S.A. Cable del Guadalquivir, S.A. and Compañía Celular de Colombia "Cocelco, S.A."

The Group has disposed of the company Inversiones Hispano-Chilenas Holding, B.V. and its subsidiary companies Inversiones Hispano Chilenas, S.A. and Empresa Nacional de Telecomunicaciones, S.A. (ENTEL), as it was explained above in November 16, 1994.

The Group has also disposed of the shareholdings in the associated Company Excel-Data, S.A. and its shareholdings in Alcatel Standard Eléctrica, S.A.

1.2 Subsidiary companies

Cabinas Telefónicas, S.A. (CABITEL), Plaza de Carlos Trias Bertrán, 7 - 28020 MADRID

Marketing, installation, management and operation of local public telephones, support networks and related services. Operation for advertising purposes of any local support or service capable of being used for that purpose.

Casiopea Reaseguradora, S.A. - Inmueble "Centre Europe" nº 5 Pza. de la Gare L-1616 (Luxembourg)

Reinsurance.

At year end it has the following subsidiary:

- 12% in Seguros de Vida y Pensiones Antares, S.A.

Compañía Española de Tecnologías Avanzadas, S.A. (COMET), C/ Villanueva, nº 2 bis planta 1ª - 28001 MADRID

Promotion of business initiatives.

At year end it has the following subsidiary, associated (companies) and shareholdings:

- 85% in Satel, S.A. - Inactive. Comandante Zorita, 4 - 28020 Madrid
- 50% in Cleon, S.A. - Property sales promotion. Pº Castellana, 83-85 - 6ª planta 28046 Madrid
- 4,21% in Barcelona Tecnología, S.A. - Capital risk company. Tuset, 8 - 6ª 1º Izda. 08006 Barcelona
- 1,26% in Catalana D'Iniciatives, C.R., S.A. - Promotion of non-finance companies. Travessera de Gracia 56 - 08006 Barcelona.

Compañía Publicitaria de Exclusivas Telefónicas, S.A. (CETESA), Avenida Manoteras, 12 - 28050 MADRID

Publication of yellow pages, and advertising material on all types of support equipment. At the year end it has the following subsidiary, associated companies and shareholdings:

- 100% in Promotora de Mercados Telemáticos, S.A. - Marketing of advertising products and services. Inactive since 1994. Av. Manoteras, 12 - Madrid
- 100% in Central de Compras Papel, S.A. - Purchase of paper and graphic art material. Av. Manoteras, 12 - Madrid
- 25% in Venturini, S.A. - Printing and graphic arts. C/ Industria, 17 Tres Cantos (Madrid)
- 5% in Euredit, S.A. - Publication European annual directories. Av. Friedland 9, 75008 Paris (France)

Estrategias Telefónicas, S.A. (ESTRATTEL), Príncipe de Vergara, 110 - 28002 MADRID

Promotion, marketing and market research relating to direct marketing.

Fonditel Entidad Gestora de Fondos de Pensiones, S.A. Pedro Texeira, 8 - 28020 MADRID

Pension funds administration.

Maptel, S.A. C/ Orense, 11 - 28020 MADRID

Data processing consulting and digital cartography.

Playa de Madrid, S.A. Paseo de la Castellana, 83 - 85 28046 MADRID

Social and recreational activities. Distribution of all types of articles, operation of sporting and hotel facilities and organization of tourist services.

Pléyade Peninsular, Correduría de Seguros, S.A. Avenida General Perón, 38 - 28020 MADRID

Distribution, promotion and production of insurance contracts, operating as a broker.

Seguros de Vida y Pensiones Antares, S.A. - Avenida General Perón 38 - 28020 MADRID

Life insurance and pensions.

At the year end it has the following shareholdings company:

- 3,78% in Fonditel Entidad Gestora de Fondos de Pensiones, S.A.

Servicios de Teledistribución, S.A. (S.T. Hilo), Covarrubias, 1 - 28010 MADRID

Supply of services in the teledistribution sector for all types of signals, music, voice, image, data:

At the year end it has the following associated company:

- 33% in S.A.P.E.C., S.A. - Manufacture of megaphony systems. C/ Nicolás Morales 9, 28019 Madrid

Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL), Arte 21, 28033 MADRID

Installation of equipment and cable-laying in the telecommunications field.

At year end it has the following subsidiary and associated companies and shareholdings:

- 100% in Sintel Venezuela - Telecommunications installations 2ª Ave. Campo Alegre, Quinta Nº 11 Caracas (Venezuela)
- 50% in Sintelar, S.A. - Telecommunications installations c/ Carlos Pellegrini 1163. Buenos Aires (Argentina)
- 50% in Sietel, S.A. - Telecommunications installations. c/ Mac-Iver 125 piso 12 Santiago de Chile (Chile)
- 50% in Sintel - Abengoa Servicios 2000 A.I.E. - Telecommunications installations c/Infante D. Carlos 16 - 2ºD - Sevilla.
- 49% in Cotronic, S.A. - Telecommunications installations c/Competa 6, Edificio MILTON, 10-A - Málaga.
- 49% in Informática y Comunicaciones, S.A. (INCOSA) - Telecommunications installations, Polígono de Pocomaco, parcela A-2 Nave I, - La Coruña.
- 44% in Inalca, S.A. - Telecommunications installations c/Ramón y Cajal s/nº la Cava Deltebre - Tarragona.
- 42,12% in Sistemas Avanzados de Control - Traffic control systems. C/ Estudio 3, Aravaca (Madrid)
- 38% in Sinel Perú - Telecommunications installations - Ave. José Pardo 601 Lima (Perú)

Taetel, S.L. Beatriz de Bobadilla, 3 - 28040 MADRID

Acquisition, holding and disposing of shares in other companies.

Telecomunicaciones Marinas, S.A. (TEMASA), Silva 1 - 4º 4 - 28013 MADRID

Sounding and laying and repairing underwater cables.

Telecartera, S.A. Beatriz de Bobadilla, 3 - 28040 Madrid

Acquisition, holding and disposing of shares in other companies.

At year end it has the following associate company:

- 33,33% in Sociedad General de Cablevisión, S.A. Organization activities in relation to cable television systems. Gral. Martínez Campos, 53 28003 Madrid

Telefonía y Finanzas, S.A. (TELFISA), Paseo de la Castellana, 151 - 10º B 28046 MADRID

Treasury management and advisory and financial support services to Group companies.

Telefónica Internacional de España, S.A. C/ Jorge Manrique, 12 - 28006 MADRID

Investment in foreign telecommunications direct or indirectly through others companies whose incorporation could be promoted.

At year end it has the following subsidiary and associated companies and shareholdings:

- 100% in Telefónica Internacional, S.A. (LUXEMBOURG) - Holding company.
 - 100% in Telefónica Internacional Holding B.V. (HOLLAND) - Holding company.
 - 100% in Telefónica USA, INC - (USA) Representation of Telefónica.
 - 100% in Telefónica Chile, S.A. - (CHILE) Holding company.
 - 100% in Telefónica Chile, B.V. - (HOLLAND) Holding company.
 - 100% in Telefónica Venezuela BV - (HOLLAND) Holding Company.
 - 100% in Telefónica Finance Limited (ISLA DE MAN) - Holding Company.
 - 90% in Telefónica Perú Holding, S.A. (PERU) - Holding Company
- At the year end it has the following subsidiary:
- 35% in CPT Telefónica de Perú, S.A. Local long distance and international telecommunications services in Perú.
 - 79% in Telefónica Larga Distancia (Puerto Rico) - Telecommunication Operator.
 - 60% in Telefónica Romania (Rumania) Telecommunications operator.
 - 55% Impresoras y Comercial Publicitárias, S.A. (Chile) Telephonic guide edition.
 - 43.62% in Compañía de Teléfonos de Chile (CTC) - Basic telephone service operator in Chile.
 - 33.16% in Compañía de Inversiones en Telecomunicaciones, S.A. Cointel, S.A. (Argentina) - Holding company
 - 25% in Sintel Perú, S.A. Telecommunications Installations
 - 25% in Sintelar, S.A. (Argentina) - Telecommunications installations.
 - 20.81% in Telefónica Argentina, S.A. - Telecommunications operator in the southern region of Argentina.
 - 20% in TYSSA Consulting in Telecommunications
 - 16% in VenWorld Telecom, C.A. (VENEZUELA) - Holding company.
 - 15% in Contactel (Portugal) - Telecommunications Operator (Telepager).
 - 14.9% in Telecomunicaciones Ultramarinas de Puerto Rico - (PUERTO RICO) Telecommunications operator.
 - 7.74% in Infonet Services Corporation (USA) - Telecommunications operator.
 - 5% in Telur, S.A. (FEDERACION RUSA) - Manufacture of telecommunications equipments.
 - 2.92% in Geostar Corp - In bankruptcy.
 - 1.03% in Intelsat - Telecomunicaciones y Sistemas, S.A. (ARGENTINA)

Telefónica Investigación y Desarrollo, S.A. (TIDSA) C/ Emilio Vargas, 6 - 28043 MADRID

Research and development of products, exploration, applied investigations and technological reports in the telecommunications field.

Telefónica North America, INC 1209 Orange St. Wilmington/New Castle Country DELAWARE (U.S.A.)

Financial intermediary.

Telefónica Servicios Multimedia, S.A. Pº de la Castellana, 9-11 - 28046 Madrid

Organization and operation of Multimedia Services, Cable Television System and other services related to them.

At year end it has the following subsidiary and associated companies:

- 20% in Cable del Guadalquivir, S.A. to Activities related to Cable Televisión - Ave. de Buharia, 2 Sevilla.
- 10% in Grupo Gallego de Empresas para el Cable, S.A. - Activities related to Cable Televisión

Telefónica Sistemas, S.A., Sor Angela de la Cruz, 3 - 28020 MADRID

Systems engineering.

At year end it has the following subsidiary and affiliated companies:

- 100% in Telefónica Sistemas de Satélites, S.A. (TSS) Satellite's telecommunication services. Ramírez de Arellano, 19 - Madrid.
 - 100% in Telefónica Servicios Avanzados de Información, S.A. (T.S.A.I.) Advance. C/ Julián Camarillo, 6 - Madrid Telecommunication services
- At year end it has the following subsidiary company:
- 50% in Servicios y Contenidos por la Red, S.A. (SCR) Marketing by Telephone Network - C/ Velázquez, 10 28001 Madrid.
 - 100% in Telefónica Gestión de Sistemas, S.A. (TGS) Outsourcing of systems. Sor Angela de la Cruz, 3 - Madrid
 - 100% in Telefónica de Sistemas Ingeniería de Productos, S.A. (TSIP) Design of projects, development, installations and maintenance of Tesys equipment. Julián Camarillo, 6 - Madrid.
 - 100% in Telefónica Seguridad y Comunicaciones, S.A., (TSC) Protection and control systems engineering Julián Camarillo 6 - Madrid
- At year end it has the following subsidiary companies:
- 51,64% in T.P. Servicios Integrales de Protección Civil, S.A. (TEPESA) - Training in techniques of all areas of civil protection, security and fire. Plaza de Colón, 2 - Madrid.
 - 50% in T.M.I. - Integrated maintenance of security installations. Perpetua Díaz, 24 - Madrid.
 - 90,4% in T.D.S. - Marketing Tesys equipment. 17993 Cowan/Irvine CA 92714 (USA)
 - 51% in Gestión de Operación de Redes, S.A. (GESTIRED) Network management including technical assistance, consulting and commercializing of products and formation. Sor Angela de la Cruz, 3 - Madrid.
 - 49% in Bitel Baleares, S.A. Supplier of services and systems engineering in the field of computers and telecommunications. Paseo Marítimo 38-D. Palma de Mallorca.
 - 40% in Tissat, S.A. Systems engineering and added value services. Correos, 1 - Valencia
 - 24,9% in Telecom Vallés, S.A. Sale of equipment. San Sebastián, 164 - Tarrasa.

Telefónica Servicios Móviles, S.A. Plaza de la Independencia, 6 - 28001 MADRID

Operation of added value services and mobile technology.

At year end it has the following subsidiary companies:

- 100% in Radiored Uno, S.A. - Telecommunication Broadcasting, Manuel Torres, 35 Madrid
- At year end it has the following subsidiary companies
 - 100% in Radiored, S.A. - Telecommunication Broadcasting, Manuel Torres, 35 Madrid
 - 100% in Radiored Barcelona, S.A. - Telecommunications Broadcasting, Manuel Torres, 35 Madrid
 - 100% in Radiored Valencia, S.A. - Telecommunications Broadcasting, Plaza de la Independencia, 6 - Madrid
 - 100% in Radiored Málaga-Costa del Sol, S.A. - Telecommunications Broadcasting, Plaza de la Independencia, 6 - Madrid
 - 100% in Radiored Sevilla-Cádiz, S.A. - Telecommunications Broadcasting, Plaza de la Independencia, 6 - Madrid
 - 100% in Radiored Santiago-La Coruña, S.A. - Telecommunications Broadcasting, Plaza de la Independencia, 6 - Madrid
 - 100% in Radiored Bilbao, S.A. - Telecommunications Broadcasting, Plaza de la Independencia, 6 - Madrid
 - 100% in Radiored Zaragoza, S.A. - Telecommunications Broadcasting, Plaza de la Independencia, 6 - Madrid
- 90% in Compañía Gestora de Servicio Mensatel, S.A. - Management and marketing of radio message and telepager services. Manuel Tovar, 35, 28034 Madrid

Telefónica Telecomunicaciones Públicas, S.A. Paseo de Recoletos, 41 28004 Madrid

Operation of public telecommunications.

Telefónica Transmisión de Datos, S.A. Beatriz de Bobadilla, 3 - 28040 Madrid

Operation of added value services.

Teleinformática y Comunicaciones, S.A. (TELYCO), Raimundo Fdez. Villaverde, 28 - 28003 MADRID

Promotion, marketing and distribution of telephonic and telematic equipment and services.

Urbana Ibérica, S.A. General Yagüe, 11 28020 Madrid

Promotional activities for residential property.

The main Telecommunication Operators in Telefonía Consolidated Group are the following:

CPT - Telefónica del Perú, S.A. (CPT)

This company supplies local telephone services, long distance and international service in Perú, based on a concession agreement, subscribed with Government of Perú on May 16, 1994 for a 20 year period that can be extended to other 20 years being the first five years in an exclusive regime. It has 11,728 employees and 870,681 telephone lines.

Compañía de Teléfonos de Chile - (CTC)

It supplies telephone services in Chile. The number of employees is 9,354 and it manages 1,737,344 telephone lines. Its shares are listed on the stock exchange in Santiago de Chile and New York. The acquisition is dated in April 1990 and in January 1991 when it was exercised the purchase option over a few additional shares. CTC is the parent company of a group in which maintains a shareholding of more than a 80% composed by:

- CTC - Celular, S.A.
- Isapre, S.A.
- CTC - Equipos y Servicios de Telecomunicaciones, S.A.
- CTC - Servicios, S.A.
- CTC - Corp, S.A.
- CTC - Mundo, S.A.
- CTC - Marketing e Información, S.A.
- Invercom, S.A.
- Intercom, S.A.
- Instacom, S.A.

Telefónica de Argentina, S.A. (TASA)

It operates in Southern Argentina supplying telephone services. At September 30, 1994 closing date of its fiscal year TASA managed 3,013,448 telephone lines and had 16,836 employees. Telefónica Internacional Group owns a shareholding of 20.81% of TASA, 18.87% through Compañía de Inversiones en Telecomunicaciones, S.A. COINTEL and the remaining 1.94% directly. The acquisition of this shareholding was made during November 1990, February 1991, July 1993 and November 1994 (see Note 7), through COINTEL, and in December 1991 directly. At the same time TASA has investments in the following companies:

- TELINVER (100%)
- TELEINTAR (50%)
- MOVISTAR (50%)
- STARTEL (50%)
- TYSSA (80%)
- RADIO LLAMADAS, S.A.C.I. (50%)

Compañía Anónima de Teléfonos de Venezuela (CANTV)

This company supplies telephone services in Venezuela. It manages 2,831,578 lines and has 20,798 employees. The group owns a 16% shareholding in VENWORLDS TELECOM, which has a 40% of CANTV. Other investments of CANTV are as follows:

- MOVILNET (100%) Mobile Services
- CAVEGUIAS (80%) Guide Edition
- INVERCANTV (100%) Investments
- CANTV SERVICIOS (100%) Added Value technological services

Telefónica Larga Distancia, Inc (TLD)

Operation of Long Distance telephone services using land network in Puerto Rico. It has 292 employees. Telefónica Internacional participates in a 79% of its share capital. It was acquired on December 22, 1992.

Telecomunicaciones Ultramarinas

Operations of long distance telephone services using satellites and broadcasting network in Puerto Rico.

Telefónica Romania, S.A.

The concession makes possible the development of rural telephone services using mobile telephone network. At December 31, 1994 it had 63 employees and 2,768 subscribers.

The subsidiary companies have been audited by the following firms:

Subsidiary Companies	Auditors	Subsidiary Companies	Auditors
Antares	Price Waterhouse	Sietel	Chau, Tapia y Ortega,
Cabitel	Arthur Andersen		corresponsales de
Casiopea	Peat Marwick		Moore Stephens
Cetesa	Arthur Andersen	Sintel	Arthur Andersen
Cleón	Peat Marwick	Sintel-Abengoa Servicios 2.000, A.I.E.	CYE Auditores
Comet	Peat Marwick		Asociados, S.A.
Compañía de Teléfonos de Chile (C.T.C.)	Langton Clarke/ Coopers & Lybrand	Sintel Perú	Arthur Andersen
	Arthur Andersen	Sintel Venezuela	Arthur Andersen
C.P.T. Telefónica del Perú	Arthur Andersen	Sintelar	Arthur Andersen
Estratel	Peat Marwick	Taetel	Price Waterhouse
Fonditel	Audiberia	Telecartera	Arthur Andersen
Gestired	Arthur Andersen	Telefónica Gestión de Sistemas	Arthur Andersen
Inversiones Hispano-Chilenas		Telefónica Servicios Móviles	Arthur Andersen
Holding, B.V. (Holanda)	Arthur Andersen	Telefónica Chile, B.V. (Holanda)	Arthur Andersen
Inversiones Hispano-Chilenas, S.A. (Chile)	Arthur Andersen	Telefónica Chile, S.A. (Chile)	Arthur Andersen
Maptel	Peat Marwick	T.I. Telefónica Internacional	Arthur Andersen
Mensatel	Arthur Andersen	Telefónica Internacional Holding, B.V. (Holanda)	Arthur Andersen
Playa de Madrid	Peat Marwick	Telefónica International, S.A. (Luxemburgo)	Arthur Andersen
Pléyade	Price Waterhouse	Telefónica Larga Distancia (Puerto Rico)	Arthur Andersen
Promotora de mercados	Arthur Andersen	Telefónica North América	Peat Marwick
Impresora Comercial Publiguías, S.A. (Chile)	Langton Clarke/ Coopers & Lybrand	Telefónica Romania (Rumania)	Arthur Andersen
	Peat Marwick	Telefónica Servicios Avanzados de Información	Arthur Andersen
Radiored Uno, S.A.	Peat Marwick	Telefónica Servicios Multimedia	Arthur Andersen
Radiored Bilbao, S.A.	Peat Marwick	Telefónica Sistemas	Arthur Andersen
Radiored Catalunya, S.A.	Peat Marwick	Telefónica Sistemas de Satélites	Arthur Andersen
Radiored Madrid, S.A.	Peat Marwick	Telefónica Sistemas de Ingeniería de Productos	Arthur Andersen
Radiored Málaga-Costa del Sol, S.A.	Peat Marwick	Telefónica Venezuela, B.V. (Holanda)	Arthur Andersen
Radiored Santiago-La Coruña, S.A.	Peat Marwick	Telfisa	Peat Marwick
Radiored Sevilla-Cádiz, S.A.	Peat Marwick	Telyco	Arthur Andersen
Radiored Valencia, S.A.	Peat Marwick	Temasa	Peat Marwick
Radiored Zaragoza, S.A.	Peat Marwick	Tidsa	Arthur Andersen
S.T.Hilo	Peat Marwick	TSC Telefónica, Seguridad y Comunicaciones	Arthur Andersen
		Urbana Ibérica	Peat Marwick

1.3 Associated companies and shareholdings:

Amper, S.A. C/ María de Molina, 37bis - 28006 MADRID

Development, manufacture, repair and marketing of telephonic and telematic terminals and components.

Compañía Celular de Colombia COCELCO, S.A. Santa Fé de Bogotá DC Colombia

Operation of the mobile telephony cellular communications, concession corresponding to West Colombia.

Eritel, S.A. Paseo de la Castellana, 141 - 28046 MADRID

Data processing software applications.

Hispasat, S.A. Gobelas, 41 - 45 - 28023 MADRID

Operation of a telecommunications satellite.

Industria Electrónica de Comunicaciones, S.A. (INDELEC), Parque Tecnológico, 108 Zamudio (VIZCAYA)

Manufacture and marketing of mobile radio equipment for communications purposes.

Pabellón de Operadores Europeos de Telecomunicaciones, S.A. - (P.O.E.T.) C/ Beatriz de Bobadilla, 3 - 28040 Madrid

Design, installation, operation and management of the pavilion for European telecommunication operators in the Sevilla Expo 92 Universal Exhibition. In liquidation.

Sistemas Técnicos de Loterías del Estado, S.A. Manuel Tovar, 9 - 28034 MADRID

Acquisition, assembly, installation, maintenance and operation of integrated lottery control systems by means of games terminals, including any apparatus necessary for issuing tickets and retransmission.

Sofres AM, S.A., Pza. Carlos Trías Bertrán, 7 - 28020 Madrid

Market research

Telefónica Fiat Factoring, S.A. Pedro Texeira, 8 - 28020 Madrid

Factoring company.

Torre Collserola, S.A. Ctra Vallvidrera-Tibidabo, s/n - 08017 BARCELONA

Construction of a telecommunications tower.

Agencia EFE, S.A. Espronceda, 32 - 28003 Madrid

News agency that distributes to all the world.

A.T.T. Network Systems International BV Larenseweg 50, PP Box 1168 - 1200 Hilversum (THE NEDERLANDS)

Marketing, development and manufacture of all network products, mainly for public telecommunications

Catalana Iniciatives, S.A. - P^o de Gracia, 2 - 08007 Barcelona

Promotion of non financial corporations.

Darsa Gaditana, S.A. Ayda. Marconi 34 - 11011 Cádiz

Building of residence homes and premises for renting or selling

Promoció de Ciutat Vella, Rambles, 77 - 08002 Barcelona

Urban rehabilitation of the Ciutat Vella integrated rehabilitation area

Reto 2000, S.A. - Pza. San Vicente, 3 45001 Toledo

Design of a project for disposing the aerial wiring in the historic centre of Toledo.

NOTE 2. BASES OF PRESENTATION OF THE ANNUAL ACCOUNTS

a) The attached annual accounts have been presented in accordance with the accounting principles stipulated by current legislation: the Corporation Law approved by Royal Decree 1564/1989 of December 22, 1989 developed by the General Accounting Plan approved by Royal Decree 1643/1990 of September 20, 1990 as well as the consolidation accounting standards approved by Royal Decree 815/1991 of December 20, 1991 and the specific's equity, the regulations which applies, in order to present fairly, the shareholders' equity, the financial position and the results of the operations, and they have been prepared on the basis of the accounting records of Telefónica, and its group companies, at December 31, 1994 and 1993.

The Directors on the parent company who have formulated the annual accounts estimate that the accounts of the year ended December, 1994 will be approved by the General Meeting of Shareholders without material changes. The comparative accounts at December 31, 1993 have been approved by the General Meeting of Shareholders on April 15, 1994.

Accounts payable are classified at the time they are contracted according to their original maturity dates. Long term accounts payable are reclassified as short term when their maturity is within one year. These accounts are recorded at their reimbursement value except for debentures and zero coupon bonds which are shown in the balance sheet at their issue value plus accrued interest.

b) Data comparison

The consolidated annual account for 1994 introduce significant changes in the Consolidation Group as shown in note 1. i.e. In order to carry out comparative analysis of 1993 and 1994 consolidated annual accounts such changes must be considered, especially the effect of the change in the consolidation method for the investment in CTC. This change has not produced modifications in the equity and result of the year, but the effects in the main figures of the balance sheet and profit and loss accounts in 1993, in order to make them comparables, are as follow:

BALANCE SHEET

ASSETS		LIABILITIES	
Fixed Assets	211 028	Minority shareholders	87 939
• Intangible Assets	1 455	Long term debt	124 582
• Tangible Assets	295 100	Short term debt	48 228
• Investments	(85 527)		
Current Assets	49 721		
Total Assets	260 749	Total liabilities	260 749

PROFIT AND LOSS ACCOUNT

DEBIT		CREDIT	
Operating expenses	70 296	Operating income	110 916
Financial expenses	7 422	Financial income	3 472
Minority shareholders	17 653	Profit from associated companies	(13 116)
Extraordinary expenses	5 901		
Variation in expenses	101 272	Variation in income	101 272

c) In order to make comparable the consolidated information of 1994 with the data of 1993 it has been reclassified in 1993 part of the heading "Other operating expenses" amounting to 17,619 million pesetas to "External Services".

d) All figures contained in the documents comprising the annual accounts, balance sheet, profit and loss account and notes thereto, are expressed in millions of pesetas.

NOTE 3. DISTRIBUTION OF PROFITS

The Directors propose to the Shareholders General Meeting the distribution of the parent company's profit, according to the following:

BASIS OF DISTRIBUTION	
Profit for year _____	91 734
Surplus _____	91
Total available for distribution	91 825
DISTRIBUTION	
Interim dividend of 5.4% for each of the shares numbered 1 to 939,470,820 payable as from February 17, 1995 _____	25 366
Complementary dividend of 7.8% for each of the shares numbered 1 to 939,470,820, pending approval _____	36 639
Dividend _____	62 005
Legal reserve _____	9 173
Final dividend and Voluntary reserve (Other reserves) _____	20 500
Surplus _____	147
Total proposed distribution	91 825

NOTE 4. SIGNIFICANT ACCOUNTING PRINCIPLES**4.1 Accounting principles**

The most significant accounting principles applied in the preparation of the annual accounts are as follows:

A) Cost of new equity capital

Costs of issuing shares for the conversion of bonds, and expenses incurred to increase share capital are stated at cost and are amortized on a straight line basis over a period of five years from the date of each capital conversion, or increase.

B) Intangible assets and amortization

Intangible assets include:

- a) Costs incurred in developing new product lines that can be marketed or used in the Company's own telephone network. Costs of completed projects having a possibility of commercial or industrial use are amortized over a period of five years while costs of unsuccessful projects are expensed immediately.
- b) The value of rights acquired for the use of outside equipment and installations is amortized on a straight line basis over a period of 25 years.
- c) Computer equipments leasing contracts are recorded at cost including the value of the purchase option. The financial expenses are recorded as deferred expenses with an amortization period of five years.
- d) The cost of licences for the use of software for an indefinite period which is amortized on a straight line basis over a period of three years.
- e) The concession given by Government of Perú to CPT and Entel Perú when Telefónica Internacional acquired both companies is recorded as intangible assets. This intangible asset is due to the higher acquisition cost of the shareholding respect to the proportional equity value of the acquired companies, at the moment of the first consolidation. Those assets will be amortized over the concession period of twenty years, and depending on the number of telephone lines installed, the future income of this concession will be determined, as well as the corresponding management fees.

C) Fixed assets and depreciation

Additions to fixed assets are valued at acquisition cost plus installation cost, which includes direct labour and materials together with allocable share of indirect costs. In case the local current legislation of each country obliges, at acquisition cost or appraisal adjusted by the inflation rate.

The annual depreciation charge is calculated by the straight line method based on the estimated useful lives of the assets. The estimated useful lives are as follows:

TYPES OF FIXED ASSETS	YEARS OF USEFUL LIFE	
	PARENT COMPANY	CONSOLIDATED
Buildings _____	40	30 - 50
Technical installations and machinery _____	13 - 18	10 - 20
Exchange equipment _____	10 - 20	10 - 20
Transmission equipment _____	5 - 15	5 - 15
Local and domestic long distance networks _____	8 - 25	8 - 25
User equipment and other installations _____	4 - 8	4 - 8
Other installations, equipment and furniture _____	5 - 10	5 - 15

Maintenance and repair costs not representing extensions of useful life or improvements are expensed when incurred.

D) Long term investments - net shareholdings in companies

Long term investments are stated at cost, including related acquisition expenses and, where applicable, the cost of the subscription rights. Capital losses compared with book value are charged against results; these losses are calculated on the basis of the respective underlying net equity values of the investments as shown by the financial statements of each company. Dividends are accounted for as income when received, and capital gains on the sale of shares are accounted for as income in the year in which they are realized. This criteria is also applied in the consolidated accounts for the shareholding which do not follow the full or equity consolidation methods.

E) Deferred expenses

Deferred expenses comprise:

- a) Costs of formalizing debts: valued at cost and are amortized on the same basis as their respective debit amounts.
- b) Differences on foreign exchange: (see Note 4.1 j).
- c) Interest on notes payable: reflects the difference between the issue price and repayment value of notes with maturity exceeding one year. The interest is charged to results by the financial method.
- d) Complements for retired personnel (deficit): reflects the difference between the present value of complementary annuities to Telefónica's retired personnel calculated on an 8% annual interest, and the provisions applied for this purpose. They are amortized by the straight line method over a period of 15 years (Note 23).
- e) Annex 91 suppliers: expenses of supply contracts, with deferred payment terms of three years, entered into with the principal Telefónica suppliers. These expenses are amortized over the same period.
- f) Interest on leasing operations: it reflects the deferred finance charge which is charged to results by a Financial method.

F) Inventories

Inventories and stocks are valued at their weighted average cost monetary adjusted in those countries where it is indicated by its current legislation. Provisions for obsolescence are stated according to the age and rotation of inventories, in order to record its real depreciation.

G) Capital grants

Capital grants are stated at their nominal amounts and are credited to income on a straight-line basis over a maximum period of 10 years, which does not differ significantly from the useful lives of the assets linked to these grants. Sources for the grants are:

- Official Agencies, Autonomous Communities, Local and Regional Administrations, for the extension of the telephone services to rural areas.
- The European Economic Community, for the promotion and development of telecommunication activities among companies in the sector.

In all cases, Telefónica Group companies fulfil all the requirements to receive the grants.

H) Retirement pensions and collective endowment insurance

The retirement pensions of Telefónica's personnel are cared for by the State Social Security.

In accordance with the labour collective agreement, retired personnel at June 30, 1992, receive a non revaluable pension complement chargeable to Telefónica as detailed in Note 23.

Until June 30, 1993 active personnel had the chance to join the Pension Plan unfolded through the offer of June 30, 1992, ratified by the employees on September 17, 1992, contained in the labour collective agreement with the workers' representatives. The description of the commitments hired and the accounting principles applied are explained in Note 23.

According to the terms of the agreement, personnel who have not joined the Pension Plan, can remain on the Collective Endowment Insurance. For this consideration, charges are made based on a percentage of the regulatory salary indices, calculated in accordance with actuarial studies (Note 24).

Along 1994, it has been promoted an Early Retirement Plan. The related expenses are charged as extraordinary expenses as detailed in Note 26.3.

I) Corporate income tax

Corporate income tax is charged against the corresponding year. The timing differences between the amount to be paid and the total charge on the profit and loss account are considered prepaid or deferred taxes according to their nature.

J) Valuation of foreign currency accounts

The foreign currency accounts have been valued at foreign exchange rates as of December 31 of each year. According to the General Plan of Accounting, the exchange differences have been classified in homogeneous groups of foreign currency and maturity, considering as general principle that the unrealized foreign exchange bases are expenses of the year end the unrealized foreign exchange gains are deferred.

As a result of the coming into effect of the Order of the Ministry of Finance March 12 1993 concerning the accounting treatment of currency exchange differences for regulated companies (BOE number 64; March 16 1993) there has been a change in the treatment of exchange differences losses, that have been lineally distributed, for each loan according to the period of maturity. The fiscal year's profit and loss account reflects exclusively for each transaction the unrealized losses, accumulated lineally from their origin to year end. The remainder of the negative differences that corresponds to future years, will be included as "deferred expenses" and lineally distributed to maturity.

Positive differences are deferred, until their realization, under the heading "Deferred income".

The tax treatment for exchange differences is the same as last year's, and are included as taxable income when materialized.

K) Income and expenses

Income and expenses are accounted for on an accrual basis, at the time the corresponding goods and services are purchased or rendered regardless of the time when they are paid or collected.

However, following the principle of prudence, only profits realized at year end have been accounted for, while foreseeable risks and losses, even if contingent, are recorded when they become known.

4.2 Basis of consolidation

a) The Telefónica Group consolidates by the full integration method, the financial statements of its subsidiary companies, companies in which it owns or controls a majority of the votes and in which it has the capacity to appoint the majority of the board members. The multi-group companies, in which Telefónica owns 50% of its share capital and voting rights, are consolidated by the proportional integration method.

The consolidated subsidiary companies, together with their trade names, registered addresses, percentage ownership and operations, are listed in Notes 1.2 and 7.

b) Transactions between companies in the Group and intercompany balances at year end are eliminated on consolidation, as well as sales and profit included in invoices to Telefónica for telephone installations from subsidiary and associated companies, recognizing those results as the installations are being amortized.

c) As regards the annual accounts of associated companies (that is, those companies outside the Telefónica Group on which Telefónica has a financial investment and an ability to influence its management to a large extent) investments and results for each company are accounted for by the equity method, making adjustments on the basis of the underlying equity as calculated from the financial statements at each year end.

Associated companies, together with their trade names, registered addresses, percentage ownership and operations, are listed in Notes 1.3 and 7.

d) Stock ownerships in other companies (minority-interest companies) are treated as investment and accounted for at cost, with the necessary provisions when required.

Ownership in minority-interest companies is set forth in Notes 1.3 and 7.

e) The amount paid for the acquisition of companies in excess of their book value at the purchase date is accounted for as consolidation goodwill, which is amortized over a period of five or ten years depending on the period of recovery of each of the investments.

As well, it also includes intangible assets like license, list of customers and others whose amortization period is around 10 years.

f) The financial statements of other companies located abroad have been translated to pesetas by translating the assets and liabilities at the year-end rates of exchange, capital and reserves at historical rates and income and expenses at the average rates for the year. The difference between applying the foregoing bases of translation and applying the year-end exchange rate is presented under the heading, "Differences on foreign currency translation for consolidation".

g) For companies located in countries with high rates of inflation, local currency financial statements are translated to US dollars by applying the year-end rate of exchange to the financial statements adjusted for inflation at December 31 of each year. The subsequent translation to pesetas follows the criteria mentioned in paragraph f. The changes in the book value of the shareholding in pesetas as a result of the adjustments for local inflation and the variation in the currency rate are shown under the heading "Differences on foreign currency translation for consolidation"

h) The consolidated annual accounts do not include the fiscal effect of the incorporation of the foreign subsidiaries reserves to the parent company consolidated annual accounts, due to the fact that reserves have not been transferred and will not be distributed at the end of the period, and will be used as a financing source of the foreign subsidiaries to reduce their indebtedness.

i) The annual account of the individual companies have been formulated following homogeneous accounting principles as detailed in Note 4. For those companies where different principles have been used, the corresponding adjustment has been done in the process of consolidation, in order to present the annual consolidated accounts on an homogeneous basis.

NOTE 5. INTANGIBLE ASSETS

The movement during the year is as follows:

	PARENT COMPANY					CONSOLIDATED				
	Research and development expenses	Leasing	Licences for indefinite use of software	Other intangible assets	Total	Research and development expenses	Leasing	Licences for indefinite use of software	Other intangible assets	Total
Balance at December 31, 1992	36 500	-	16 938	2 407	55 845	36 415	4 759	17 959	7 719	66 852
Additions	13 954	-	10 645	680	25 279	12 398	41	11 290	1 167	24 896
Reductions	-	-	-	-	-	1	8	72	35	116
Transfers	-	-	-	-	-	-	(140)	-	-	(140)
Disposals of Audiotex	-	-	-	-	-	-	147	-	1	148
Exchange rate variation and others	-	-	-	-	-	-	-	-	836	836
Balance at December 31, 1993	50 454	-	27 583	3 087	81 124	48 812	3 505	29 177	9 686	91 180
Additions	13 160	5 298	9 827	940	29 225	11 778	5 313	10 617	1 033	28 741
Reductions	-	-	-	-	-	-	20	10	-	30
Transfers	-	-	-	-	548	(367)	(334)	20	367	354
New companies	-	548	-	-	-	-	-	-	* 226 071	226 071
Exchange rate variation and others	-	-	-	-	-	(30)	-	71	(364)	(323)
Balances at December 31, 1994	63 614	5 846	37 410	4 027	110 897	60 193	9 132	39 875	236 793	345 993

(*) From this amount 224,491 million pesetas correspond to the concession as it is explained in note 4.1.B.e).

The movement on amortization is as follows:

	PARENT COMPANY					CONSOLIDATED				
	Research and development expenses	Leasing	Licences for indefinite use of software	Other intangible assets	Total	Research and development expenses	Leasing	Licences for indefinite use of software	Other intangible assets	Total
Balance at December 31, 1992	4 673	-	8 582	981	14 236	5 139	503	9 050	1 382	16 074
Additions	5 116	-	6 129	123	11 368	4 867	221	6 376	796	12 260
Reductions	-	-	-	-	-	-	5	9	-	14
Transfers	-	-	-	-	-	(15)	(416)	15	-	(416)
Disposal of Audiotex	-	-	-	-	-	-	-	-	12	12
Exchange rate variation and others	-	-	-	-	-	(214)	-	-	295	81
Balances at December 31, 1993	9 789	-	14 711	1 104	25 604	9 777	303	15 432	2 461	27 973
Additions	7 908	427	5 966	161	14 462	8 436	523	6 339	2 284	17 582
Reductions	-	-	-	-	-	-	2	8	-	10
Transfers	-	-	-	-	-	(367)	(85)	1	367	(84)
New companies	-	-	-	-	-	-	-	-	373	373
Exchange rate variation and others	-	-	-	-	-	(32)	2	-	(18)	(48)
Balances at December 31, 1994	17 697	427	20 677	1 265	40 066	17 814	741	21 764	5 467	45 786
Net intangible assets	45 917	5 419	16 733	2 762	70 831	42 379	8 391	18 111	231 326	300 207

NOTE 6. TANGIBLE ASSETS

6.1 The details of fixed assets and accumulated depreciation are as follows:

PARENT COMPANY										
	Balance at 31.12.92	Additions	Disposals	Transfers	Balance at 31.12.93	Additions	Disposals	Transfers	Balance at 31.12.94	
Land and buildings	403 197	585	297	31 704	438 189	153	584	42 193	479 951	
Technical installations and machinery	1 111 478	30	3 578	8 865	1 116 795	5	4 063	6 803	1 119 540	
Exchange equipment	1 448 623	265	50 971	86 563	1 484 480	45	153 436	102 819	1 433 908	
Transmission equipment	728 157	226	14 742	82 198	795 839	435	23 360	86 816	859 730	
Local and domestic long distance networks	1 859 736	57 923	71 341	128 984	1 975 302	60 025	62 767	98 113	2 070 673	
Subscriber equipment and other installations	272 033	24 032	31 666	18 470	282 869	26 285	28 631	13 754	294 277	
Furniture, office and other equipment	103 854	83	462	9 584	113 059	1 007	398	15 629	129 297	
Total fixed assets in service	4 927 078	83 144	173 057	369 368	5 206 533	87 955	273 239	366 127	5 387 376	
Net movement on:										
Construction in progress	325 061	294 707	393	(369 368)	250 007	293 941	55	(366 675)	177 218	
Advances to suppliers of fixed assets	30 804	(14 215)	-	-	16 589	(4 859)	-	-	11 730	
Stock Installation equipment	24 013	(7 408)	-	-	16 605	(411)	-	-	16 194	
Total fixed assets	5 306 956	356 228	173 450	-	5 489 734	376 626	273 294	(548)	5 592 518	

The movement on accumulated depreciation is as follows:

PARENT COMPANY										
	Balance at 31.12.92	Additions	Disposals	Transfers	Balance at 31.12.93	Additions	Disposals	Transfers	Balance at 31.12.94	
Buildings	82 632	9 393	21	-	92 004	10 315	199	-	102 120	
Technical installations and machinery	50 189	7 607	2 738	-	55 058	7 308	3 269	-	59 097	
Exchange equipment	678 180	125 999	40 464	-	763 715	133 734	121 862	-	775 587	
Transmission equipment	303 765	54 964	8 841	-	349 888	76 456	14 730	-	411 614	
Local and domestic long distance network	738 609	1 6 759	60 157	-	795 211	121 617	55 564	-	861 264	
Subscriber sets and other related installation	189 234	30 861	30 129	-	189 966	33 635	27 638	-	195 963	
Furniture, office and other equipment	47 658	15 091	362	-	62 387	15 562	298	-	77 651	
Total accumulated depreciation	2 090 267	360 674	142 712	-	2 308 229	398 627	223 560	-	2 483 296	
Total net fixed assets	3 216 689	(4 446)	30 738	-	3 181 505	(22 001)	49 734	(548)	3 109 222	

CONSOLIDATED														
	Balance at 31.12.92	Additions	Disposals	New Comp.	Dispos. Comp.	Differences on foreign Currency Translator	Transfers	Balance at 31.12.93	Additions	Disposals	New Comp.	Differences on foreign Currency Translator	Transfers	Balance at 31.12.94
Land and buildings	406 830	987	1 334	13	-	105	34 742	441 443	256	737	43 322	3 077	41 416	529 777
Technical installations and machinery	1 122 393	4 760	3 932	-	18	-	6 597	1 129 800	474	4 887	-	(6)	7 031	1 132 412
Exchange equipment	1 436 560	(958)	50 979	-	-	241	86 540	1 471 404	2 469	156 594	138 576	5 644	122 211	1 583 710
Transmission equipment	722 088	(312)	14 750	-	-	241	82 198	789 465	565	24 939	69 289	2 592	95 512	933 484
Local and domestic long distance networks	1 844 247	56 211	71 326	-	-	238	128 984	1 958 331	63 621	67 504	207 867	9 277	127 201	2 298 793
Subscriber equipment and other installations	272 808	24 119	31 750	-	-	-	18 470	283 670	25 030	30 277	69 289	2 592	23 450	373 754
Furniture, office and other equipment	114 406	1 790	1 544	205	21	125	13 025	127 986	7 876	4 14	31 559	1 829	22 903	188 039
Total fixed assets in service	4 919 332	86 597	175 615	318	39	950	370 556	5 202 099	101 291	289 052	559 902	25 005	440 724	6 039 969
Net movement on:														
Construction in progress	329 974	289 130	359	12	-	7	(369 368)	249 356	365 710	521	70 334	3 375	(441 111)	247 143
Advances to suppliers of fixed assets	30 352	(13 680)	-	-	-	-	(695)	14 977	(6 720)	36	-	-	-	8 221
Stock Installation equipment	24 013	(7 408)	-	-	-	-	-	16 605	(411)	-	-	-	-	16 194
Total fixed assets	5 303 671	354 639	176 014	330	39	957	(507)	5 483 037	459 870	289 609	630 236	28 380	(387)	6 311 527

The movement on accumulated depreciation is as follows:

	CONSOLIDATED													
	Balance at 31.12.92	Additions	Disposals	New Comp.	Dispos. Comp.	Differences on foreign Currency Traslacion	Transfers	Balance at 31.12.93	Additions	Disposals	New Comp.	Differences on foreign Currency Traslacion	Transfers	Balance at 31.12.94
Buildings	83 396	9 608	110	1	-	2	3	92 900	11 412	261	13 777	906	-	118 674
Technical installations and machinery	52 507	8 648	2 885	-	3	-	-	58 267	8 099	3 534	-	(3)	1	62 830
Exchange equipment	676 410	125 002	40 464	-	-	-	-	760 948	141 366	125 072	26 500	3 037	-	806 774
Transmission equipment	303 025	54 564	8 841	-	-	-	-	348 748	79 925	16 335	60 602	2 152	-	475 092
Local and domestic long distance network	734 644	115 830	60 157	-	-	-	-	790 317	133 182	63 467	87 098	2 192	-	952 322
Subscriber sets and other related installation	187 352	30 950	30 236	-	5	-	-	188 061	38 573	29 302	29 034	729	-	227 095
Furniture, office and other equipment	55 106	16 904	900	130	-	26	420	71 686	24 313	1 650	12 434	2 299	74	109 156
Total accumulated depreciation	2 092 440	361 506	143 593	131	8	28	423	2 310 927	436 865	236 621	229 385	11 312	75	2 751 943
Total net fixed assets	3 211 231	(6 867)	32 421	199	31	929	(930)	3 172 110	23 005	52 988	400 851	17 068	(462)	3 559 584

6.2 Fully depreciated fixed assets at December 31 are as follow:

	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
Land and Buildings	598	-	1 018	-
Technical installations and machinery	27 532	15 771	27 876	16 698
Exchange equipment	194 915	105 558	214 701	105 558
Transmission equipment	158 435	145 098	168 328	145 098
Local and domestic long distance networks	116 357	94 600	146 215	94 600
Subscriber and other installations	94 464	97 163	104 515	97 163
Furniture, office and other equipment	28 925	15 578	40 555	19 104
Totals	621 226	473 768	703 208	478 221

6.3 The investment budget for 1995 amounts to 558,099 millions pesetas for the consolidated group (514,730 million pesetas for the parent company) of which 473,914 million pesetas will be invested in tangible assets (382,505 for the parent company) 39,125 million pesetas in intangible assets 38,175 for the parent company and the remainder largely in investments in companies. The continued and long-term nature of Telefonica's investments indicates that a part of this budget is related to the termination of projects initiated in previous years.

6.4 Telefonica's fixed assets used to provide telephone services may not be mortgaged, except when an authorization of the Government Delegate exists.

6.5 At December 31, 1994 there were assets totalling 6,985 million pesetas (6,985 million pesetas, 1993) regulated by Decree Law 19/1961 and Law 61/1978 which regulate the tax benefits obtained from the reduction of the withholding tax rates on the interest on the loans and borrowings.

6.6 Telefónica Group companies are insured against possible risks on fixed assets used in operations, with the exception of the deductibles applicable to local and domestic long distance networks and subscriber equipment, for which self-insurance provisions have been made.

6.7 The revaluations of balances made by the parent company up to 1987 (year of the last revaluation) have had the following movements for the years shown:

	FROM 1946 TO 1985		1986		1987		TOTAL		Revaluat. reserve
	Fixed assets	Accum. deprec.	Fixed assets	Accum. deprec.	Fixed assets	Accum. deprec.	Fixed assets	Accum. deprec.	
Land	23 140	-	-	-	6 901	-	30 041	-	30 041
Buildings	58 061	14 545	-	-	35 221	10 489	93 282	25 034	68 248
Power equipment	24 367	11 373	2 697	1 222	4 461	2 378	31 525	14 973	16 552
Exchange equipment	408 892	180 280	38 078	15 098	57 672	20 312	504 642	215 690	288 952
Transmission equipment	131 107	84 187	11 759	6 922	8 170	3 909	151 036	95 018	56 018
Local and domestic long distance networks	535 420	287 030	56 905	20 718	56 620	24 003	648 945	331 751	317 194
Subscriber equipment and other installations	31 757	40 936	-	-	(35 910)	(13 287)	(4 153)	27 649	(31 802)
Total	1 212 744	618 351	109 439	43 960	133 135	47 804	1 455 318	710 115	745 203

The effect of these revaluations on the annual depreciation charge was 20,010 million Ptas (44,959 mill on Ptas in 1993).

6.8 The useful lives of the various elements of Telefonica's fixed assets are calculated based on technical studies carried out by the Company, which are revised periodically on the basis of technological development and renewal programs. These useful lives are shown in Note 4.1.c).

6.9 Inventories are shown net of provision for obsolescence. The total provision in Telefónica amounts to 4,972 million pesetas (6,669 million pesetas in 1993). The charge to the provision in 1994 based on estimates made, was 1,031 million pesetas (1,906 million in 1993).

6.10 The heading "New Companies" recorded in 1994 corresponds to the increase in the tangible assets produced by the addition of assets from CTC by full integration method and the assets of CPT, due to increased consolidation scope. Under the same heading in 1993 included Publiguía and Telefónica Romania which were added for the first time to the consolidated Group at that year. The disposals of Companies in 1993 were due to Audiotex.

6.11 The row "Exchange rate variation" shows the effect of the development in exchange rates over the initial figures as well as the monetary adjustments applied by some companies over its figures in order to correct the effect of the inflation, according to their local accounting standards.

6.12 The tangible assets incorporated to the consolidated group, which belong to Companies located abroad at December 31, 1994 and 1993 are as follow:

Million pesetas	1994	1993
Cost	746 412	6 184
Accumulated depreciation	(266 932)	(515)
Total	479 480	5 669

NOTE 7. INVESTMENTS

7.1 The composition and movements related to investments, together with the reserve for depreciation, were as follows:

PARENT COMPANY

a) Movement on investments:

	Balance at 31.12.92	Additions	Disposals	Transfers	Balance at 31.12.93	Additions	Disposals	Transfers	Balance at 31.12.94
Investments in Group companies	81 919	2 476	340	-	84 055	35 244	306	-	118 993
Investments in associated companies	11 676	383	481	-	11 578	2 770	-	-	14 348
Other investments	16 328	7 828	6 719	-	17 437	3 603	9 864	-	11 176
Loans to Group Companies	2 014	20	974	-	1 060	65 838	10	-	66 888
Loans to employees	1 200	112	517	-	795	75	269	-	601
Guarantees and deposits	911	464	298	-	1 077	432	483	-	1 026
Total	114 048	11 283	9 329	-	116 002	107 962	10 932	-	213 032

b) Movement on reserve for depreciation

	Balance at 31.12.92	Additions	Disposals	Transfers	Balance at 31.12.93	Additions	Disposals	Transfers	Balance at 31.12.94
Investments in Group companies	3 811	378	783	-	3 406	1 472	915	-	3 963
Investments in associated companies	2 360	2 990	191	-	5 159	1 290	172	-	6 277
Other investments	1 169	78	11	-	1 236	7	368	-	875
Total	7 340	3 446	985	-	9 801	2 769	1 455	-	11 115

c) Movement on payments pending on shares

	Balance at 31.12.92	Additions	Disposals	Transfers	Balance at 31.12.93	Additions	Disposals	Transfers	Balance at 31.12.94
Investments in Group companies	11 351	-	10 751	-	600	2 062	-	-	2 662
Investments in associated companies	300	-	300	-	-	-	-	-	-
Total	11 651	-	11 051	-	600	2 062	-	-	2 662
Total Investments	95 057	7 837	(2 707)	-	105 601	103 131	9 477	-	199 255

d) Movement on investments:

	Balance at 31.12.92	Additions	Disposals	Transfers	Balance at 31.12.93	Additions	Disposals	Transfers	Balance at 31.12.94
Investments in associated companies _____	82 352	72 242	12 133	9 218	151 679	9 336	8 761	(63 411)	88 843
Other investments _____	58 757	11 408	6 885	(34 950)	28 330	18 973	10 774	(123)	36 406
Other loans _____	3 560	19 449	940	(2)	22 057	1 696	13 275	12	10 490
Guarantees and deposits	4 354	527	3 475	(1)	1 405	472	564	-	1 313
Total	149 023	103 626	23 433	(25 745)	203 471	30 477	33 374	(63 522)	137 052

e) Movement on reserve for depreciation

	Balance at 31.12.92	Additions	Disposals	Transfers	Balance at 31.12.93	Additions	Disposals	Transfers	Balance at 31.12.94
Other investments	2 259	222	239	(83)	2 159	2 895	412	-	4 642
Total	2 259	222	239	(83)	2 159	2 895	412	-	4 642

f) Movement on payments pending on shares

	Balance at 31.12.92	Additions	Disposals	Transfers	Balance at 31.12.93	Additions	Disposals	Transfers	Balance at 31.12.94
Investments in associated companies _____	300	-	300	-	-	-	-	-	-
Other investments	26	60	-	-	86	24	-	(60)	50
Total	326	60	300	-	86	24	-	(60)	50
Total investments	146 438	103 344	22 894	(25 662)	201 226	27 558	32 962	(63 462)	13 360

7.2 Details of subsidiary and associated companies and other shareholdings

(In millions of pesetas)	SHARE CAPITAL		PERCENTAGE OF DIRECT PARTICIPATION		NET BOOK VALUE IN TELEFONICA		
	1994	1993	1994	1993	1994	1993	
Subsidiary Companies							
Cabinas Telefónicas, S.A. (CABITEL) Plaza de Carlos Trías Bertrán, 7 - 28020 (MADRID)	(**)(*)	200	200	100	100	201	201
Casiopea Reaseguradora, S.A. Inmueble "Centre Europe", 5 Pza. de la Gare L-1616 (LUXEMBURGO)		498	498	100	100	498	498
Compañía Española de Tecnología, S.A. (COMET) Paseo de la Castellana, 83-85 - 28046 (MADRID)	(**)(*)	469	469	100	100	307	365
Compañía Gestora del Servicio Mensatel, S.A. Manuel Tovar, 35 - 28034 (MADRID)	(*)	-	600	-	51	-	306
Compañía Publicitaria de Exclusivas Telefónicas, S.A. (CETESA) Avenida de Manoteras, 12 - 28050 (MADRID)	(**)(*)	434	434	100	100	776	776
Estrategias Telefónicas, S.A. (ESTRATTEL) Príncipe de Vergara, 110 - 28002 (MADRID)	(**)(*)	230	230	100	100	220	220
Fonditel Entidad Gestora de Fondos de Pensiones, S.A. Pedro Teixeira, 8 - 28020 (MADRID)	(*)	1 850	700	96.22	90	1 780	613
Maptel, S.A. Orense, 11 - 28020 (MADRID)		15	150	100	76	171	163
Playa de Madrid, S.A. Paseo de la Castellana, 83-85 - 28046 (MADRID)	(**)(*)	40	40	100	100	54	54
Pléyade Peninsular Comeduría de Seguros, S.A. General Perón, 38 - 28020 (MADRID)	(**)(*)	10	10	100	100	10	10
Seguros de Vida y Pensiones Antares, S.A. General Perón, 38 - 28020 (MADRID)	(*)	1 500	1 500	88	88	720	720
Servicios de Teledistribución, S.A. (S.T. HILO) Covarrubias, 1 - 28010 (MADRID)	(**)(*)	210	210	100	100	297	297
Sistemas e Instalaciones de Telecomunicación, S.A. (SINTEL) Arte, 21 - 28033 (MADRID)	(**)(*)	1 100	1 100	100	100	2 935	2 935
Taetel, S.L. Beatriz de Bobadilla, 3 - 28040 (MADRID)		4 700	4 700	100	100	4 700	4 700
Telecartera, S.A. Beatriz de Bobadilla, 3 - 28040 (MADRID)		25	60	80	80	11	20
Telecomunicaciones Marinas, S.A. (TEMASA) Silva, 1 - 28013 (MADRID)	(**)(*)	1 376	1 376	100	100	1 326	1 326
Telefonía y Finanzas, S.A. (TELFISA) Paseo de la Castellana, 151 - 28046 (MADRID)	(**)(*)	500	500	100	100	638	614
T.I. Telefónica Internacional de España, S.A. Jorge Manrique, 12 - 28006 (MADRID)		19 009	79 900	76.22	76.22	90 713	60 904
Telefónica Investigación y Desarrollo, S.A. (TIDSA) Emilio Vargas, 6 - 28043 (MADRID)	(**)(*)	1 000	1 000	100	100	1 000	1 000
Telefonica North America, Inc. C.Trust Center 1209 Orange St. Wilm. Delaware (U.S.A.)		1	1	100	100		1
Telefónica Servicios Multimedia, S.A. Paseo de la Castellana, 9-11 - 28046 (MADRID)		250	-	100	-	58	-
T.S. Telefónica Sistemas, S.A. Sor Ángela de la Cruz, 3 - 28020 (MADRID)	(**)(*)	1 403	1 403	100	100	2 366	2 366
Telefónica Telecomunicaciones Públicas, S.A. Paseo de Recoletos, 41 - 28004 (MADRID)		10	-	100	-	10	-
Telefónica Transmisión de Datos, S.A. Beatriz de Bobadilla, 3 - 28040 (MADRID)		10	-	100	-	10	-
Teleinformática y Comunicaciones, S.A. (TELYCO) Raimundo Fdez. Villaverde, 28 - 28003 (MADRID)	(**)(*)	2 075	575	100	100	473	368
Telefónica Servicios Móviles, S.A. Plaza de la Independencia, 6 - 28001 (MADRID)	(**)(*)	3 440	940	100	100	3 078	1 578
Urbana Ibérica, S.A. Paseo de la Castellana, 151 - 28046 (MADRID)		264	264	100	100	14	14
Total subsidiary companies						112 367	80 049

(*) Companies included in the consolidated corporate income tax return for the year 1993

(**) Companies included in the consolidated corporate income tax return for the year 1994

PARENT COMPANY

NET EQUITY ASSIGNED IN BALANCE SHEET		PROFIT (LOSS) ASSIGNED IN P/L ACCOUNT		ACTIVITIES
1994	1993	1994	1993	
2 235	1 506	1 129	466	Marketing, installation, management and operation of public telephones. Operating the foregoing for advertising purposes.
582	574	-	-	Reinsurance.
307	365	(58)	(69)	Research and analysis of industrials and services projects.
-	328	-	24	Activities relating to added value services projects.
4 720	4 652	2 068	2 345	Publishing guides, and advertising on all types of support equipment.
423	342	81	(52)	Promotion, marketing and market research relating to direct marketing.
1 795	607	40	(24)	Pensions Funds Administration.
30	(3)	19	(80)	Data processing consulting and digital cartography.
116	161	(45)	(28)	Distribution of all types of articles operation of sporting and hostelry.
194	159	105	107	Distribution, promotion and production of insurance contracts, operating as a broker.
1 384	1 218	245	170	Life insurance and pensions.
685	656	29	85	Supplying music line services and installation and maintenance of equipment.
3 621	5 181	(1 269)	(2 272)	Installation of cable laying equipment in the telecommunications field.
6 009	5 656	352	703	Acquisition, holding and disposition of shares in other companies.
11	20	(9)	(28)	Holding of shares.
3 718	3 245	874	475	Surveying, laying and repairing underwater cables.
637	614	24	142	Treasury and financial advisory support services to Group companies.
171 123	119 521	19 375	16 469	Investment in foreign telecommunications.
2 848	2 329	519	404	Research and development.
1	1	-	-	Financial intermediary.
58	-	(4)	-	Multimedia services and cable television systems.
3 531	3 091	548	839	Systems engineering.
10	-	(1)	-	Public Telecommunications.
10	-	(1)	-	Operations of added value services.
473	352	(1 379)	(440)	Promotion, marketing and distribution of telephonic and telematic equipment and services.
5 350	1 543	1 313	461	Operation of added value services. Managing and commercializing mobile.
212	207	5	8	Promotional activities for residential property end business premises.
210 083	152 325			

	SHARE CAPITAL		PERCENTAGE OF DIRECT PARTICIPATION		NET BOOK VALUE IN TELEFONICA	
	1994	1993	1994	1993	1994	1993
(In millions of pesetas)						
Associated Companies						
Amper, S.A. María de Molina, 37 bis - 28006 (MADRID)	6 977	6 977	15.35	15.35	279	113
Compañía Celular de Colombia COCELCO, S.A. Ciudad de Santa Fé de Bogotá, D.C. (COLOMBIA)	5 629	-	32.98	-	878	-
Eritel, S.A. Paseo de la Castellana, 141 - 28046 (MADRID)	2 302	993	36.56	36.56	1 294	0
Hispasat, S.A. Gobelas, 41-45 planta 2ª - 28023 (MADRID) La Florida	20 000	20 000	25	25	3 144	4 052
Industria Electrónica de Comunicaciones, S.A. (INDELEC) Parque Tecnológico, 108 Zamudio - 48016 (VIZCAYA)	2 025	1 400	20.74	30	67	238
Pabellón de Operadores Europeos de Telecomunicaciones, S.A. (POET) Gran Vía, 28 - 28013 (MADRID)	520	520	38.46	38.46	1	1
Sistemas Técnicos de Loterías del Estado, S.A. Manuel Tovar, 9 - 28034 (MADRID)	2 000	2 000	31.75	31.75	635	635
Sofres, Audiencia de Medios, S.A. Plaza Carlos Trias Bertrán, 7 - 28020 (MADRID)	210	400	25	40	146	139
Telefónica Fiat Factoring, S.A. Entidad de Financiación Paseo de la Castellana, 83-85 - 28046 (MADRID)	1 560	800	50	50	795	415
Torre de Collçerola, S.A. Ctra. Vallvidrera-Tibidabo, s/nº - 08017 (BARCELONA)	2 000	2 000	42	42	832	826
Total associated companies					8 071	6 419
Shareholdings						
Alcatel Stancard Eléctrica, S.A. Ramírez de Prado, 5 - 28045 (MADRID)	-	56 410	-	13.24	-	5 206
A.T.T. Network Systems International, B.V. Larenseweg, 50 P.P.O. Box 1168 - 1200 BD Hilversum (HOLANDA)	15 135	15 135	5.84	5.84	2 849	2 490
Catalana D'Iniciatives, C.R., S.A. Passeig de Gràcia, 2 - 08007 (BARCELONA)	5 000	5 000	2.35	2.35	140	136
Promoció de Ciutat Vella, S.A. Rambles, 77 - 08002 (BARCELONA)	2 800	2 800	3.57	3.57	100	100
Otras inversiones (***)	-	-	-	-	7 212	8 269
Total Shareholdings					10 301	16 201
Total Group					130 739	102 669

(***) Includes the holding in the telecommunications satellite

(*) Information at December 1993

(=) Information at September 1993

(+) Information at June 1993

PARENT COMPANY

NET EQUITY ASSIGNED IN BALANCE SHEET		PROFIT (LOSS) ASSIGNED IN P/L ACCOUNT		ACTIVITIES
1994	1993	1994	1993	
279	127	139	(1 066)	Development, manufacture, and repair of telephonic and telematic terminals and components.
1 953	-	(202)	-	Operation of the concession of Celular mobile telephony in western Colombia
1 294	0	453	(832)	Data processing software applications.
3 144	4 052	(908)	(950)	Operation of a telecommunications satellite.
67	238	(227)	(130)	Manufacture and marketing of mobile radio equipment for communication purposes.
1	1	1	(6)	Design, installation, operation and management of the pavilion for European Telecommunications Operators in the Seville Expo 92.
1 600	1 230	465	417	Development manufacture and installation of lottery control systems by means of games terminals.
90	(26)	56	(133)	Marketing research.
872	396	95	104	Factoring company.
833	826	6	(20)	Communications tower.
10 133	6 844			
-	6 359	-	409	Design, manufacture and commercialization of electronic and telecommunication equipment.
1 883	1 386	54	(430)	Marketing development and marketing of all network products, principally for public telecommunications.
132	127 (=)	1	3 (=)	
100 (*)	100 (+)	(4) (*)	-	Urban rehabilitation of the Ciutat Vella integrated rehabilitation area.
381	413	-	-	
2 496	8 385			
222 712	167 554			

7.3 The indirect stock ownership by Telefónica of its subsidiary and associated companies is as follows:

COMPANY	1994	1993
SUBSIDIARY COMPANIES		
Seguros de Vida y Pensiones Antares, S.A. _____	12.00	12.00
Compañía Gestora del Servicio Mensatel, S.A. _____	-	49.00
Fonditel Entidad Gestora de Fondos de Pensiones, S.A. _____	3.78	10.00
Compañía Celular de Colombia (COCELCO, S.A.) _____	2.99	-

7.4 In 1994, Telefónica has sold its stock ownership of Compañía Gestora del Servicio Mensatel, S.A. with a profit of 22 million pesetas (eliminated in consolidation).

Telefónica subscribed in October 19, 1994 a Contract to sell its shareholding in Alcatel Standard Eléctrica, S.A. (Alcatel), that established the initial selling price in 22,124 million pesetas and includes the compliance by Telefónica Consolidated Group of certain equipment purchase levels to Alcatel Group.

7.5 The most significant operations during the year between Telefónica and group companies were the following:

	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
Dividend received _____	3 050	5 295	17 938	11 597
Acquisition of goods and services by the Telefónica Group	117 846	93 848	125 659	125 518

7.6 The subsidiary companies listed on the Stock Exchange Market are the following:

Subsidiary Companies	Currency	Stock Exchange	Share price			
			Year-end		Average last quarter	
			1994	1993	1994	1993
Amper _____	Peseta	Madrid	630	142	769	167
CTC (Chile) _____	Peso chileno	Santiago/New York	1 880	2 550	2 139	2 156
Entel (Chile) _____	Peso chileno	Santiago	-	4 910	-	3 463
TASA (Argentina) _____	Peso argentino	Buenos Aires/New York	5.15	7.28	6.8	5.66
CPT Telefónica del Perú (Perú) _____	Nuevo sol	Lima Type A Shares	2.45	-	2.45	-
CPT Telefónica del Perú (Perú) _____	Nuevo sol	Lima Type B Shares	2.56	-	2.56	-
CPT Telefónica del Perú (Perú) _____	Nuevo sol	Lima Type C Shares	2.54	-	2.54	-

7.7 The provisions of Article 86 of the Corporations Law have been complied with the acquisitions of shareholdings during the year.

NOTE 8. GOODWILL ON CONSOLIDATION

The composition of goodwill on consolidation is as follows at December 31:

	1992	Additions	1993	Additions	Disposals	Transfers	1994
C.T.C. (Chile)	-	-	-	-	-	5 508	5 508
T.L.D. (Puerto Rico)	7 595	-	7 595	-	-	-	7 595
Publiguías (Chile)	-	426	426	-	-	-	426
Telefónica Perú Holding	-	-	-	463	-	-	463
Invercom	-	-	-	6 710	-	-	6 710
Instacom	-	-	-	1 216	-	-	1 216
Full integration method companies	7 595	426	8 021	8 389	-	5 508	21 918
Entel Chile	2 224	-	2 224	-	2 224	-	-
Sofres, A.M.	157	-	157	-	-	-	157
Venword (Venezuela)	-	19 982	19 982	-	-	-	19 982
Tepesa	-	-	-	7	-	-	7
Cointel (Argentina)	-	19 400	19 400	4 423	-	-	23 823
C.T.C. (Chile)	5 508	-	5 508	-	-	(5 508)	-
Equity integration method companies	7 889	39 382	47 271	4 430	2 224	(5 508)	43 969
Total	15 484	39 808	55 292	12 819	2 224	-	65 887
Accumulated amortization							
C.T.C. (Chile)	-	-	-	551	-	2 050	2 601
T.L.D. (Puerto Rico)	-	864	864	748	-	-	1 612
Publiguías (Chile)	-	43	43	43	-	-	86
Telefónica Perú Holding	-	-	-	6	-	-	6
Invercom	-	-	-	373	-	-	373
Instacom	-	-	-	94	-	-	94
Full integration method companies	-	907	907	1 815	-	2 050	4 772
Entel Chile	711	223	934	167	1 101	-	-
Sofres, A.M.	47	31	78	31	-	-	109
Venword (Venezuela)	-	2 117	2 117	2 232	-	-	4 349
Tepesa	-	-	-	7	-	-	7
Cointel (Argentina)	-	970	970	1 939	-	-	2 909
C.T.C. (Chile)	1 500	550	2 050	-	-	(2 050)	-
Equity integration method companies	2 258	3 891	6 149	4 376	1 101	(2 050)	7 374
Total	2 258	4 798	7 056	6 191	1 101	-	12 146
Goodwill on consolidation pending amortization	13 226	35 010	48 236	6 628	1 123	-	53 741

NOTE 9. DEFERRED EXPENSES

The balances and amortization schedule are as follows:

	PARENT COMPANY							Balance 31.12.94	Balance 31.12.93
	1995	1996	1997	1998	1999	Maturities Subsequent			
Debt formalization expenses	3 714	3 278	2 618	1 943	1 329	2 351	15 233	21 027	
Exchange losses	8 307	7 780	6 619	5 177	4 028	8 251	40 162	57 179	
Interest on long term notes	4 372	3 946	3 388	3 741	2 740	1 733	19 920	24 461	
Interest on commercial notes	144	-	-	-	-	-	144	1 131	
Interests on leasing operations	264	334	334	210	-	-	1 142	-	
Financing Annex 91 contract	3 632	72	-	-	-	-	3 704	10 386	
Complement Retired employees (deficit)	8 080	8 080	8 080	8 080	8 080	60 602	101 002	109 929	
Total	28 513	23 490	21 039	19 151	16 177	72 937	181 307	224 113	

CONSOLIDATED

	Maturities						Balance	Balance
	1995	1996	1997	1998	1999	Subsequent	31.12.94	31.12.93
Debt formalization expenses _____	5 412	4 786	4 007	1 954	1 339	2 385	19 883	21 040
Exchange losses _____	8 307	7 780	6 619	5 177	4 028	8 251	40 162	57 179
Interest on long term notes _____	4 372	3 946	3 388	3 741	2 740	1 733	19 920	24 461
Interest on commercial notes _____	144	-	-	-	-	-	144	659
Interest on leasing operations and other _____	417	460	433	281	46	21	1 658	1 935
Financing Annex 91 contract _____	3 632	72	-	-	-	-	3 704	10 386
Complement Retired employees _____	8 080	8 080	8 080	8 080	8 080	60 602	101 002	109 929
Total	30 364	25 124	22 527	19 233	16 233	72 992	186 473	225 589

NOTE 10. DEFERRED EXCHANGE DIFFERENCES

Due to the criteria adopted in 1992 (Note 4.1.j) unrealized exchange losses have been deferred amounting to 40,162 million pesetas which would have resulted in an increase of expenses in the profit and loss account in the corresponding fiscal year (57,179 million pesetas in 1993)

The composition of the balance and amortization schedule are as follow:

PARENT COMPANY

	Maturities						Balance	Balance
	1995	1996	1997	1998	1999	Subsequent	31.12.94	31.12.93
Deferred unrealized exchange losses _____	8 307	7 780	6 619	5 177	4 028	8 251	40 162	57 179
Deferred unrealized exchange gains _____	-	(2 085)	-	-	-	-	(2 085)	-
Total	8 307	5 695	6 619	5 177	4 028	8 251	38 077	57 179

CONSOLIDATED

	Maturities						Balance	Balance
	1995	1996	1997	1998	1999	Subsequent	31.12.94	31.12.93
Deferred unrealized exchange losses _____	8 307	7 780	6 619	5 177	4 028	8 251	40 162	57 179
Deferred unrealized exchange gains _____	-	(2 085)	(748)	(838)	(1 557)	(3 456)	(8 684)	(44)
Total	8 307	5 695	5 871	4 339	2 471	4 795	31 478	57 135

Details of the changes in expenses for the year:

	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
For Repayment of loans _____	6 414	6 241	6 523	7 624
Deferred losses O.M. March 12, 1993 (Note 4.1.j) _____	11 653	22 642	11 653	22 642
Prepayment of losses in non-regulated services _____	3 899	-	3 899	-
Short-term assets operations _____	2 567	(1 640)	2 567	(1 635)
Total	24 533	27 243	24 642	28 631

NOTE 11. LONG TERM PREPAID AND DEFERRED TAXES

The balance detail at December 31 is as follows:

	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
Long term prepaid taxes				
Currency exchange differences _____	15 770	10 328	15 770	10 328
Complementary pensions for retired employees _____	2 342	1 342	2 342	1 342
Pension plan for active employees _____	1 520	1 946	1 520	1 946
Others _____	11 132	-	11 598	493
Total	30 764	13 616	31 230	14 109
Long term deferred taxes				
Tax accelerated amortization and leasing _____	44 996	47 021	45 953	48 598
Collective endowment insurance _____	1 663	579	1 663	579
Consolidation adjustments _____	5 614	5 403	5 614	5 403
Intragroup adjustments _____	-	-	2 777	2 551
Foreign taxes _____	-	-	18 440	-
Total	52 273	53 003	74 447	57 131

NOTE 12. ACCOUNTS RECEIVABLE FROM CUSTOMERS

The balance detail at December 31, is as follows:

	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
Subscribers	89 850	108 554	174 309	129 140
Ex-subscribers	27 660	28 255	27 660	28 255
Accounts pending classification	1 598	1 951	1 598	1 951
	119 108	138 760	203 566	159 346
Unbilled (Telefónica)	134 852	149 618	134 852	149 618
	253 960	288 378	338 418	308 964
Provision for bad debts	(29 649)	(30 429)	(44 053)	(36 288)
Total	224 311	257 949	294 365	272 676

The balance of public customers accounts amounts to 67,203 million pesetas (84,131 million in 1993).

During 1994 bad debts have been cancelled for an amount of 19,110 million pesetas (11,119 million in 1993)

NOTE 13. SHAREHOLDERS' EQUITY

13.1 The amount and movements in shareholder's equity during the years ended at December 31, 1993 and 1994, were as follow:

	PARENT COMPANY						
	1992	Distribution of 1992 profit	Other movements	1993	Distribution of 1993 profit	Other movements	1994
Share capital	463 480	-	6 255	469 735	-	-	469 735
Share premium	33 467	-	9 600	43 067	-	-	43 067
Revaluation reserve	653 780	-	-	653 780	-	-	653 780
Legal reserve	49 406	8 390	-	57 796	8 483	-	66 279
Voluntary reserve	92 598	19 000	-	111 598	18 400	-	129 998
Retained earnings	121	(35)	-	86	5	-	91
Profit for the year	83 899	(83 899)	84 837	84 837	(84 837)	91 734	91 734
Interim dividend	-	-	(23 187)	(23 187)	23 187	-	-
Total	1 376 751	(56 544)	77 505	1 397 712	(34 762)	91 734	1 454 684

	CONSOLIDATED						
	1992	Distribution of 1992 profit	Other movements	1993	Distribution of 1993 profit	Other movements	1994
Share capital	463 480	-	6 255	469 735	-	-	469 735
Share premium	33 467	-	9 600	43 067	-	-	43 067
Revaluation reserve	649 316	-	-	649 316	-	-	649 316
Legal reserve	49 406	8 390	-	57 796	8 483	-	66 279
Voluntary reserve	84 306	8 887	(1 068)	92 125	16 404	(1 249)	107 280
Reserve in consolidation	14 112	6 975	(434)	20 653	13 526	(2 144)	32 035
Retained earnings	121	(35)	-	86	5	-	91
Profit for the year	80 761	(80 761)	96 367	96 367	(96 367)	112 608	112 608
Interim dividend	-	-	(23 187)	(23 187)	23 187	-	-
Differences on foreign currency translation	17 036	-	14 061	31 097	-	523	31 620
Total	1 392 005	(56 544)	101 594	1 437 055	(34 762)	109 738	1 512 031

All the outstanding shares of Telefónica are fully subscribed and paid, and they are bearer shares of 500 pesetas par value each. The shares are listed on the four Spanish stock exchanges as well as in Frankfurt, London, Paris, Tokyo and New York. At December 31, 1994 the Spanish State held approximately 31.86% of the shares (31.86% in 1993).

The movement on share capital has been as follows:

	Number of shares	Par value	Characteristics of issue	
			Average interest rate	Cash
At December 31, 1992	926 959 151	436 480	-	-
Capital increase May 1993	537 168	268	214,976%	577
Capital increase July 1993	2 148	1	250,536%	3
Capital increase September 1993	220 237	110	245,704%	270
Capital increase October 1993	675 754	338	246,200%	832
Capital increase November 1993	11 041 984	5 521	255,898%	14 128
Capital increase December 1993	34 378	17	259,204%	45
At December 31, 1994	939 470 820	469 735		
Movements 1994	-	-		
At December 31, 1994	939 470 820	469 735		

The above capital increase was made in connection with the conversion of bonds at the London stock exchange.

The General Meeting of Shareholders held on June 15, 1990 gave power to the Board of Directors to issue additional shares during a period not exceeding five years without further notice to and approval of the shareholders, to a maximum share capital of 695,218 million pesetas.

13.2 The consolidation reserve consists in the following at December 31:

	1992	Additions	Disposals	1993	Additions	Disposals	1994
Companies consolidated by the full integration method	6 713	3 548	1 162	9 099	3 457	4 388	8 168
Companies consolidated by the equity method	7 399	7 164	3 009	11 554	15 486	3 173	23 867
Total	14 112	10 712	4 171	20 653	18 943	7 561	32 035

NOTE 14. COMPANIES' CONTRIBUTION TO TELEFONICA ACCOUNTS

COMPANIES	Contributions						Total contribution to shareholders equity	
	To consolidated profit		To reserves		To differences of foreign currency translation		1994	1993
	1994	1993	1994	1993	1994	1993	1994	1993
Parent company - Share capital							469 735	469 735
Antares	270	196	478	373	-	-	748	569
Cabitel	1 129	467	906	840	-	-	2 035	1 307
Casiopea	-	-	-	-	81	76	81	76
Comet	(58)	(69)	(736)	(674)	-	-	(794)	(743)
Cetesa	2 068	2 342	2 428	2 083	-	-	4 496	4 425
Estratel	80	(52)	122	175	-	-	202	123
Fonditel	41	(27)	(26)	1	-	-	15	(26)
Maptel	19	(80)	(225)	(143)	-	-	(206)	(223)
Playa de Madrid	(45)	(28)	106	135	-	-	61	107
Pleyade Peninsular	105	107	79	42	-	-	184	149
Servicio Teledistribución	38	8	349	266	-	-	387	274
Sintel	(1 404)	(2 111)	3 732	5 763	19	87	2 347	3 739
Taetel	469	951	956	953	-	-	1 425	1 904
Telecartera	(9)	(28)	(29)	-	-	-	(38)	(28)
Temasa	874	475	1 469	1 393	-	-	2 343	1 868
Telefónica	90 076	79 138	861 515	840 289	386	-	951 977	919 427
Telfisa	24	142	114	(28)	-	-	138	114
T.I. Telefónica Internacional de España	17 953	16 471	25 006	11 194	31 134	30 934	74 093	58 599
Tidsa	519	403	1 329	925	-	-	1 848	1 328
Telefónica North America	-	-	-	-	-	-	-	-
Telefónica Servicios Multimedia	(4)	-	-	-	-	-	(4)	-
Telefónica Sistemas	634	761	1 354	552	-	-	1 988	1 313
Telyco	(1 353)	(446)	(225)	209	-	-	(1 578)	(237)
Telefónica Servicios Móviles	1 140	498	(711)	(1 374)	-	-	429	(876)
Urbana Ibérica	5	8	77	69	-	-	82	77
Total Telefónica Consolidated Group	112 571	99 126	898 068	863 043	31 620	31 097	1 042 259	993 266
Non-realized profit and own expenses capitalized	37	(2 759)	-	-	-	-	37	(2 759)
Interim dividend	-	-	-	(23 187)	-	-	-	(23 187)
Shareholders' equity by Telefónica Consolidated Group	112 608	96 367	898 068	839 856	31 620	31 097	1 512 031	1 437 055

NOTE 15. OUTSIDE SHAREHOLDERS

15.1 Outside shareholders' interests.

These interests refer to the stake of minority shareholders in the ownership and last year's results for the following companies:

Company	% Minority participation	Net equity	Differences on foreign currency translation	Results	1993
Gestired	49.00	34	-	(14)	20
Maptel	24.00	24	-	(25)	(1)
Publigufas	45.00	325	34	470	829
Sintelar	25.00	3	25	246	274
T.I. Telefónica Internacional de España, S.A.	23.78	22 491	9 661	5 138	37 290
T.L.D. Puerto Rico	21.00	2 703	626	(212)	3 117
T.S.C.	0.68	6	-	1	7
Telecartera	20.00	12	-	(7)	5
Telefónica Romania	40.00	273	-	(16)	257
Total		25 871	10 346	5 581	41 798

Company	% Minority participation	Net equity	Differences on foreign currency translation	Results	1993
C.T.C. Chile	56.38	80 140	6 209	15 302	101 651
CPT. Telefónica del Perú	65.00	97 333	2 187	6 927	106 447
Gestired	49.00	20	-	4	24
Maptel	-	-	-	-	-
Mensatel	10.00	91	-	6	97
Publiguías	45.07	413	33	545	991
Sintel Perú	37.00	47	1	6	54
Sintelar	25.00	249	7	182	438
T. Internacional	23.78	36 160	9 830	5 600	51 590
T.L.D. Puerto Rico	21.00	2 491	380	(237)	2 634
T.S.C.	-	-	-	-	-
Telecartera	20.00	5	-	(2)	3
Telefónica Romania	40.00	257	136	42	435
Telefónica Perú Holding	10.00	27 834	16	79	27 929
Total		245 040	18 799	28 454	292 293

Telefónica has acquired the additional 0,68% of TSC "Telefónica Seguridad y Comunicaciones, S.A." and the remaining 24% of Maptel, S.A. The foreign companies consider the outside shareholders interest as differences on foreign currency translation. The full integration method used with CTC Chile has produced the contribution to the outside shareholders interest.

15.2 Movement of outside shareholders' interests:

	31 Dec. 1992	Addit. of companies	Profit	Differences on foreign currency translation	Other movements	Dividends paid	Disposals of companies	31 Dec. 1993
Audiotex	197	-	-	-	-	-	(197)	-
Gestired	-	34	(14)	-	-	-	-	20
Maptel	24	-	(25)	-	-	-	-	(1)
Publiguías	-	325	470	34	-	-	-	829
Sintelar	110	-	246	13	-	(95)	-	274
Telecartera	-	12	(7)	-	-	-	-	5
T. Internacional	28 000	-	5 138	4 354	(202)	-	-	37 290
T.L.D. Puerto Rico	2 703	-	(212)	626	-	-	-	3 117
Telefónica Romania	-	273	(16)	-	-	-	-	257
T.S.C.	10	-	1	-	(3)	(1)	-	7
Total	31 044	644	5 581	5 027	(205)	(96)	(197)	41 798

	1993	Addit. of companies	Profit	Differences on foreign currency translation	Other movements	Dividends paid	1994
C.T.C. Chile	-	89 602	15 302	6 209	(326)	(9 136)	101 651
CPT - Telefónica del Perú	-	97 333	6 927	2 187	-	-	106 447
Gestired	20	-	4	-	-	-	24
Maptel	(1)	3	-	-	(2)	-	-
Mensatel	-	91	6	-	-	-	97
Publiguías	829	-	545	(1)	1	(383)	991
Sintel Perú	-	47	6	1	-	-	54
Sintelar	274	-	182	(18)	-	-	438
Telecartera	5	-	(2)	-	-	-	3
T. Internacional	37 290	9 300	5 600	169	(769)	-	51 590
T.L.D. Puerto Rico	3 117	-	(237)	(246)	-	-	2 634
Telefónica Romania	257	-	42	136	-	-	435
Telefónica Perú Holding	-	27 834	79	16	-	-	27 929
T.S.C.	7	-	-	-	(7)	-	-
Total	41 798	224 210	28 454	8 453	(1 103)	(9 519)	292 293

Other movements of Telefónica Internacional reflect the portion corresponding to outside shareholders of the variation in the consolidation reserve caused by the transfer of the difference on exchange currency translation produced by the disposal of the following company: Inversiones Hispano Chilenas, Holding B.V. and its participated companies, Inversiones Hispano Chilenas, S.A. and Empresa Nacional de Telecomunicaciones, S.A. (ENTEL). It also reflects their corresponding shareholding from CTC at the beginning of the year, due to the new integration method adopted.

NOTE 16. DEFERRED INCOME

16.1 The composition of deferred income at December 31 is as follows:

	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
Capital grants _____	60 136	49 860	60 136	49 860
Deferred unrealized exchange gains (Note 10) _____	2 085	-	8 684	44
External contributions not repayable	5 310	4 905	6 209	5 422
Total	67 531	54 765	75 029	55 326

16.2 The movement on capital grants in the parent company is as follows:

	Balance 31.12.92	Additions	Application of profits	Balance 12.31.93	Additions	Application of profits	Balance 12.31.94
From official organisations, autonomous communities and local government bodies _____	18 079	3 023	2 118	18 984	10 628	2 651	26 961
From European Economic Community:							
STAR Program _____	20 821	347	2 367	18 801	3 313	2 401	19 713
FEDER Program _____	5 333	2 052	575	6 810	1 240	780	7 270
IRTA Program _____	2 009	1 163	206	2 966	-	322	2 644
Other _____	741	1 669	111	2 299	1 527	278	3 548
Total	46 983	8 254	5 377	49 860	16 708	6 432	60 136

NOTE 17. PROVISIONS FOR RISKS AND EXPENSES

The composition of the balances at December 31 is as follows:

	PARENT COMPANY								
	1992	Provisions for year	Applicat.	Additions and Transfers	1993	Provisions for year	Applicat.	Other	1994
Self insurance for damages in plant _____	2 607	-	690	-	1 917	-	449	-	1 468
Provision for rebalancing pension plan _____	-	4 128	-	813	4 941	-	597	-	4 344
For Pensioners' integrating cost in Social Security System _____	55 683	3 113	-	-	58 796	3 402	-	-	62 198
For endowment (Note 24) _____	24 088	4 038	5 805	-	22 321	1 765	5 392	1 159	19 853
For complementary pensioners annuity _____	129 435	10 089	15 870	4 465	128 119	9 661	14 884	(847)	122 049
For other responsibilities _____	-	-	-	-	-	22 500	-	-	22 500
Total	211 813	21 368	22 365	5 278	216 094	37 328	21 322	312	232 412

	CONSOLIDATED								
	1992	Provisions for year	Applicat.	Transfers	1993	Provisions for year	Applicat.	Other	1994
Self insurance for damages in plant _____	3 196	55	784	9 233	11 700	1 355	474	-	12 581
For establishing pensions _____	295	247	101	-	441	105	80	119	585
Provision for rebalancing pension plan _____	-	4 128	-	813	4 941	-	597	-	4 344
For Pensioners' integrating cost in Social Security System _____	55 683	3 113	-	-	58 796	3 402	-	-	62 198
For endowment (Note 24) _____	24 088	4 038	5 805	-	22 321	1 765	5 392	1 159	19 853
For complementary pensioners annuity _____	129 435	10 089	15 870	4 465	128 119	9 661	14 884	(847)	122 049
For contingencies and other provision _____	3 099	2 068	104	394	5 457	43 924	115	-	49 266
Total	215 796	23 738	22 664	14 905	231 775	60 212	21 542	431	270 876

NOTE 18. DEBENTURES, BONDS AND OTHER ISSUES

18.1 The composition and movements are as follow:

PARENT COMPANY						
	Debentures and bonds in local currency		Debentures and bonds in foreign currency		Commercial paper	Total
	Ordinary	Convertible and/or exchangeable	Ordinary	Convertible and/or exchangeable		
Balance December 31, 1992	669 257	-	7 104	28 063	106 508	810 932
New issues	86 677	-	-	-	101 588	188 265
Repayments, conversions and exchanges	(10 606)	-	(7 936)	(29 242)	(169 345)	(217 129)
Revaluations and other movements	52 837	-	832	1 179	-	54 848
Balance December 31, 1993	798 165	-	-	-	38 751	836 916
New issues	40 485	-	-	-	134 260	174 745
Repayments, conversions and exchanges	(189 869)	-	-	-	(130 391)	(320 260)
Revaluations and other movements	56 931	-	-	-	-	56 931
Balance December 31, 1994	705 712	-	-	-	42 620	748 332
Detail of maturities						
Long term	636 533	-	-	-	-	636 533
Short term	69 179	-	-	-	42 620	111 799
Accrued interest net yet payable	13 295	-	-	-	-	13 295

CONSOLIDATED							
	Debentures and bonds in local currency		Debentures and bonds in foreign currency		Non-convertible	Commercial paper	Total
	Ordinary	Convertible and/or exchangeable	Ordinary	Convertible and/or exchangeable			
Balance December 31, 1992	671 265	9 300	7 104	28 063	-	113 425	829 157
New issues	86 699	-	-	-	-	95 468	182 167
Repayments, conversions and exchanges	(10 790)	-	(7 936)	(29 242)	-	(169 345)	(217 313)
Revaluations and other movements	52 837	-	832	1 179	-	10 878	65 726
Balance December 31, 1993	800 011	9 300	-	-	-	50 426	859 737
New issues	40 485	-	-	-	22 626	134 260	197 371
Repayments, conversions and exchanges	(189 891)	(9 300)	-	-	-	(130 391)	(329 582)
Revaluations and other movements	57 129	-	-	14 728	36 309	(1 327)	106 839
Balance December 31, 1994	707 734	-	-	14 728	58 935	52 968	834 365
Detail of maturities							
Long term	638 555	-	-	14 728	51 572	16 468	721 323
Short term	69 179	-	-	-	7 363	36 500	113 042
Accrued interest net yet payable	13 318	-	-	-	-	-	13 318

18.2 There are two commercial paper issue programs in Telefónica, as follow:

	Balance limit	Par value	Method of acquisition
Public issues	200 000 million	500 000 pesetas	Monthly competitive bids
Company and institutional issues	200 000 million	100 million minimum	Punctual operations

18.3 The details of the debentures and bonds of the consolidated Group outstanding at December 31, 1994 are as follow:

			MATURITIES						
Issue	Interest %	1995	1996	1997	1998	1999	Subsequent years	Total	
Liabilities									
July 1987	variable	8.5000	-	-	512	-	-	512	
July 1989		12.0000	-	-	-	-	10 220	10 220	
May 1989		12.2500	-	2 022	-	-	-	2 022	
December 1989	variable	8.8319	800	800	800	800	800	4 000	
January 1990		12.0000	-	-	-	-	27 271	27 271	
February 1990 Series A		12.6000	-	-	-	-	9 351	9 351	
February 1990 Series B		12.6000	-	-	-	-	1 367	1 367	
February 1990 Series C		12.6000	-	-	-	-	626	626	
February 1990 Series D	zero coupon	12.8896	-	-	-	-	11 481	11 481	
February 1990 Series E	zero coupon	12.8531	-	-	-	-	3 744	3 744	
February 1990 Series F	zero coupon	12.5793	-	-	-	-	415	415	
June 1990	zero coupon	14.0081	54 321	-	-	-	-	54 321	
July 1990	zero coupon	14.4358	-	-	54 682	-	-	54 682	
December 1990	zero coupon	13.5761	-	-	-	-	33 326	33 326	
February 1991 Serie A		14.2500	-	-	-	30 000	-	30 000	
February 1991 Serie B	zero coupon	14.4676	-	-	-	50 411	-	50 411	
March 1991	zero coupon	14.4813	-	-	-	6 722	1 680	8 402	
Private issue April 1991		14.2500	-	-	-	20 000	-	20 000	
April 1991 Series A		13.5000	-	-	-	-	10 000	10 000	
April 1991 Series B	zero coupon	13.6659	-	-	-	-	32 165	32 165	
B September 1996	zero coupon	10.0000	-	46 246	-	-	-	46 246	
C September 1998	zero coupon	10.1250	-	-	-	34 525	-	34 525	
D Septiembre 2001	zero coupon	10.2500	-	-	-	-	46 562	46 562	
A November 1995		10.0625	14 058	-	-	-	-	14 058	
B November 2000		10.0625	-	-	-	-	20 439	20 439	
C November 2002		10.0625	-	-	-	-	19 315	19 315	
A October 1996		7.7500	-	4 300	-	-	-	4 300	
B October 2000		8.0000	-	-	-	-	12 372	12 372	
C October 2004		8.2500	-	-	-	-	11 520	11 520	
Bonds									
Subscriber 1987		3.5000	999	-	-	7	-	1 006	
A 1987		6.0000	471	471	-	-	-	942	
B 1987		5.0000	943	943	471	-	-	2 357	
C 1987		5.7500	1 397	1 397	1 398	-	-	4 192	
D 1989		5.8000	2 828	2 828	2 828	2 828	1 414	12 726	
November 1990		14.0625	-	-	600	-	-	600	
November 1990	variable	8.4975	-	-	400	-	-	400	
E 1991		6.0000	589	1 178	1 178	1 178	5 305	9 428	
F 1991		6.0000	136	269	269	269	4 715	5 658	
January 1991	variable	8.4975	-	-	1 370	-	-	1 370	
February 1991		13.9375	-	-	3 440	-	-	3 440	
February 1991	variable	8.4975	-	-	400	-	-	400	
April 1991	zero coupon	14.5154	-	-	-	-	76 937	76 937	
April 1991		12.3750	-	-	10 160	-	-	10 160	
April 1991	variable	8.4975	-	-	300	-	-	300	
May 1991		12.3750	-	-	4 437	-	-	4 437	
July 1991	variable	8.4975	-	-	5 100	-	-	5 100	
July 1991	zero coupon	14.5154	-	-	-	-	5 599	5 599	
February 1992		11.1875	-	-	1 470	-	-	1 470	
November 1992		12.9375	-	-	400	-	-	400	
1993		4.5000	-	-	-	-	14 728	14 728	
April 1993		12.2500	-	-	21 000	-	-	21 000	
May 1993		11.7500	-	-	2 468	-	-	2 468	
H 1994		5.8000	-	-	-	943	14 141	15 084	
I 1994		5.5000	-	-	-	-	7 542	7 542	
Total Issues			76 542	60 454	113 683	147 683	132 861	250 174	781 397

18.4 Debentures and zero coupon bonds are presented in the Balance Sheet at their issue price plus interest accrued through December 31 of the stated year.

The schedule of the maturities and percentage of repayment of the debentures and zero coupon bonds is as follows:

ISSUE	DUE DATE OF AMORTIZATION	% REPAYMENT	ACTUAL VALUE	REPAYMENT VALUE
Debentures				
February 1990 serie D	26.02.2000	336.154	11 481	21 447
February 1990 serie E	26.02.2005	613.338	3 744	12 776
February 1990 serie F	26.02.2010	1 069.470	415	2 503
June 1990	22.06.1995	192.610	54 321	57 783
July 1990	20.07.1997	257.000	54 682	77 100
December 1990	28.12.2005	675.000	33 326	135 000
February 1991 Serie B	28.02.1998	257.500	50 411	77 250
March 1991	01.03.1998	257.729	1 680	2 577
March 1991	01.06.1998	266.659	1 681	2 667
March 1991	01.09.1998	275.899	1 680	2 759
March 1991	01.12.1998	285.353	1 681	2 854
March 1991	01.03.1999	295.022	1 680	2 950
April 1991 serie B	17.04.2001	360.000	32 165	72 000
B September 1996	19.09.1996	161.135	46 246	54 459
C September 1998	19.09.1998	196.531	34 525	49 401
D September 2001	19.09.2001	265.543	46 562	89 687
Bonds				
April 1991 zero coupon	15.04.1999	295.740	76 937	137 519
July 1991 zero coupon	15.07.1999	295.740	5 599	10 351
			458 816	811 083

18.5 Additional information

	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
Financial interest	96 056	93 900	97 322	93 923

The average cost of the debentures and bonds outstanding is 12.43% for 1994 (12.22% in 1993), and for commercial paper is 8,94% for 1994 (12,89% in 1993).

NOTE 19. DEBTS WITH CREDIT ENTITIES

19.1 As mentioned in Note 2 a), these accounts are classified in the balance sheet according to their maturity dates. The balances at December 31 are as follow:

	PARENT COMPANY						CONSOLIDATED					
	1994			1993			1994			1993		
	Long term	Short term	Total	Long term	Short term	Total	Long term	Short term	Total	Long term	Short term	Total
Notes payable at face value	52 585	365	52 950	52 950	10 365	63 315	52 585	365	52 950	52 950	10 365	63 315
Loans and credits	212 542	55 754	268 296	179 300	31 160	210 460	272 007	69 759	341 766	220 075	40 760	260 835
Loans in foreign currency	293 573	17 742	311 315	308 244	5 901	314 145	593 015	49 442	642 457	408 856	23 592	432 448
Total	558 700	73 861	632 561	540 494	47 426	587 920	917 607	119 566	1 037 173	681 881	74 717	756 598

19.2 The years of maturity of the debts are as follow:

	PARENT COMPANY						
	Maturities						
	1995	1996	1997	1998	1999	Subsequent years	Balance at 12.31.94
Notes payable	365	15 365	365	1 314	21 637	13 904	52 950
Loans and credits	55 754	15 879	57 418	29 000	63 495	46 750	268 296
Loans in foreign currency	17 742	34 527	58 042	31 447	31 447	138 110	311 315
Total	73 861	65 771	115 825	61 761	116 579	198 764	632 561

	CONSOLIDATED						
	Maturities						
	1995	1996	1997	1998	1999	Subsequent years	Balance at 12.31.94
Notes payable	365	15 365	365	1 314	21 637	13 904	52 950
Loans and credits	69 759	17 076	58 062	29 698	64 037	103 135	341 767
Loans in foreign currency	49 442	56 816	100 592	90 124	31 447	314 035	642 456
Total	119 566	89 257	159 019	121 136	117 121	431 074	1 037 173

19.3 Additional information:

	PARENT COMPANY						CONSOLIDATED			
	Financial expenses		Accrued interest		Average interest rate		Financial expenses		Accrued interest	
	1994									
	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993
Notes payable	4 540	4 595	-	-	13.37	13.40	4 540	4 595	-	-
Loans and credits	21 439	33 872	3 388	3 606	8.91	13.13	26 038	34 308	6 051	4 698
Loans in foreign currency	27 612	31 794	5 277	8 165	6.32	6.99	34 459	39 947	6 722	8 400

19.4 Loans and credit facilities accounts reflect only the amounts actually borrowed. Unused facilities are detailed in Note 27.

19.5 At December 31, 1994 a total of 42,895 million pesetas in foreign currency loans is eligible for the tax benefits established by Decree Law 19/1961 and Law 61/1978.

19.6 Details of Telefónica Group loans denominated in foreign currency from financial institutions are as follows:

Foreign currency	1994				1993			
	Amount		Exchange rate		Amount		Exchange rate	
US dollars (USD)	2 152.0	131.871	412.8	142.356				
German marks (DEM)	185.0	85.133	325.5	82.358				
Swiss francs (CHF)	341.1	100.549	422.5	96.382				
Dutch florins (NLG)	191.5	76.002	258.9	73.615				
Japanese yen (JPY)	36 251.4	1.32241	38 520.6	1.27388				
French francs (FRF)	520.0	24.668	649.9	24.251				
ECUs (XEU)	684.1	161.714	804.5	159.439				
Pesetas (ESB) (*)	12 750.0	1.000	12 750.0	1.000				

(*) This amount includes the available funds in pesetas of a multicurrency loan originally authorized in ECUs by the European Investment Bank.

19.7 Loans denominated in foreign currency include the following:

• The Company has a multi-option financial facility for 250 million US dollars, the amount available at December 31, 1994 is US\$ 100 million represented by Telefónica's certificates in Euronotes with maturities of less than six months. When they become due, Telefónica can opt to:

- issue new Euronotes;
- use the credit facility to refinance the amounts due; or
- repay the notes without using such credit facility.

• Details of loans from the European Investment Bank, (B.E.I.) authorized through the Official Credit Institute (I.C.O.) are as follow:

Year	Per value	Maturity	Grace period	Amortization	Option	Average interest rate	
						1994	1993
1988	XEU 1 070 MM	15 years	5 years	Semiannual	Multicurrency	7,6	8,0
1992	Pts 12 750 MM	15 years	5 years	Semiannual	-	10,9	10,9
1992	XEU 150 MM	15 years	5 years	Semiannual	-	6,9	9,8
1992	JPY 19 500 MM	10 years	5 years	Semiannual	Multicurrency	2,4	3,6
1992	NLG 82,1 MM	10 years	5 years	Semiannual	Multicurrency	5,8	8,3

• A syndicated long-term loan amounting to US\$ 1,100 million, was granted at December 30, 1994 being the managers the ABN Amro Bank NV and Banco de Negocios Argentaria. As underwriters acted other entities (the Bank of Tokyo, Banque Nationale de Paris, The Fuji Bank and Bank of America) and participants. The maturity date of the principal is seven years, with the following amortization schedule:

Year	Million US \$
1997	125
1998	140
1999	260
2000	280
2001	295

The company can choose the period of interest payments among: one, three or six months and the interest rate will be referred to Libor index for interest period chosen plus a 0,275% spread.

NOTE 20. DEBTS WITH GROUP AND ASSOCIATED COMPANIES

The detail at December 31, 1994 is as follows:

	PARENT COMPANY						CONSOLIDATED					
	1994			1993			1994			1993		
	Long term	Short term	Total	Long term	Short term	Total	Long term	Short term	Total	Long term	Short term	Total
Loans	135 977	5 588	141 565	118 975	-	118 975	-	-	-	-	-	-
Purchases and services:												
From Group companies	159	20 966	21 125	-	24 142	24 142	-	-	-	-	-	-
From Associated companies	-	10 858	10 858	-	17 133	17 133	217	11 286	11 503	-	19 358	19 358
Corporation Tax	4 311	556	4 867	3 428	184	3 612	-	-	-	-	-	-
Total	140 447	37 968	178 415	122 403	41 459	163 862	217	11 286	11 503	-	19 358	19 358

The long-term loans consist of:

- A loan from the European Investment Bank (B.E.I.), authorized in 1991 through the subsidiary Telefonía y Finanzas, S.A., (Telfisa) for 600 million ECUs available in four different currencies. The loan is for a period of 15 years with a grace period of five years. Thereafter the loan is repayable in 20 equal semi-annual installments. The loan bears interest at rates varying quarterly. The average interest rate for 1994 was 5.7% (7.8% in 1993).
- A further loan from the European Investment Bank granted in 1993 through Telfisa of 300 million ECUS to be used in pesetas, of an equivalent amount of 38,700 million pesetas. In 1994 the third disposal of 18,700 million pesetas has been made. The loan is repayable in two equal annuities in 1997 and 1998, and with an interest rate varying quarterly. In 1994 the average interest rate amounted to 9.1% (13.4% in 1993).
- A commercial loan facility with the subsidiary Telefonía North America Inc., for up to US \$ 125 million and with maturity in 1997. The loan facility has been used in full. The funds for this loan were raised with commercial paper issued in the USA by the subsidiary and guaranteed by Telefonía. The average interest rate rose up to 4.51% in 1994 (3.2% in 1993).

NOTE 21. TAXES PAYABLE AND RECOVERABLE

The details of the balances at December 31 are as follow:

	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
Taxes payable:				
Payroll withholding taxes _____	8 471	7 649	9 431	8 375
Value added tax _____	8 922	21 254	9 211	21 998
Withholding taxes on dividends and interests _____	1 040	933	2 206	1 130
Corporate income tax _____	35 316	18 595	35 514	19 099
Local government taxes _____	1 237	1 172	1 249	1 180
Social Security Contributions _____	24 459	21 913	25 249	22 745
Foreign taxes _____	-	-	5 594	845
Total	79 445	71 516	88 454	75 372
Taxes recoverable:				
Payments on account of corporate income tax:				
Tax withheld at source on investment income _____	1 637	1 235	1 827	2 553
Payments on account on consolidated corporate income tax returns _____	6 622	346	6 622	346
Payments on account on individual income tax returns _____	-	-	30	2
Taxes, surcharges and Social Security payments recoverable _____	517	542	582	553
Corporate income tax-consolidated _____	973	1 128	973	1 128
Taxes paid in advance _____	606	739	728	767
VAT pending deduction _____	2 436	2 736	2 436	2 736
Foreign taxes _____	-	-	7 194	618
Total	12 791	6 726	20 392	8 703

NOTE 22. OTHER ACCOUNTS PAYABLE

This heading comprises the following amounts at December 31:

	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
Remunerations payable _____	19 685	18 656	22 174	20 939
Exchange of telephone services _____	15 021	14 491	15 021	14 491
Guarantee deposits _____	11 489	7 899	11 489	7 899
Accrued expenses _____	22 297	39 451	22 521	39 523
Dividends payable _____	23	23 201	23	23 201
Institución Telefónica de Previsión _____	(12 386)	(8 846)	(12 386)	(8 846)
Provision for responsibilities _____	5 419	1 901	5 614	1 901
Sundry creditors _____	17 519	26 880	38 468	31 112
Total	79 067	123 633	102 924	130 220

NOTE 23. PENSIONS

23.1 Up to the time of the publication of the Order from the Ministry of Labour and Social Security dated December 30, 1991 (published in the Spanish Official Gazette nº 1, January 1, 1992) which stated that active employees and pensioners at that time under the Institución Telefónica de Previsión (ITP) would be integrated into the Social Security general regime from January 1, 1992 onwards, Telefónica personnel had benefited from a social welfare system provided by I.T.P. Therefore since January 1, 1992, Telefónica and its employees have been contributing to the Social Security system for the coverage previously provided by the I.T.P., having ceased their payments to the I.T.P.

The I.T.P., which is currently being liquidated in accordance with the resolution by the General Insurance Directorate pursuant to which the dissolution order of July 10, 1992 was published, was a mutual employee benefit fund created under the Ley de Montepíos y Mutualidades de Previsión Social (Law of Pension Funds and Mutualities of Social Welfare) dated December 6, 1941 and its Regulations of May 26, 1943. It was, therefore, an independent legal entity and, as such, was governed by its own regulations approved by the Subsecretariat of Social Security on January 28, 1977.

23.2 In accordance with the dissolution Order previously mentioned, the resolution reached by the General Office of Planning and Economic Organization of Social Security on May 25, 1992 stated that the cost of integration of retired personnel would amount to 130,683 million pesetas. Based on this ministerial order the liquidators of I.T.P. proceeded to pay 75,000 million pesetas to the Social Security.

The 55,683 million pesetas remaining for the previously mentioned overall total cost of 130,683 million pesetas will be paid over a ten year period. Over the first two years only interests will be paid, amortizing over the remaining eight years the principal amount with its corresponding interests.

Payment of the interests for the two-year grace period was made by the I.T.P.; the second payment of 4,455 million pesetas was made in December 1993.

Annual payments of 9,690 million pesetas will be made over the remaining eight years in December of each year. The first of such payments was made in December 1994.

Once I.T.P. has been liquidated, Telefónica de España, S.A. will be obligated to cover the difference between the total cost of 130,683 million pesetas and the liquidation value of I.T.P. This difference is estimated at 62,198 million pesetas for which a corresponding provision has been made (Note 17).

23.3 Telefónica, which presented an offer on June 30, 1992 that was accepted by the employees on September 17 of the same year, reached a collective statutory agreement with the work union representatives.

The most significant terms of the agreement involves the creation of a Pension Plan under the Law 8/1987 of June 8 for Pension Schemes and Funds with the following points:

- a) An employment system Pension Plan.
- b) Defined contribution.
- c) Obligatory contributions by participating employees.
- d) Financial capitalization on an individual basis.
- e) The Promoter contributes 6.87% of the participating employees' basic salary. For personnel who joined Telefónica after June 30 1992, the contribution is 4.51% of their basic salary.
- f) The direct contribution of the participating employee will be a minimum 2.2% of his basic salary.
- g) Entitlements for past services were recognized to a maximum amount of 237,696 million pesetas. Employees who chose not to join the Plan during the one year period on beginning July 1, 1992 (the date on which the scheme came into force) have no rights regarding entitlements for past services and therefore the amount previously mentioned for these consolidated entitlements decreased in the corresponding amount.
- h) The financing of consolidated rights would be carried out, as deemed necessary, through provisions already accounted for in the amount of 121,350 million pesetas. The effective transfer of this amount would be made not later than the year 2002 applying an effective annual interest rate of 6.7% in accordance with the Rebalancing Plan.

The remaining deficit, up to a maximum of 116,346 million pesetas, would be financed over twenty eight years pursuant to the Rebalancing Plan not yet approved by the General Insurance Directorate. The effective annual interest rate for the financing of this deficit will be 6% with payments to be made at the beginning of each month.

i) The plan became effective at July 1, 1992. The time period stipulated for incorporation into the Plan was the one year period beginning on that date, although there may be, at a future date, additional incorporation periods in accordance with the law and with no recognition of consolidated rights for past services.

23.4 66,540 employees had joined the Plan as of December 31, 1994 (66,158 in 1993). 2,128 participants have been affected by benefits caused by retirement, disability or death.

23.5 During the fiscal year a new Rebalancing Plan has been drafted to comply with General Insurance Directorate's regulations. The draft has not been approved yet, but in essence it would result in a two-year acceleration of the transfer of the provisions for the consolidated rights, whose transfer would therefore be made not later than the year 2000.

In accordance with the conditions laid down for incorporation to the Plan, transfers of 69,238 million pesetas have been made as follows:

Transferred in 1992	9 153
Transferred in 1993	23 977
Transferred in 1994	36 108
Pending to transfer for adjustment of the Rebalancing Plan	1 110
Current transfers (including employees who joined the Early Retirements Plan)	34 998
Total	69 238

The existing debt will be amortized following a systematic plan in accordance with increasing installments amounting to 1,042 million pesetas, until year 2,002 and the subsequent years pursuant to the Rebalancing Plan. The provision made for 1994 amounts to 4,303 million pesetas (in 1993 the figure was 4,128 million pesetas).

At the end of the fiscal year the total figure for consolidated rights liabilities pending transfer to the Plan amounted to 192,524 pesetas, for which provisions amounting to 91,208 million pesetas have been made.

The Promoter's contribution for 1994 totalled 17,458 million pesetas (16,566 million pesetas in 1993).

23.6 One of the agreements within the overall solution to the Company's social welfare scheme was reached on July 8, 1992 with the employees' representatives in relation with the supplementary pension to be received by those employees who retired on or before June 30, 1992.

In short, this agreement states that Telefónica will pay to those pensioners covered by ITP on June 30, 1992 and those employees who would have been recognized as pensioners, a complementary amount equivalent to the difference between the State pension received from Social Security up to July 1, 1992 and that which corresponds to, or would have corresponded to, what had been recognized by the ITP. Payment made during 1994 amounted to 14,884 millions pesetas (15,870 millions pesetas in 1993).

The aforementioned supplementary payments, once quantified, will be fixed, to be received for life, and not revisable. Upon death of the employee the spouse recognized as such before June 30, 1992 is entitled to 60% of the payment.

NOTE 24. COLLECTIVE ENDOWMENT INSURANCE

At December 31, 1994 Telefónica had provisions totalling 19,853 million pesetas to cover liabilities accrued in accordance with actuarial calculations. These provisions will be used to cover the payments to be made to retired personnel under 65 who have not been entitled to endowment insurance and will also cover the 7,024 current employees who have chosen not to join the Pension Plan and who will be entitled to the endowment insurance once they reach the age of 65.

Telefónica has made provisions for 2,924 million pesetas for this purpose charged to 1994 results (in 1993 this figure was 4,038 million pesetas). The payments made throughout 1994 amounted to 5,392 million pesetas (5,805 million pesetas in 1993).

NOTE 25. TAXATION

The years open to inspection for the main taxes are :

- Corporate income tax: 1988 through 1993
- Corporate income tax for companies filing a consolidated tax return: 1990 through 1993
- Local government taxes: 1988 through 1994
- Value added tax: 1989 through 1994
- Capital transfer tax: 1989 through 1994
- Withholding taxes on dividend and interest: 1989 through 1994
- Payroll withholding tax: 1993 and 1994

At present the company is going through an inspection by tax authorities. No additional significant liabilities are expected to arise as a result of the inspection.

RECONCILIATION OF PROFIT BEFORE TAX PER ACCOUNTS OF TELEFONICA AND TAXABLE INCOME:

Profit before tax			109 604
	Increase	Decrease	
PERMANENT DIFFERENCES:	8 174	2 925	5 249
Adjusted profit per accounts			114 853
TIMING DIFFERENCES:			
Originating in present year	51 785	3 210	48 575
Originating in previous year	16 011	3 004	13 007
Taxable income			176 434
Individual Taxable income rest of tax group			4 181
Intra group eliminations			
Fixed assets sales			627
Dividends			(2 990)
Taxable Income (Tax Group)			178 252

CORPORATE INCOME TAX				Payable	
	Accrued	Deferred	Prepaid	Telefónica	Group
Rate of 35%:					
On adjusted profit per accounts	40 199	(4 480)	17 073	-	-
On taxable income	-	-	-	61 752	62 387
Deductions:					
Double taxation relief	(3 604)	-	-	(3 604)	(2 912)
Allowances	(483)	-	-	(483)	(483)
Investment tax credits	(19 670)	3 541	-	(23 211)	(23 676)
Employment	-	-	-	-	-
	16 442	(939)	17 073	34 454	35 316
Taxes paid abroad and other	2 209				
Withholding taxes of fiscal transparent companies	(249)				
Surplus of provisions corporate income tax 1993	(581)				
Prepaid taxes without reversion	49				
Total	17 870				

RECONCILIATION OF PROFIT BEFORE TAX PER CONSOLIDATED ACCOUNTS AND TAXABLE INCOME:

Profit before tax per accounts	171 651
PERMANENT DIFFERENCES:	
Permanent increases	10 107
Permanent decreases	(5 426)
Benefits from foreign administrations	(46 718)
Results from associated companies	(20 412)
Eliminations included on consolidation and not included in Corporate income tax report	5 378
Amortization of goodwill on consolidation	6 191
Deduction of taxable losses	(902)
Losses of non tax consolidating companies	11
Adjusted profit per accounts	119 880
TIMING DIFFERENCES:	
Individual corporations increases	52 472
Individual corporations reversal of deductions	16 734
Consolidation increases	3 573
Individual corporations decreases	(4 546)
Individual corporations reversal of increases	(3 719)
Consolidation decreases	(5 084)
Profit of corporations under fiscal transparency regime	(459)
Taxable Income	178 851

CORPORATE INCOME	Accrued	Payable	Deferred	Prepaid
Rate of 35%:				
On adjusted profit per accounts	41 958	-	(3 576)	17 064
On taxable income	-	62 598	-	-
Deductions:				
Double taxation relief	(2 912)	(2 912)	-	-
Allowances	(483)	(483)	-	-
Investment tax credits	(20 148)	(23 689)	3 541	-
Total	18 415	35 514	(35)	17 064
Taxes paid abroad	13 546			
Others parent company	(781)			
Transparents 1993	(591)			
Total	30 589			

TIMING DIFFERENCES	Increase	Decrease
From the current year:		
Early retirements	31 802	-
Differences on foreign currency translation (Cash criteria)	15 552	-
Provision for liabilities	2 856	-
Retired employees complements (Cash criteria)	-	3 097
Collective endowment insurance (cash criteria)	-	-
Provision for investment in 1994	393	-
Other	1 182	113
Total	51 785	3 210
From Previous years:		
Reversion of free amortization from previous years	16 011	-
Provision for investment 1993	-	1 787
Pension fund (cash criteria)	-	1 217
Total	16 011	3 004

TAXABLE CREDITS	1990	1991	1992	1993	1994	Total
Unused investment deduction for shortage in quota	27 324	27 977	19 000	19 036	13 682	107 019

In 1994 tax benefits for reinvestment were obtained in the amount of 689 million pesetas.

The payment on account of the Group, for Corporate income tax, amount to 6,622 million pesetas and the withholdings tax to 1,637 million pesetas.

NOTE 26. INCOME AND EXPENSES

26.1 The distribution of sales by services is as follows:

	PARENT COMPANY	
	1994	1993
Concepts		
Basic Telephone Services	1 092 180	1 020 704
Data Transmission Services	89 106	97 015
Terminals and Equipments	84 290	85 057
Advertising and others	17 960	17 308
Operating income	1 283 536	1 220 084
	CONSOLIDATED	
Concepts		
Parent company	1 283 536	1 220 084
Telefónica International Group	221 451	18 338
Other subsidiaries	186 446	161 106
Intra - group sales	(112 583)	(102 091)
Total	1 578 850	1 297 437

26.2 The average number of employees by category and personnel costs are as follow:

AVERAGE NUMBER OF EMPLOYEES:	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
Category				
General management	1 112	1 141	1 672	1 482
University graduates and special technicians	4 040	4 007	5 398	5 277
Personnel with higher education degrees and technicians	6 532	6 640	7 637	7 994
Personnel in charge and operators of internal plant	18 089	18 225	18 089	18 240
Personnel in charge and operators of external plant	20 149	20 755	20 149	20 835
Applications operator and data processing assistants	738	732	762	732
Administrative personnel	10 526	10 702	27 109	12 727
Subscribed service personnel	3 527	3 510	3 527	3 709
Operation personnel	5 796	5 923	15 268	5 923
Warehouse, office and garage personnel	1 725	1 757	1 725	1 757
Auxiliary personnel	1 024	975	1 033	982
Manual workers	-	-	537	3 297
Other personnel	16	22	1 032	1 101
Total	73 274	74 389	103 938	84 056
	PERSONNEL COSTS:		CONSOLIDATED	
Concepts				
Salaries and wages	310 095	302 599	398 019	334 097
Pensions Funds	21 792	18 022	21 845	18 233
Social Security and other expenses	89 737	87 482	101 054	96 072
Total	421 624	408 103	520 918	448 402

The number of employees at December 31, 1994 in the parent company is 72,207 (74,340 in 1993), in CTC Chile 9,354 employees and in Telefónica del Perú 11,728.

26.3 The following is an analysis of extraordinary income and expenses:

EXTRAORDINARY INCOME	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
Concept				
Indemnities for breach of contract	483	483	483	483
Insurance compensation	1 624	1 624	1 624	1 624
December 87, bonds converted to debentures	1 068	1 068	1 068	1 068
Miscellaneous	2 343	2 343	2 343	2 343
Total	5 518	5 518	5 518	5 518
	EXTRAORDINARY EXPENSES		CONSOLIDATED	
Concept				
Pension complements	8 080	8 080	8 080	8 080
Donations	931	931	931	931
Irrecoverable costs of abandoned projects	69	69	69	69
Incentivated retirements	13 393	13 393	13 393	13 393
Transfer to provisions:				
Cost of retired employees integration	3 402	3 402	3 402	3 402
Early and incentivated retirements	22 500	22 500	22 500	22 500
Expenses for exhibitions and other functions	1 347	1 347	1 347	1 347
Miscellaneous	250	250	250	250
Total	49 972	49 972	49 972	49 972

Due to the liberalisation of the telecommunications sector in Spain a plan of incentivated retirements has been initiated in 1994, which aims the necessary an adaptation of the human resources to the real needs of the company with an extraordinary cost of 13,982 million pesetas. As well, in 1994 22,500 million pesetas have been provided for future commitments of the mentioned plan and other estimated early and incentivated retirements are being negotiated at this moment. It is expected to be carried out in a period of three to five years.

26.4 The details of the results in 1994 and 1993 of companies recorded under the equity method is as follows:

	Million pesetas	
	1994	1993
Compañía de Teléfonos de Chile _____	-	13 116
Entel (Chile) _____	1 631	2 020
Cointel - TASA _____	19 117	4 977
Others _____	(2 235)	63
Total	18 513	20 176

The contribution to the result of COINTEL-TASA includes the profit recognized by Cointel in the operation of issuing of PRIDES (Provisionally Redeemable Income Debt Exchangeable for Stock), by which the PRIDES will be repaid through the delivery of the class B shares of Telefónica Argentina, S.A. which belong to Cointel. A profit amounting to 4,660 million pesetas has been recognized as the difference between the cancellation value and its book value. As part of the agreement COINTEL undertakes to maintain in its portfolio Ordinary Shares Class B of TASA that must be exchanged against PRIDES at any moment.

NOTE 27. OTHER INFORMATION

27.1 Compensation of Board of Directors

The total amount paid to Telefónica's directors during the year 1994 for salaries, wages and expense allowances was 264 million pesetas. Telefónica did not grant any loans or credits in favour of the members of the Board of Directors.

27.2 Unused credit facilities:

	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
Unused long term credit facilities _____	32 162	32 079	124 957	126 693
Other credit facilities (floating credit lines) _____	62 859	62 000	62 859	62 000
Short term credit facility _____	51 970	31 965	57 924	41 946
Total	146 991	126 044	245 740	230 639

27.3 Commitments:

	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
UGuarantees for financial operations _____	75 673	75 073	76 173	85 579
Guarantees granted to employees _____	2 253	2 646	2 253	2 646

Guarantees for financial operations include primarily guarantees given by the Company to its subsidiary and participated companies to secure their operations with third parties.

27.4 Management Fee Agreement

On May 16, 1994 CPT and ENTEL PERU subscribed separately a management fee agreement with Telefónica Internacional de España, S.A. for a five-year period that can be automatically extended for additional periods of five years up to a maximum of twenty years, coinciding with the initial maturity of the Concession contract.

Telefónica Internacional will receive a quarterly payment as a management fee which amounts to one percent of the total turnover the companies.

Exceptionally the first year since the subscription date of the contract, an additional fee of 1.5% will be paid. The management fee is equivalent to 9% on the operating profit without considering the depreciation, intangible amortization, provisions for future expenses, financial expenses, the payment of the fee, taxes, contributions, rights and royalties established in the concession agreement.

Pursuant to the Contract the fee will be subject to an Audit that must be carried out during the first quarter of 1995, based on which the previously collected fee will be adjusted.

On the other hand, as the 8th clause indicates and due to the merger of CPT and ENTEL PERU from the last quarter of 1994 the fee is determined for the merged company according to the figures resulting on the profit and loss accounts.

This Agreement produced in 1994 an income to Telefónica Internacional, S.A. amounting to 2,648 million pesetas that were eliminated in the consolidation process in the corresponding proportion.

In compliance of a purchase option on November 8, 1994 the 10% of the shares of Telefónica Perú Holding were transferred to local outside shareholders for a price of US \$ 200,4 million (27,742 million pesetas). At the same time the rights to receive a 10% of the amount payable by CPT Telefónica del Perú, according to the management fee agreement with Telefónica Internacional de España, S.A. were transferred. This operation has caused losses of 2,005 million pesetas due mainly to the evolution of foreign exchange rate of the US dollar against the peseta, from the purchase date until the disposal date, offsetting with gains on exchange obtained by the liabilities in dollars. The company has subscribed a sale option with the purchasers of the above mentioned 10% of Telefónica Perú Holding. Based on this contract, Telefónica Internacional de España, S.A. is obliged in a term of three years from the moment of the transfer mentioned above to repurchase the thereof 10% of Telefónica Perú Holding to its current owners in case they exercise their sale option.

In that case, Telefónica Internacional de España, S.A. commits itself to pay a price that will be determined by the difference between:

- Acquisition price capitalized at market rate.
- Less the cash-flows received by the purchaser for the maintenance of the investment and its participation in the Management Fee agreement, capitalized at the same rate.

27.5 Purchase option of TLD

As established in the agreements subscribed by Telefónica Larga Distancia Inc. T.I. Holding BV and the Telecommunications Authorities in Puerto Rico (PRTA). Telefónica Internacional Group owns a purchase option over the 19% of TLD shares that belong to PRTA face price of US \$ 140 each plus the accrued interest until the option is exercised, calculated at an annual compound interest rate of 8%. At the same time, it is obliged to acquire these shares at the established price when PRTA require and never before December 22, 1997, except in case of insolvency.

27.6 At December 31, 1994, several litigations against Telefónica or its subsidiary companies were presented to court by third parties. The more significant ones are the following:

- Empresa Nacional de Telecomunicaciones, S.A. (Entel-Chile).

Indemnity claim for economic and moral damages by presumptive misappropriation of CTC of long distance and international traffic. This claim was notified on December 26, 1994. The company has presented an appeal.

ENTEL Chile has presented a protective appeal to the Court of Santiago de Chile because CTC has not established "Multicarrier dial System" in public telephones.

- Complejo Manufacturero de Equipos Telefónicas S.A.C.I. (C.M.E.T.):

This company has initiated a series of claims against CTC. Most of those claims are based on the same reason, so it is not possible that all of them succeed at the same time. The total amount of the claims is up to the equivalent of 4,875 million pesetas.

In the opinion of the Directors and their legal advisers the risk of the companies being condemned to pay the indemnities is remote.

NOTE 28. SUBSEQUENT EVENTS

28.1 Interim Dividend

The Board of Directors, on January 25, 1995 and in accordance with the financial information made available to them, agreed, as article 216 of the Corporate Law the distribution of a 1994 interim gross dividend of 27 pesetas for each of the outstanding shares, numbered 1 to 939,470,820, from which the applicable tax will be withheld.

Budget status - Annual liquidity Budget

Anticipated cash receipts for the period 1/1/95 to 31/12/95 _____	1 833 167
Anticipated payments for the period 1/1/95 to 31/12/95 _____	1 785 451

Accounting data to justify an interim dividend distribution (best estimate at January 18, 1995).

Profit January 1, 1994 to December 31, 1994 _____	91 581
Surplus 1993 _____	91
Compulsory reserves provision _____	(9 158)

Distributable profit _____	82 514
Proposed interim dividend _____	25 366

Financial position (Best estimate at January 18, 1995)

Funds available for distribution	
Cash and banks _____	4 166
Available credits _____	146 991
Proposed interim dividend _____	(25 366)
Difference _____	125 791

STATEMENT OF SOURCE AND APPLICATION OF FUNDS PER PARENT COMPANY AT DECEMBER 31, 1994 AND 1993

APPLICATION	1994	1993	SOURCES	1994	1993
1. Funds applied to operations	-	-	1. Funds provided by operations	639 999	594 310
2. Establish. costs and cost of formalizing debts	1 351	2 172	2. Contributions from shareholders	-	6 255
3. Acquisition of long-term assets			a) Capital increases	-	9 600
a) Intangible assets	29 225	25 279	b) Share premiums	-	9 600
b) Tangible assets	381 896	376 982	3. Deferred income	17 598	10 702
c) Long term investments	105 900	21 961	4. Long term deferred taxes	-	161
d) Advances to suppliers	(4 859)	(14 215)	5. Long term liabilities		
e) Installation materials	620	(5 502)	a) Loans and credits	44 445	73 037
4. Long term prepaid taxes	-	2 866	b) Other	145 333	44 529
5. Dividends	34 762	79 731	6. Proceeds on sale of fixed assets		
6. Cancellations or transfers to short-terms from long-term liabilities			a) Tangible assets	15 540	10 783
a) Loans and credits	149 028	168 154	b) Long term investments	27 979	9 451
b) Other	178 988	135 401	7. Provision and deferred expenses	1 159	1 716
7. Provisions	21 322	22 365			
8. Deferred taxes	-	586			
Total applications	898 233	815 780	Total sources	892 053	760 544
Excess of sources over applications (Increase in working capital)	-	-	Excess of applications over sources (Decrease in working capital)	6 180	55 236
	898 233	815 780		898 233	815 780

CHANGES IN WORKING CAPITAL PER PARENT COMPANY

INCREASE IN WORKING CAPITAL	1994	1993	DECREASE IN WORKING CAPITAL	1994	1993
1. Shareholders for uncalled share capital	-	-	1. Shareholders for uncalled share capital	-	-
2. Inventories	460	-	2. Inventories	-	1 187
3. Accounts receivable	-	-	3. Accounts receivable	28 895	11 821
4. Accounts payable	28 509	-	4. Accounts payable	-	39 767
5. Own shares	-	-	5. Own shares	-	-
6. Short term investments	2 157	-	6. Short term investments	-	5 248
7. Cash and banks	-	1 242	7. Cash and banks	332	-
8. Prepayments and accruals	-	1 545	8. Prepayments and accruals	8 079	-
Total	31 126	2 787	Total	37 306	58 023
Changes in working capital	6 180	55 236	Changes in working capital	-	-
	37 306	58 023		37 306	58 023

STATEMENT OF SOURCE AND APPLICATION OF FUNDS PER CONSOLIDATED GROUP AT DECEMBER 31

APPLICATION	1994	1993	SOURCES	1994	1993
1. Funds applied to operations	-	-	1. Funds provided by operations	768 187	602 317
2. Establishment costs and cost of formal debts	4 989	1 854	2. Contributions from shareholders	-	-
3. Acquisition of long-term assets	-	-	a) Capital increases	-	6 255
a) Intangible assets	28 741	24 896	b) Share premiums	-	9 600
b) Tangible assets	467 001	374 920	c) Participations of minority shareholders	9 597	584
c) Long term investments	321 049	64 640	3. Deferred income	17 980	11 805
d) Advances to suppliers	(6 756)	(13 680)	4. Long term deferred taxes	-	161
e) Installation materials	620	(5 502)	5. Long term liabilities	345 055	145 881
4. Long term prepaid taxes	-	2 866	6. Sale of fixed assets	-	-
5. Dividends	44 281	79 827	a) Intangible fixed assets	-	-
6. Funds used on acquisition of participations	-	490	b) Tangible fixed assets	18 856	12 465
7. Cancellations or transfer to short terms of long-term liabilities	365 622	326 665	c) Long-term investments	62 711	15 829
8. Provisions	21 542	22 664	7. Provision and deferred expenses of shareholdings	1 159	1 716
9. Deferred taxes	-	586	8. Increase of working capital by disposals of shareholdings	27 834	-
10. Decrease in working capital due to disposals of subsidiary companies	2 423	204	9. Increase of working capital by acquisition of new subsidiary companies	74 008	10 053
11. Variation of working capital due to differences on currency translation	7 758	4 530			
Total applications	1 257 270	884 960	Total sources	1 323 387	816 666
Excess of sources over applications (Increase in working capital)	66 117	-	Excess of applications over sources (Decrease in working capital)	-	68 294
	1 323 387	884 960		1 323 387	884 960

CHANGES IN WORKING CAPITAL PER CONSOLIDATED GROUP

INCREASE IN WORKING CAPITAL	1994	1993	DECREASE IN WORKING CAPITAL	1994	1993
1. Shareholders for uncalled share capital	-	22	1. Shareholders for uncalled share capital	22	-
2. Inventories	8 857	-	2. Inventories	-	2 047
3. Accounts receivable	36 957	-	3. Accounts receivable	-	4 559
4. Accounts payable	-	-	4. Accounts payable	37 207	70 121
5. Own shares	-	-	5. Own shares	-	-
6. Short term investments	61 262	4 688	6. Short term investments	-	-
7. Cash and banks	9 945	2 088	7. Cash and banks	-	-
8. Prepayments and accruals	-	1 635	8. Prepayments and accruals	13 675	-
Total	117 021	8 433	Total	50 904	76 727
Changes in working capital	-	68 294	Changes in working capital	66 117	-
	117 021	76 727		117 021	76 727

The reconciliation of net profit to funds provided by operations are as follows:

CONCEPT	PARENT COMPANY		CONSOLIDATED	
	1994	1993	1994	1993
Net profit for the year _____	91 734	84 837	112 608	96 367
Net profit attributed to minority shareholders' interests _____	-	-	28 454	5 581
Net profit attributable to the associated companies _____	-	-	(18 513)	(20 176)
	91 734	84 837	122 549	81 772
ADDITIONS:				
Dividends from associated companies _____	-	-	7 085	7 849
Depreciation of fixed assets _____	413 134	372 401	454 530	374 259
Amortization of formalizing debts _____	5 226	4 952	5 480	4 954
Amortization of Consolidation Goodwill _____	-	-	6 191	4 798
Reserve for depreciation in value of long term investments _____	1 318	2 530	2 483	68
Exchange losses _____	21 414	27 122	23 083	27 157
Charge on collective endowment insurance _____	1 765	4 038	1 765	4 038
Dismantled plant non amortized _____	48 914	29 250	48 914	29 250
Provision adjustment inventories _____	1 031	1 906	1 031	1 906
Provision for responsibilities _____	25 902	3 113	39 354	3 113
Deferred interest _____	70 105	69 600	69 633	70 072
Deferred taxes and other _____	-	-	195	-
Amortization of COOB92 and Expo 92 _____	49	1 784	49	1 784
Losses on sale of tangible and intangible fixed assets _____	-	-	373	208
Financial provision and complements to pensioners _____	17 741	18 381	17 741	18 381
Charge on other provisions _____	-	-	9 432	2 370
Provision for deficit of active employees _____	-	4 128	-	4 128
Losses on disposals of consolidated companies _____	-	-	2 423	205
DEDUCTIONS:				
Profit on sale of long term investment _____	17 051	564	16 200	4 767
Profit on sale of tangible assets _____	13 151	9 539	13 213	9 539
Capital grants _____	6 432	5 377	6 432	5 377
Long term deferred and prepaid taxes _____	17 878	10 226	-	10 289
Profit on sale of associated companies _____	-	-	4 457	-
Other _____	3 822	4 026	3 822	4 023
Funds provided by operations	639 999	594 310	768 187	602 317

Resources applied to acquisitions, changes in consolidation methods or sales of participations:

Effects on working capital	Purchases		Sales	
	1994	1993	1994	1993
Purchases of financial investment and change in basis of consolidation _____	(351 825)	(988)	30 114	-
Intangible assets _____	225 698	-	-	136
Tangible assets _____	380 976	199	-	32
Investments _____	8 380	1	-	32
Goodwill _____	-	426	-	-
Outside shareholders _____	(191 332)	(61)	-	(197)
Exchange differences _____	18 169	-	-	-
Provisions _____	-	(9 472)	-	-
Long term liabilities _____	(164 285)	-	-	(2)
Losses on sales of participations _____	-	(158)	(2 423)	(205)
Working capital _____	(74 219)	(10 053)	27 691	(204)
Purchase selling price of participations _____	277 368	490	27 691	1

MANAGEMENT REPORT ON CONSOLIDATED GROUP



hroughout 1994, the Telefónica Group was intensely active, in both the Spanish and foreign markets. With this activity, the Group has aimed to significantly strengthen its position, combining its expertise in defined business lines with geographical diversification on an international level.

The need for total dedication to the market's requirements, combined with the appearance of new businesses resulting from the convergence of telecommunications, computers and the audiovisual sector, the ever-increasing level of globalization and the progressive liberalization of telephone services have all contributed to the resulting greater degree of independent management of certain business lines and, at the same time, have boosted the international strategy of recent years.

With a mind to these objectives, on November 30, 1994, Telefónica's Board of Directors approved a new organizational structure of the Group's businesses. This restructuring is aimed at improving customer service within a competitive framework and will take maximum advantage of the new business opportunities opening up. The Group's businesses have been divided up into eight areas: Basic Telephony, International Communications, Data Transmission (at present being integrated into Unisource), International Businesses, Mobile Telephony, Public Telephony, Information and Advertising and Multimedia.

At the same time, it was agreed that a Corporate Core would be founded to coordinate and plan the Group's strategies and to carry out a resources management that would use to advantage the significant existing synergies among the various business areas.

As an operator's only means of survival, within a liberalized environment, is through the achieving of firm international presence, the Group's aim, throughout 1994, was to consolidate its activities in international markets, through the acquisition of participations and the establishment of alliances to provide global communications services.

Although the Group's international activities are principally centered in Latin America, it also holds stakes in mobile communications in Rumania and Portugal and in data transmission in the U.S.A. through INFONET.

Latin America is where the Group's presence strengthened considerably over the fiscal year, as it moved into new markets in Peru and Colombia and extended its activities to new lines of business especially in the area of multimedia (cable TV).

Through T.I. Telefónica Internacional de España, S.A. (Telefónica Internacional), the Group was granted, in May, a 35% participation in the privatization of the operators Entel-Peru, Compañía Peruana de Telefonos (CPT) and their subsidiaries (data transmission, yellow pages, cellular and cable TV). The Group paid the Peruvian government US\$ 1,392 million along with a reinvestment in CPT of US\$ 610 million. Telefónica Internacional's stake in Telefónica de Argentina went up to 20.81% as a result of the exchange of the 20% participation it held in Entel-Chile for the 4.33% stake that Chemical Banking Corporation held in Cointel (owner of 60.5% of Telefónica de Argentina) and a US\$ 46 million cash payment to Telefónica Internacional. The Group also entered in the Colombian market, as the consortium COCELCO, in which the Group holds 36%, was granted a licence to provide mobile services in the

areas of greatest growth in Colombia, which include the cities of Cali and Medellin. Lastly, Telefónica Internacional broke ground in the Chilean cable TV market through its subsidiary CTC.

On December 31, 1994, the merger of the aforementioned Peruvian operators was approved, with Entel-Peru being absorbed by Compañía Peruana de Telefonos (CPT) which will permit optimum use of resources, the controlling of expenses and the possibility to offer the Peruvian market integrated communications services. Likewise, through the payment of US\$ 100 million each, the local partners Banco Wiese Ltd. and the group Graña and Montero formalized their respective 5% participations in the consortium which, in turn, holds a 35% stake in Telefónica del Peru.

In order to complement the activities carried out by the service operators, new companies have been created in which Telefónica Internacional also participates: the Argentinian company, Telecomunicaciones y Sistemas S.A. (TYSSA) which will offer integrated communications services to corporate clients throughout Argentina; Sintel-Peru, responsible for the construction of external plant, the installation of equipment and the laying of lines; and Telefónica Sistemas de Portugal (TSP), a company responsible for the development of systems.

Within the strategy framework developed by Telefónica over the past few years aimed at the divestiture of its participations in industrial suppliers, on October 19 an agreement was signed with Alcatel N.V. by which this company would acquire 13.24% of the share capital of Alcatel Standard Electrica for the amount of 22,124 million pesetas.

In line with Telefónica's firm belief that alliances are the way to achieve strategic positioning within a global market, in July, Telefónica announced its imminent integration as the fourth partner of the European consortium Unisource, made up of the Dutch PTT Telecom Netherlands, the Swedish operator Telia and the Swiss operator Swiss Telecom. At the end of 1994, Unisource and ATT announced the foundation of a new company to cover communications throughout Europe. Of this company Unisource holds 60% and ATT the remaining 40%.

Telefónica has reached an agreement with the banking group Argentaria by which the latter will acquire up to 10% of Telefónica Servicios Moviles. Telefónica has also signed an agreement with Compañía Portuguesa Radio Marconi through which this operator's subsidiary, Marconi SGPS would acquire 10% of Mensatel, a licence holder for the radio-paging service in Spain. This transaction was reciprocal to the participation that Telefónica has held in the radio-paging company Contactel de Portugal (a member of the Marconi Group) since 1992.

All the changes that have taken place in the make-up of the Group in 1994 have resulted in significant modifications in the consolidation procedure, when one compares it with that of 1993. Therefore, it must be mentioned that the company CTC Chile has been consolidated using the global integration method. This same method has been applied for Telefónica del Peru, TLD (Puerto Rico), Telefónica Romania and Publguías; the remaining relevant participations, Telefónica de Argentina, Cointel, CANTV, Sintelar and Entel-Chile (until its sale) are consolidated using the equity method.

REGULATION

The application of the regulatory legislation on European telecommunications has resulted in a gradual increase in competition, both in value added and data transmission services. At the close of 1994, three national coverage radio-paging licences had been granted, along with eight data transmission licences and sixteen licences for trunking.

In 1994, the liberalization process on public telephony was also initiated with the total opening to competition of public telephony on premises with de-regulated pricing although Telefónica will continue to manage pay phones not installed on closed premises until basic telephony is totally liberalized.

The most recent opening to competition has been that of mobile telephony, as in December 1994 the second GSM licence was granted to the Airtel Group.

The steady liberalization of services has accentuated the need to bring tariffs into line with the increasingly competitive environment. With this objective in mind, the prices of mobile services were adjusted, going down an average 15% in April 1994 (the connection fee was cut by more than 60% and cuts were also carried out on the prices of weekend calls), the leasing of circuits also went down an average 22% in July. On July 31, 1994, the new tariffs for basic telephony services came into force which constituted another step forward in the process of bringing prices into line with the real costs of each service.

For three minute automatic calls in peak hours the metropolitan service witnessed price increases of 30.7% and the price of calls within the same province fell by 34.6%. Regarding international call tariffs, those to the European Union decreased by 7.5%; to the rest of Europe and the Magreb, 3.5%; to the United States and Canada, 12.2%, and to Japan and other countries, 15%. The connection fee was cut by 15%, although the subscriber charge rose 3.5%. The overall rebalancing of tariffs had no effect on the revenues derived from these services.

Besides the tariff changes that have taken place within the Spanish market, other markets, in which the Telefónica Group hold participations, have also been witness to change.

In 1994, a new tariff act came into force in Chile, covering the period 1994-1998, which introduced the following changes: an average 21% decrease in fixed charges and a 34% increase in variable charges; a decrease in the inter-connection rates to be paid by long-distance operators for the use of the basic network and the division of the country into 25 principal areas in which a call within an area is classified as a local call. In the second half of the year, a multicarrier system was launched, as a result of which the subscriber can choose, when making a long-distance call or for a specified time period, which long-distance operator they prefer to use, therefore allowing the operator Compañía de Telefonos de Chile (CTC) access to this market.

Regarding Telefónica del Peru, a concession contract has been granted through which tariffs will increase in line with the CPI on a quarterly basis, tariffs will be annually adjusted in line with service costs and market performance throughout the five-year period granted for the exclusive right to provide basic telephony.

ECONOMIC ENVIRONMENT

In 1994, the Spanish economy grew by 2% after having fallen by 1.1% the previous year. This recovery was principally due to the favorable performance reflected by exports rather than domestic demand which, nevertheless, contributed 0.7 percentage points to the growth in GDP. The strengthening of the economy, above all in the industrial sector, has resulted in an improved level of employment offers, and has also, to a certain extent, slowed inflation and permitted a balancing of foreign trade and services.

In Latin America, where the bulk of Telefónica's foreign investment is channelled, 1994 was a year which reflected a relative slowdown in economic growth. Nevertheless, average growth registered a sound 4% with some countries such as Peru registering growth figures of over 10%. The application of rigorous monetary policies in countries like Chile and Argentina, has permitted the continued restraint on prices, now on a par with those of Western economies. This, in turn, should lessen the loss of confidence in this region which, in the case of Mexico has hindered international investment, a vital ingredient in the maintaining of the existing liberalization processes and the economic adjustments taking place in this area.

OUTLOOK

The principal points of reference regarding the liberalization of telecommunications in Spain can be found in the Agreement on Telecommunications Policies passed by the Cabinet in October 1994, the Cable Telecommunications Act and the European directives and recommendations.

Accordingly, in January 1995, an 18% cut in leased circuit tariffs was approved, which, combined with that of July 1994, totals an overall decrease of 41%. In 1995, the re-sale of surplus carrier service circuit capacity will be also approved.

As a continuation of this process, it is foreseen that between 1996 and 1997 the alternative infrastructures for all services will be liberalized, with the exception of voice services, and the cable TV licences will also become operative.

At the same time, the commercial relationship with the customer will increase as the service or product on offer will continue to become increasingly more specific and personalized in order to fulfill the customer's needs. New technology will be developed which will permit tailor-made solutions for these needs, not only for the corporate customer, but also for small and medium-sized businesses, through the increased installation of intelligent networks which are the basis for the development of multimedia services.

Infrastructures will continue to be modernized with a greater degree of digitalization and optic fibre (the FOTON Plan). By the end of 1995, Telefónica will have laid fibre optic cable in at least 55,000 city streets, therefore providing 25 million inhabitants with this technology.

The mobile telephony service, using GSM technology, will also be available, and through the signing of agreements with foreign operators, will become a seamless personal communication service.

Telefónica will continue its policy of tariff rebalancing initiated in previous years, bringing tariffs into line with market prices. In order to achieve this, changes are foreseen whose aver-

age effect will be below the growth in CPI.

The Telefónica Group will continue to search for new business opportunities beyond the Spanish frontiers, both through new acquisitions and through alliances with other operators, which will strengthen the Group's competitive position in the global telecommunications sector, at the same time as consolidating the Group's foothold in the Latin American market. With this in mind, in February of this year, Telefónica Internacional presented a draft plan to create a Pan-American global services network.

From an economic viewpoint, the forecasts for 1995 reflect a continuation in the recovery of net demand for basic telephony, similar to that registered in 1994. Applications for subscriber lines are forecast to reach 1,183,000, with net demand totalling around 460,000 lines and more than a million applications for new subscribers will be attended to.

The foreseen figure for investment, which includes both fixed and intangible assets, will be, for the parent company, 420,680 million pesetas and the figure for the Group will amount to 513,000 million pesetas, not including the investments made by the Latin American operators. The self-financing ratio of this investment will be, in the parent company, at least, 110% and in the Group, 100%.

Approximately 1.9 million lines will be installed, all of which will be digital. More than 80% of these lines will be used to modernize the plant installed and those remaining will be used to expand the service on offer.

The figure for investment in mobile telephony for 1995 is forecast to be around 70,000 million pesetas. Among the activities to be developed in the area of mobile telephony, that of attending to the demand for the analogic and GSM facilities will be a priority, along with the managing of Cellular Access to Rural Telephony.

CTC Chile plans to carry out an investment programme to the amount of US\$ 350 million over the period 1995-1996. This programme includes an infrastructure development plan which will permit the connection of 210,000 new lines, an increased long-distance network and the expansion of the cable TV network.

Over 1995, Telefónica del Peru will invest approximately US\$ 740 million, with which, one of the aforementioned company's aims is to install 425,000 new telephone lines throughout the country.

ECONOMIC RESULTS

In 1994, the Telefónica Group's net income rose to 112,608 million pesetas, reflecting 16.9% growth compared with the figure for 1993. Consolidated earnings per share totalled 119.9 pesetas, compared with 103.1 pesetas the previous year. Net income for the parent company amounted to 91,734 million pesetas, 8.1% higher than in 1993.

The Group's consolidated net income can be broken down into the following contributions: the parent company made up 79.9% of the total; Telefónica Internacional contributed 15.9%, while the remaining companies made a globally positive contribution equivalent to 4.1% of the total; those worthy of mention are CETESA (yellow pages) with 1.8% and Tele-

fónica Servicios Mviles and Cabitel contributing 1% each. An outstanding feature of this fiscal year has been the improved performances registered by the associated companies in which Telefónica holds minority participations which reflected positive global results of 0.1% of the total, when in 1993 they contributed a negative balance of 2.4%.

Total operating revenue amounted to 1,609,076 million pesetas, having gone up 20.9%. The Group's subsidiaries made a significant 20.1% contribution to net sales, when the previous year the figure was 6%. This considerable increase derives from the aforementioned changes in the consolidating criteria by which the sales made by Compañía de Telefonos de Chile and Telefónica del Peru were incorporated in Telefónica Internacional's figure for revenue, which made up 13.8% of the Group's total figure for net sales. Nevertheless, the other subsidiaries also reflected favorable performances contributing 98,295 million pesetas which represents 6.2% of the total, with those contributions made by CETESA (1.5%), Sintelar (0.9%) and Cabitel (0.8%) standing out.

If the revenue derived from Compañía de Telefonos de Chile in 1993 had been included in that year's Group operating revenue, using the global integration method, the Group's figure for revenue would have risen by 11.6%.

Within an improved economic environment, Telefónica's operating revenue totalled 1,308,528 million pesetas, registering a 5.2% increase over 1993. This growth can be put down to the following: a 3.6 percentage point growth in average plant in service, a 0.4 percentage point increase in traffic and a 0.5 percentage point decrease in tariffs, as a result of the tariff rebalancing in basic and mobile telephony and in leased circuits which was approved over 1994 and the impact of the 1993 tariff revision. The remaining 1.7 percentage points derive from high growth services such as mobile telephony, the 900 service and supplementary services.

The Group's operating expenses amounted to 1,176,679 million pesetas, having risen 22.5% when compared with 1993. In the same way that revenue has been affected by the increased number of Group companies consolidated using the global integration method, so has the item operating expenses. The most important components that make up operating expenses are: personnel expenses totalling 520,918 million pesetas, reflecting a 16.2% increase and making up 44.3% of the total amount; depreciation was the second most important component registering 454,530 million pesetas and representing 38.6% of the total, having grown by 21.4% compared with 1993. If in 1993 CTC Chile had been consolidated using the global integration method, the growth in operating expenses would have stood at 14.1%.

Telefónica's operating expenses grew by 7.2% to total 941,590 million pesetas. Personnel expenses, with a weight of 44.8% over the total, went up 3.3% to reach 421,624 million pesetas. It must be underlined that in March 1994, the Collective Bargaining, for the 3-year period, 1993-1995, was signed, including a voluntary early retirement scheme which, at the close of 1994, had already been joined by 1,710 employees. This figure, combined with the natural retirements, placed the figure for Telefónica's workforce at 72,207 employees, compared with 74,340 at the end of 1993. It was also agreed that in no case would salary revisions exceed

ECONOMIC RESULTS

(MILLION PESETAS)

	TELEFÓNICA DE ESPAÑA		TELEFÓNICA GROUP		
	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1993</u>	<u>1993(*)</u>
Operating revenue	1,382,294	1,319,458	1,732,459	1,442,588	1,553,504
Operating expenses	(1,015,356)	(954,179)	(1,300,062)	(1,072,862)	(1,143,158)
OPERATING PROFIT	366,938	365,279	432,397	369,726	410,346
Net financial items	(198,251)	(225,128)	(213,963)	(231,810)	(235,760)
Profit from associated companies			12,322	15,378	2,262
PROFIT FROM NORMAL OPERATIONS	168,687	140,151	230,756	153,294	176,848
Net extraordinary items	(59,083)	(32,683)	(59,105)	(26,501)	(28,854)
PROFIT BEFORE TAX	109,604	107,468	171,651	126,793	147,994
Corporate income tax	(17,870)	(22,631)	(30,589)	(24,845)	(28,393)
NET CONSOLIDATED PROFIT	91,734	84,837	141,062	101,948	119,601
Profit attributed to shareholders' interest			(28,454)	(5,581)	(23,273)
NET PROFIT FOR YEAR	91,734	84,837	112,608	96,367	96,367
EARNINGS PER SHARE (PTS)	97.6	90.8	119.9	103.1	103.1

(*) Figures homogeneous to those of 1994 with CTC consolidated through global integration method.

the C.P.I. and flexible timetables and movement of personnel were also introduced.

In line with the rapid technological changes taking place within the telecommunications sector, depreciation grew by 10.9% which placed the average rate of depreciation at 8.3% compared with 7.8% in 1993.

As a consequence of the performances reflected by revenue and expenses, the Group's operating profit reached 432,397 million pesetas and that of the parent company, 366,938 million pesetas, having grown 17% and 0.5% respectively.

Throughout the fiscal year, the performance registered by financial expenses for indebtedness was conditioned by the decrease in interest rates and by the lower financing needs due to the greater self-financing capacity. Therefore, when making an interannual comparison, it can be seen that the Group's financial expenses for indebtedness went down 1.5% while those of Telefónica fell 10%.

The item exchange losses, also reflected a favorable trend, totalling 19,862 million pesetas for the Group, having dropped 23.4%. It must be kept in mind that the Group's international activity permits a certain reduction of exchange losses which, in Telefónica registered 24,533 million pesetas.

Net extraordinary items showed net losses amounting to 59,105 million pesetas in the Group and 59,083 million pesetas in Telefónica. Among the components that make up this item, those worthy of mention are: dismantled plant pending depreciation which totalled 48,914 million pesetas, resulting from the modernization policy being carried out; the associated cost of the voluntary retirement plan which amounted to 13,393 million pesetas, combined with the provision made to cover retirement payments over future years, for which 22,500 million pesetas was charged to the 1994 fiscal year and, the 17,029 million pesetas in capital gains derived from the sale of the participation in Alcatel.

Consolidated income before tax totalled 171,651 million pesetas, growing 35.4% over the figure for 1993. Having deducted the 30,589 million peseta provision for corporate tax and the results attributable to outside partners, the Group's net income amounted to 112,608 million pesetas.

Telefónica's income before tax reflected a growth of 2% to total 109,604 million pesetas. After deducting the provision for corporate tax, which amounted to 17,870 million pesetas, Telefónica's net income totalled 91,734 million pesetas, rising 8.1% when compared with the previous year.

INVESTMENT AND SELF-FINANCING

The total investment figure for the Group, in 1994, was 810,655 million pesetas, representing an annual growth of 82.1%. Of this amount 56.9% corresponds to investment in fixed assets, 3.55% to investment in intangible assets and the remaining 39.5% to financial investment. Among the components that make up this last item, it is worth mentioning the Peruvian investment, which includes the value of the administrative concession granted to CPT and Entel-Peru to operate the telecommunications business in Peru over a 20-year period,

with exclusive rights for the first five years.

Despite the significant increase in the Telefónica Group's total figure for investment, the Group's capacity to generate resources was reflected in the 768,187 million pesetas registered by funds provided by operating activities, therefore permitting almost complete self-financing of the investments made, with this figure standing at 94.8%.

FINANCING

In 1994, the Telefónica Group's principal funding operations were the following: In January, Telefónica carried out a bond issue for a nominal amount of 26,702 million pesetas, in order to cover the petition for conversion corresponding to the First Bond Issue with warrants of the December '87 – January '88 issue, with a yearly interest rate of 12% and 10-year maturity.

Corresponding to the development of the Bond Issue Programme of October '93 – September '94, Telefónica placed a total amount of 13,783 million pesetas during the course of 1994: 3,400 million pesetas with 3-year maturity; 6,865 million pesetas with 7-year maturity and 3,518 million pesetas with 11-year maturity. The placements carry an average 8.4% interest rate.

In October, Telefónica made use of the third and final tranche for an amount of 18,700 million pesetas, corresponding to a financing contract formalized in 1993 with the European Investment Bank (EIB) for an amount of 38,700 million pesetas. The interest rate is variable and is set on a quarterly basis by the EIB and the placements have 4-year maturity.

On December 30, 1994, Telefónica Internacional signed a long-term syndicated loan for an amount of US\$ 1,100 million, with ABN Amro BANK NV and Banco de Negocios Argentaria acting as directors. This loan has 7-year maturity and the interest rate will be LIBOR for a chosen period of one, three or six months, plus a margin of 0.275%. This loan was granted as an extension of the US\$ 1,000 million loan given on May 16, 1994 as a "Syndicated Short Term Bridge Facility", until the necessary long-term funds were obtained to finance the investments made in Latin America.

RESEARCH AND DEVELOPMENT ACTIVITIES

The total figure for investment in research and development reached 11,778 million pesetas and was principally channelled into the development of new facilities for switching equipment; broad-band multimedia communications and new services such as videotex, video-conferencing, multipoint conferencing, telepayment and other concepts.

TREASURY STOCK

Over 1994 no treasury stock was acquired.

MANAGEMENT REPORT ON TELEFÓNICA DE ESPAÑA

SERVICE PERFORMANCE

In 1994, income before tax reached the figure of 109,604 million pesetas, 2.0% over the figure registered for 1993. The increased limit on deductions for investments, a limit which Telefónica has always come close to, led to the effective tax rate going down to 16.3% compared with 21.1% in 1993, resulting in a year-end figure for net income of 91,734 million pesetas, reflecting an 8.1% annual increase.

The number of applications registered for basic telephony rose to 1,221,687, growing by 7.5% compared with 1993. After having deducted cancellations, net demand stood at 424,384 applications, reflecting a highly favorable 20% increase. At year-end the number of lines in service totalled 14,685,406, 3% higher than in 1993.

Mobile telephony augmented its strong growth rate of recent years, strengthened by its sales policy and its tariff restructuring. The number of new subscribers reached 210,340, reflecting a 93.4% increase compared with the 12.1% registered in 1993. At year-end this service had 411,930 subscribers, 60.1% higher than the previous year.

Regarding the integrated business communications service Ibercom, both the number of applications registered and new subscribers showed decreases of 10.3% and 7.7% respectively; nevertheless, the improved performance registered by cancellations permitted a recuperation in net demand, which was 9.1% higher than in 1993.

The business sector witnessed a more positive performance than that achieved in fiscal 1993, with 9,635 applications registered for leased circuits, a 10.5% annual increase, and the number of new subscribers to this service went up 8.1% compared with the 10.6% drop registered in 1993. The packet-switched data transmission network Iberpac showed 22.6% growth in the number of new subscribers.

INVESTMENT ACTIVITY

Throughout 1994, Telefónica's total investment reached 512,780 million pesetas, rising 26.8% when compared with the previous year. Gross investment in fixed assets amounted to 381,896 million pesetas, going up by an interannual rate of 1.3%. The structure of this item has not undergone relevant change with external plant making up 35.4%, switching equipment 20% and transmission and radio 18.8%. Investment in intangible assets rose 15.6% to total 29,225 million pesetas compared with 25,279 million pesetas the previous year.

Financial investment, making up 20.7% of the total figure for investment, reached 105,900 million pesetas, of which 31.3% corresponds to investment in Group companies, 62.3% derives from loans to Group companies and the remaining amount corresponds to other items.

Throughout the year, 1,066,694 subscriber lines were installed, therefore placing the accumulated figure, including non-commercialized lines, at 16,067,400, 1.2% higher than in 1993. The level of digitalization reached 47.8% while the number of lines with the capacity to provide itemized invoicing totalled 7,969,053.

RESEARCH AND DEVELOPMENT ACTIVITIES

The total figure for investment in research and development amounted to 13,160 million pesetas, making up 2.6% of the total. The principal projects into which these resources have been channelled were those of new facilities for switching equipment, new possibilities for broad-band multimedia communications, displays of new services such as videotex, videotelephony, multipoint conferencing, telepayment and other concepts.

TREASURY STOCK

Throughout 1994 no treasury stock was acquired.

FINANCIAL REVIEW
AND EXHIBITS

TELEFÓNICA IN THE SPANISH ECONOMY

(TELEFÓNICA AS A % OF NATIONAL TOTAL)

	1990	1991	1992	1993	1994
Gross value added	1.65	1.78	1.73	1.78	1.83
Gross operating profit	2.17	2.43	2.28	2.29	2.37
Gross savings	2.60	3.02	3.21	3.42	4.20
Gross capital formation	5.70	4.66	3.47	3.17	3.19
PRICES (1)					
GDP deflator	7.4	7.0	6.5	4.4	4.1
Consumer prices (annual average)	6.7	5.9	5.9	4.6	4.7
Telefónica. (2)	6.4	7.4	3.1	3.8	0.0
<i>(1) Growth rates</i>					
<i>(2) Price index variation of basic telephony tariffs</i>					

Sources : I.N.E. and Telefónica.

GROSS VALUE ADDED

(REAL GROWTH RATES IN %)

	1990	1991	1992	1993	1994
National economy	3.6	2.2	0.8	-1.1	2.0
Services sector	4.0	3.3	2.8	0.6	2.2
Telefónica	8.8	11.8	1.4	3.3	9.4

Sources : I.N.E. and Telefónica.

SELECTED FINANCIAL DATA. CONSOLIDATED

(MILLION PESETAS)

	1991	1992	1993	1994	1994 \$ (1)
Revenue from operations	1,048,998	1,208,938	1,297,437	1,578,850	11,985
Operating expenses	552,916	613,788	656,655	806,400	6,121
Financial expenses	201,894	220,549	239,647	231,321	1,756
Depreciation and amortization	323,371	384,344	408,463	508,925	3,863
Net income	104,247	80,761	96,367	112,608	855
Net Cash-flow	427,618	465,105	504,830	621,533	4,718
Share capital	463,479	463,480	469,735	469,735	3,566
Equity	1,330,273	1,392,005	1,437,055	1,512,031	11,477
Long-term debt	1,391,138	1,610,878	1,569,568	1,773,321	13,461
Financial debt	1,669,886	1,887,687	1,824,654	2,032,020	15,425
Investment (*)	622,660	459,279	380,634	489,606	3,716

(*) Fixed and intangible

(1) Figures in millions of dollars. 12-30-94 exchange rate: \$1.00= pts 131.739

SELECTED FINANCIAL DATA. TELEFÓNICA DE ESPAÑA

(MILLION PESETAS)

	1990	1991	1992	1993	1994	1994 \$ (1)
Revenue from operations	852,542	1,008,031	1,154,696	1,220,084	1,283,536	9,743
Operating expenses	424,214	477,507	536,149	547,156	568,199	4,313
Financial expenses	159,308	199,592	217,434	235,319	212,639	1,614
Depreciation and amortization	269,118	321,302	382,466	406,603	467,274	3,547
Net Income	75,788	80,847	83,899	84,837	91,734	696
Net Cash-flow	344,906	402,149	466,365	491,440	559,008	4,243
Share capital	463,479	463,479	463,480	469,735	469,735	3,566
Equity	1,294,504	1,324,368	1,376,751	1,397,712	1,454,684	11,042
Long-term debt	1,008,254	1,387,343	1,593,504	1,529,151	1,450,726	11,012
Financial debt	1,434,864	1,655,122	1,851,480	1,755,615	1,663,934	12,631
Investment (*)	708,545	616,026	439,391	381,507	406,882	3,089

(*) Fixed and intangible

(1) Figures in millions of dollars. 12-30-94 exchange rate: \$1.00 = ptas 131.739

TELEFÓNICA GROUP: OPERATING REVENUE

(MILLION PESETAS)

TELEFÓNICA DE ESPAÑA: REVENUE	1990	1991	1992	1993	1994	Increases %		1994 \$(1)
						Over 93	Average acum. 90-94	
Subscriber charges	207,119	230,885	253,751	276,280	287,373	4.0	8.5	2,181
Data and image transmission	87,628	103,852	115,669	112,433	103,213	(8.2)	4.2	783
Domestic automatic service	374,472	465,584	539,564	579,671	616,461	6.3	13.3	4,679
Trunk calls through operator	1,642	2,266	2,861	3,271	4,018	22.8	25.1	30
International service	113,857	124,492	135,005	132,672	140,162	5.6	5.3	1,064
Mobile and maritime services	8,696	14,255	25,989	32,754	44,518	35.9	50.4	338
Advertising	8,506	10,017	12,806	15,007	15,519	3.4	16.2	118
REVENUE FROM SERVICES	801,920	951,351	1,085,645	1,152,088	1,211,264	5.1	10.9	9,194
Connection fees and other items	50,622	56,680	69,051	67,996	72,272	6.3	9.3	549
REVENUE FROM OPERATIONS	852,542	1,008,031	1,154,696	1,220,084	1,283,536	5.2	10.8	9,743
Telefónica Internacional	n.a.	333	1,767	18,338	221,451	n.s.	n.s.	1,681
Remaining subsidiaries	n.a.	134,488	156,395	161,106	179,080	11.2	10.0	1,359
Sales among Group	n.a.	(93,854)	(103,920)	(102,091)	(105,217)	3.1	3.9	(799)
CONSOLIDATED REVENUE	n.a.	1,048,998	1,208,938	1,297,437	1,578,850	21.7	14.6	11,985

(1) Figures in million of dollars. 30-12-94 exchange rate: \$ 1.00 = pts. 131.739

RESULTS – PROFIT MARGINS. CONSOLIDATED

(MILLION PESETAS)

DESCRIPTION	1991		1992		1993		1994		Increases %		1994 \$ (1)
	Amount	Struct.%	Amount	Struct.%	Amount	Struct.%	Amount	Struct.%	Average		
									Over 93	Accum. 91-94	
+ Operating revenue	1,048,998	100.0	1,208,938	100.0	1,297,437	100.0	1,578,850	100.0	21.7	14.6	11,985
- Operating expenses											
Personnel expenses	391,516	(37.3)	429,626	(35.6)	448,402	(34.6)	520,918	(33.0)	16.2	10.6	3,954
Taxes	20,990	(2.0)	22,976	(1.9)	23,981	(1.8)	25,826	(1.6)	7.7	7.2	196
Subcontracts	140,410	(13.4)	161,186	(13.3)	184,272	(14.2)	259,656	(16.4)	40.9	22.7	1,971
+ Internal expenditure cap. in fixed assets	108,437	10.3	103,929	8.6	109,103	8.4	121,391	7.7	11.3	3.8	921
= Operating margin	604,519	57.6	699,079	57.8	749,885	57.8	893,841	56.6	19.2	13.9	6,785
+ Other operating revenue	18,082	1.7	23,618	2.0	33,068	2.5	30,226	1.9	(8.6)	18.7	229
- Depreciation of fixed assets	293,903	(28.0)	343,179	(28.4)	374,259	(28.8)	454,530	(28.8)	21.4	15.6	3,450
- Other operating expenses	5,855	(0.6)	13,766	(1.1)	13,152	(1.0)	9,854	(0.6)	(25.1)	18.9	75
- Other provisions and charges	12,155	(1.1)	18,787	(1.6)	25,816	(2.0)	27,286	(1.7)	5.7	30.9	207
= Operating profit	310,688	29.6	346,965	28.7	369,726	28.5	432,397	27.4	17.0	11.6	3,282
+ Financial income	6,333	0.6	4,318	0.3	7,837	0.6	17,358	1.1	121.5	39.9	132
- Interest expenses	191,809	(18.3)	202,300	(16.7)	208,757	(16.1)	205,978	(13.0)	(1.3)	2.4	1,564
- Exchange losses	6,094	(0.6)	12,439	(1.0)	25,936	(2.0)	19,862	(1.3)	(23.4)	48.3	151
- Amortization of deferred charges	3,991	(0.4)	5,810	(0.5)	4,954	(0.4)	5,481	(0.3)	10.6	11.2	42
+ Revenue from associated companies	7,717	0.8	9,391	0.8	20,176	1.6	18,513	1.2	(8.2)	33.9	141
- Amortization of goodwill	872	(0.1)	808	(0.1)	4,798	(0.4)	6,191	(0.4)	29.0	92.2	47
= Profit from ordinary activities	121,972	11.6	139,317	11.5	153,294	11.8	230,756	14.6	50.5	23.7	1,752
+ Extraordinary income	32,692	3.1	10,804	0.9	14,904	1.1	40,206	2.5	169.8	7.1	305
- Extraordinary expenses	24,373	(2.3)	53,201	(4.4)	41,405	(3.2)	99,311	(6.3)	139.9	59.7	754
- Minority interest	1,772	(0.2)	2,461	(0.2)	5,581	(0.4)	28,454	(1.8)	409.8	152.3	216
= Income before tax	128,519	12.2	94,459	7.8	121,212	9.3	143,197	9.1	18.1	3.7	1,087
- Corporate tax	24,272	(2.3)	13,698	(1.1)	24,845	(1.9)	30,589	(1.9)	23.1	8.0	232
= Net income	104,247	9.9	80,761	6.7	96,367	7.4	112,608	7.1	16.9	2.6	855
+ Net income	104,247	9.9	80,761	6.7	96,367	7.4	112,608	7.1	16.9	2.6	855
+ Amortization of deferred charges	3,991	0.4	5,810	0.5	4,954	0.4	5,481	0.3	10.6	11.2	42
+ Depreciation of fixed assets	293,903	28.0	343,179	28.4	374,259	28.8	454,530	28.8	21.4	15.6	3,450
+ Dismantled plant pending depreciation	25,477	2.5	35,355	2.9	29,250	2.3	48,914	3.1	67.2	24.3	371
= Cash-flow	427,618	40.8	465,105	38.5	504,830	38.9	621,533	39.3	23.1	13.3	4,718

(1) Figures in millions of dollars. 30-12-94 exchange rate: \$ 1.00 = pts.131.739

DESCRIPTION	1990		1991		1992		1993		1994		Increases %		
	Amount	Struct. %	Amount	Struct. %	Amount	Struct. %	Amount	Struct. %	Amount	Struct. %	Average		
											Over 93	Accum. 90-94	1994 \$ (1)
+ Operating revenue	852,542	100.0	1,008,031	100.0	1,154,696	100.0	1,220,084	100.0	1,283,536	100.0	5.2	10.8	9,743
- Operating expenses													
Personnel expenses	313,903	(36.8)	352,824	(35.0)	392,736	(34.0)	408,103	(33.4)	421,624	(32.8)	3.3	7.7	3,200
Taxes	16,602	(1.9)	20,560	(2.0)	22,260	(1.9)	23,871	(2.0)	25,569	(2.0)	7.1	11.4	194
Subcontracts	93,709	(11.0)	104,123	(10.3)	121,153	(10.5)	115,182	(9.4)	121,006	(9.4)	5.1	6.6	919
+ Internal expenditure capitalized													
in fixed assets	57,080	6.7	65,633	6.5	68,920	6.0	75,742	6.2	73,766	5.7	(2.6)	6.6	560
= Operating margin	485,408	56.9	596,157	59.1	687,467	59.5	748,670	61.4	789,103	61.5	5.4	12.9	5,990
+ Other operating revenue	13,887	1.6	20,682	2.1	23,346	2.0	23,632	1.9	24,992	1.9	5.8	15.8	190
- Depreciation of fixed assets	250,615	(29.3)	291,870	(28.9)	341,903	(29.6)	372,401	(30.5)	413,134	(32.2)	10.9	13.3	3,136
- Other operating expenses	1,823	(0.1)	5,353	(0.4)	13,252	(1.1)	10,507	(0.9)	11,450	(0.9)	9.0	58.3	87
- Other provisions and charges	8,582	(1.0)	11,014	(1.1)	16,769	(1.5)	24,115	(2.0)	22,573	(1.8)	(6.4)	27.4	171
= Operating profit	238,275	27.9	308,602	30.6	338,889	29.3	365,279	29.9	366,938	28.6	0.5	11.4	2,785
+ Financial income	13,868	1.6	5,640	0.6	23,074	2.0	10,191	0.8	14,388	1.1	41.2	0.9	109
- Interest expenses	149,362	(17.5)	188,360	(18.7)	199,561	(17.3)	203,124	(16.6)	182,880	(14.2)	(10.0)	5.2	1,388
- Exchange losses	6,815	(0.8)	7,277	(0.7)	12,411	(1.1)	27,243	(2.2)	24,533	(1.9)	(9.9)	37.7	186
- Amortization of deferred charges	3,131	(0.4)	3,955	(0.4)	5,462	(0.5)	4,952	(0.4)	5,226	(0.4)	5.5	13.7	40
= Profit from ordinary activities	92,835	10.9	114,650	11.4	144,529	12.5	140,151	11.5	168,687	13.1	20.4	16.1	1,280
+ Extraordinary income	10,777	1.3	9,290	0.9	8,148	0.7	8,392	0.7	29,673	2.3	253.6	28.8	225
- Variation in provisions													
for fixed assets	3,638	(6.5)	6,313	(9.7)	11,306	(16.4)	4,436	(5.9)	2,349	(3.2)	(47.0)	n.s.	18
- Extraordinary expenses	6,786	(0.8)	19,080	(1.9)	41,647	(3.6)	36,639	(3.0)	86,407	(6.7)	135.8	88.9	656
= Income before tax	93,188	10.9	98,547	9.8	99,724	8.6	107,468	8.8	109,604	8.5	2.0	4.1	832
- Corporate tax	17,400	(2.0)	17,700	(1.8)	15,825	(1.4)	22,631	(1.9)	17,870	(1.4)	(21.0)	0.7	136
= Net income	75,788	8.9	80,847	8.0	83,899	7.3	84,837	7.0	91,734	7.1	8.1	4.9	696
+ Net income	75,788	8.9	80,847	8.0	83,899	7.3	84,837	7.0	91,734	7.1	8.1	4.9	696
+ Amortization of deferred charges	3,131	0.4	3,955	0.4	5,462	0.5	4,952	0.4	5,226	0.4	5.5	13.7	40
+ Depreciation of fixed assets	250,615	29.3	291,870	28.9	341,903	29.5	372,401	30.4	413,134	32.1	10.9	13.3	3,136
+ Dismant. plant pending deprec.	15,372	1.8	25,477	2.5	35,101	3.0	29,250	2.4	48,914	3.8	67.2	33.6	371
= Cash-flow	344,906	40.5	402,149	39.9	466,365	40.4	491,440	40.3	559,008	43.6	13.7	12.8	4,243

(1) Figures in million of dollars. 12-30-94 exchange rate: \$1.00 = pts. 131.739

BALANCE SHEET. CONSOLIDATED

(MILLION PESETAS)

ITEMS	1991	1992	1993	1994	1994 \$ (1)
SUBSCRIBED SHARES NOT PAID-IN	20	1	0	23	0
FIXED ASSETS	3,308,224	3,409,276	3,436,855	3,992,550	30,307
Capital increase expenses	1,496	503	226	349	3
Net intangible assets	34,732	50,778	63,207	300,207	2,279
Property, plant and equipment	5,002,444	5,303,671	5,483,037	6,311,527	47,909
Depreciation of fixed assets	(1,848,929)	(2,092,440)	(2,310,927)	(2,751,943)	(20,889)
Net fixed assets	3,153,515	3,211,231	3,172,110	3,559,584	27,020
Investments	118,481	146,746	201,312	132,410	1,005
GOODWILL ON CONSOLIDATION	6,437	13,226	48,236	53,741	408
DEFERRED EXPENSES	77,002	205,811	225,589	186,473	1,415
LONG-TERM PREPAID TAXES	0	0	14,109	31,230	237
CURRENT ASSETS	327,580	378,838	377,094	495,203	3,759
Subscribed shares not paid-in	40	0	22	0	0
Inventories	20,419	18,552	16,505	25,362	193
Accounts receivable	287,918	337,400	332,841	369,798	2,807
Short-term investments, cash and banks	8,057	13,024	19,800	91,007	691
Prepayments	11,146	9,862	7,926	9,036	69
ASSETS = LIABILITIES AND SHAREHOLDERS' EQUITY	3,719,263	4,007,152	4,101,883	4,759,220	36,126
SHAREHOLDERS' EQUITY (1)	1,330,273	1,392,005	1,437,055	1,512,031	11,477
Paid-in share capital	463,479	463,480	469,735	469,735	3,566
Reserves	785,721	847,764	894,140	929,688	7,057
Net income for year	104,247	80,761	96,367	112,608	855
Interim dividend	(23,174)	0	(23,187)	0	0
OUTSIDE SHAREHOLDERS' INTERESTS(2)	21,780	31,044	41,798	292,293	2,219
DEFERRED INCOME (3)	84,834	58,732	55,326	75,029	570
PROVISIONS FOR LIABILITIES AND CHARGES (4)	206,005	215,796	231,775	270,876	2,056
LONG-TERM DEFERRED TAXES (5)	0	56,016	57,131	74,447	565
LONG-TERM DEBT (6)	1,391,138	1,610,878	1,569,568	1,773,321	13,461
Debentures, bonds and promissory notes issued	603,259	722,284	708,440	721,323	5,475
Debt with credit institutions	714,566	690,728	681,881	917,607	6,965
Debt with group and associated companies	15,479	18,565	0	217	2
Other creditors	57,834	179,301	179,247	134,174	1,018
PERMANENT CAPITAL (1+2+3+4+5+6)	3,034,030	3,364,471	3,392,653	3,997,997	30,348
SHORT-TERM DEBT	685,233	642,681	709,230	761,223	5,778
Debentures, bonds and promissory notes issued	162,200	122,991	167,271	126,360	959
Debt with credit institutions	116,548	153,818	87,815	132,339	1,005
Other creditors	385,266	344,153	435,996	469,591	3,565
Prepayments	21,219	21,719	18,148	32,933	250
UNUSED CREDIT FACILITIES	119,883	136,936	230,639	245,740	1,865

(1) Figures in million of dollars. 30-12-94 exchange rate: \$ 1.00 = pts. 131.739

BALANCE SHEET. TELEFÓNICA DE ESPAÑA

(MILLION PESETAS)

ITEMS	1990	1991	1992	1993	1994	1994 \$ (1)
FIXED ASSETS	2,977,228	3,303,059	3,365,365	3,343,388	3,382,127	25,673
Capital increase expenses	2,170	1,219	359	162	157	1
Net intangible assets	17,812	28,248	41,609	55,520	70,831	538
Property, plant and equipment	4,575,823	5,016,908	5,306,956	5,489,734	5,592,518	42,451
Depreciation of fixed assets	(1,689,133)	(1,847,338)	(2,090,267)	(2,308,229)	(2,483,296)	(18,850)
Net fixed assets	2,886,690	3,169,570	3,216,689	3,181,505	3,109,222	23,601
Investments	70,556	104,022	106,708	106,201	201,917	1,533
DEFERRED EXPENSES	66,213	75,004	203,486	224,113	181,307	1,376
LONG-TERM PREPAID TAXES	0	0	0	13,616	30,764	234
CURRENT ASSETS	249,394	290,152	348,316	328,977	302,822	2,299
Inventories	8,161	5,319	5,019	3,832	4,292	33
Accounts receivable	236,151	274,045	329,144	317,323	288,428	2,189
Short-term investments	0	0	6,449	1,201	3,358	25
Cash and banks	2,562	4,579	3,789	5,031	4,699	36
Prepayments	2,520	6,209	3,915	1,590	2,045	16
ASSETS= LIABILITIES AND SHAREHOLDERS' EQUITY	3,292,835	3,668,215	3,917,167	3,910,094	3,897,020	29,581
SHAREHOLDERS' EQUITY (1)	1,294,504	1,324,368	1,376,751	1,397,712	1,454,684	11,042
Paid-in share capital	463,479	463,479	463,480	469,735	469,735	3,566
Reserves	778,411	803,216	829,372	866,327	893,215	6,780
Net income for year	75,788	80,847	83,899	84,837	91,734	696
Interim dividend	(23,174)	(23,174)	-	(23,187)	0	0
DEFERRED INCOME (2)	40,193	60,785	58,723	54,765	67,531	513
PROVISIONS FOR LIABILITIES AND CHARGES (3)	173,180	202,479	211,813	216,094	232,412	1,764
LONG-TERM DEFERRED TAXES (4)	9,807	20,187	52,904	53,003	52,273	397
LONG-TERM DEBT (5)	1,008,254	1,387,343	1,593,504	1,529,151	1,450,726	11,012
Debentures, bonds and promissory notes issued	383,732	589,011	696,811	685,614	636,533	4,832
Debt with credit institutions	527,827	624,335	602,800	540,494	558,700	4,241
Debt with group and associated companies	12,129	91,849	103,586	122,403	140,447	1,066
Other creditors	84,566	82,148	190,307	180,640	115,046	873
PERMANENT CAPITAL (1+2+3+4+5)	2,525,938	2,995,162	3,293,695	3,250,725	3,245,068	24,633
SHORT-TERM DEBT	766,897	673,053	623,472	659,369	639,394	4,853
Debentures, bonds and promissory notes issued	347,656	185,496	130,225	167,267	125,094	950
Debt with credit institutions	78,954	82,283	127,751	59,197	88,114	669
Other creditors	318,595	385,179	344,799	416,078	400,825	3,043
Prepayments	21,692	20,095	20,697	16,827	25,361	193
UNUSED CREDIT FACILITIES	86,084	36,215	38,498	126,044	146,991	1,116

(1) Figures in million of dollars. 30-12-94 exchange rate: \$ 1.00 = pts. 131.739

ECONOMIC / FINANCIAL INDICATORS. CONSOLIDATED

(FIGURES IN %, UNLESS OTHERWISE INDICATED)

	1991	1992	1993	1994
Operating margin/Revenue from operations (1)	57.6	57.8	57.8	56.6
Financial expenses/Revenue from operations (2)	19.2	18.2	18.5	14.7
Operating margin/Average net plant (3)	19.3	22.0	23.5	26.5
Fixed assets coverage (4)	88.7	91.5	91.3	93.5
Guarantee ratio (5)	37.8	37.0	37.9	39.8
Self-financing ratio (6)	59.1	87.4	116.0	113.1
Financial debt ratio (7)	55.3	58.4	57.6	54.5
Debt repayment capacity (years) (8)	5.1	5.1	4.5	4.0
Financial expenses coverage (x) (9)	1.1	1.0	1.1	1.1

ECONOMIC/FINANCIAL INDICATORS. TELEFÓNICA DE ESPAÑA

(FIGURES IN %, UNLESS OTHERWISE INDICATED)

	1990	1991	1992	1993	1994
Operating margin/Revenue from operations (1)	56.9	59.1	59.5	61.4	61.5
Financial expenses/Revenue from operations (2)	18.7	19.8	18.8	19.3	16.6
Operating margin/Average net plant (3)	18.2	19.7	21.5	23.4	25.1
Fixed assets coverage (4)	82.1	87.7	90.7	89.8	88.9
Guarantee ratio (5)	40.0	37.5	36.6	37.6	38.8
Self-financing ratio (6)	41.0	55.6	91.8	112.2	120.9
Financial debt ratio (7)	51.9	55.1	58.4	57.1	54.7
Debt repayment capacity (years) (8)	4.8	4.9	4.5	4.1	3.4
Financial expenses coverage (x) (9)	1.2	1.2	1.1	1.1	1.2

(1) Operating revenue – Operating expenses + Internal expenditure capitalized in fixed assets / Operating revenue.

(2) Financial expenses + Exchange losses + Amortization of deferred charges / Operating revenue.

(3) Operating margin / Average net fixed assets.

(4) Shareholders' equity + Deferred income + Provisions + Long-term deferred taxes + Long-term debt / Fixed assets + Deferred expenses + Long-term prepaid taxes.

(5) Shareholders' equity + Deferred income + Long-term deferred taxes / Assets.

(6) Net income – Dividends + Depreciation of plant and equipment + Intangible depreciation + Dismantled plant pending depreciation / Capital expenditure in fixed assets + Advances to suppliers + Stocks for fixed assets + Capital expenditure in intangible assets.

(7) Interest bearing debt / Shareholders' equity + Deferred income + Long-term deferred taxes + Financial debt – Capital increase expenses – Deferred expenses (except promissory note interest).

Interest bearing debt: Long-term creditors – Payments pending on shares + Short-term issue + Short-term debts with credit institutions – Promissory note interest.

(8) Interest bearing debt / Net income + Amortization of deferred expenses + Depreciation of fixed assets + Dismantled plant pending depreciation – Internal expenditure capitalized in fixed assets.

(9) Income before tax + Financial expenses + Exchange losses + Amortization of deferred charges – Internal expenditure capitalized in fixed assets / Financial expenses + Exchange losses + Amortization of deferred charges.

RECONCILIATION OF FINANCIAL
STATEMENTS WITH U.S. GAAP

RECONCILIATION OF NET INCOME AND SHAREHOLDERS' EQUITY AS REPORTED IN THE SPANISH STATUTORY ACCOUNTS WITH NET INCOME AND SHAREHOLDERS' EQUITY IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (U.S. GAAP)

Certain accounting practices applied by Telefónica in its financial statements prepared for use in Spain, together with others required or allowed under the Conditions of Concession of Telefonica as a regulated entity (Note 1.1.c)*, may not conform with generally accepted accounting principles in the United States.

As a result of Telefónica's shares being traded on the New York Stock Exchange, where they have been listed since the middle of 1987, the Company is requested to adjust its net income and shareholders' equity based on American accounting principles. The most significant differences between these accounting practices are summarized below:

PRESENT PRACTICE FOR LOCAL SPANISH PURPOSES	TREATMENT FOR U.S. GAAP PURPOSES
1. Intangible assets (see note 4.1.b.)*	Research and development costs are expenses as incurred. The effect is shown below.
2. Income tax (see note 4.1.i)*	Deferred taxes arising from timing differences between income and taxable income must be accounted for. Since January 1, 1993 FAS n° 109 has been in force.
3. Property, plant and equipment (see note 4.1.c)*	Revaluation of fixed assets is not permitted. Property, plant and equipment and related accumulated depreciation are stated at historical cost values.
4. Cost of new equity capital (see note 4.1.a)*	US GAAP requires expenses of raising capital to be deducted from the proceeds of the new capital.
5. Earnings per share is not required to be in the financial statements nor in any other obligatory financial information.	Net earnings per share is required to be shown.
6. Allowance for funds during construction (see note 4.1.c)*	Interest accrued up to the time when the assets come into service are accounted for.
7. Accrued financial income	The income obtained from the issue of Prides (note 26.4)* recognized at maturity date.
8. Deferred exchange rate differences	Deferred exchange gains deriving from operations carried out by non-regulated Group companies are considered to be income.

* Notes in brackets refer to the financial statements on pages 43 to 88 of this Annual Report.

RECONCILIATION OF CONSOLIDATED NET INCOME AND SHAREHOLDERS' EQUITY, AT DECEMBER 31

(MILLION PESETAS)

	1993	1994
NET INCOME FOR THE YEAR AS REPORTED IN THE SPANISH STATUTORY ACCOUNTS AT DECEMBER 31	96,367	112,608
Adjustments for U.S. GAAP purposes:		
Reversal of depreciation of revalued portion of fixed assets	44,959	20,010
Research and development expenses.		
Net effect between prior write-offs and current amortization	(7,530)	(3,573)
Reversal of self-insurance	(690)	(449)
Reversal of amortization of costs of new equity capital	493	83
Exchange rate differences	2,386	5,033
Accrued financial income	0	(4,660)
Allowance for funds under construction	7,246	189
Lower amount due to the effect of fixed asset revaluations, of the dismantled plant not depreciated	8,480	2,779
Deferred taxes due to adjustments	(18,777)	(6,951)
	<u>132,934</u>	<u>125,069</u>
Accumulated effect to January 1, 1993 due to FAS 109 application	41,113	0
Approximate net income for the year in accordance with US GAAP:	<u>174,047</u>	<u>125,069</u>
SHAREHOLDERS' EQUITY AS REPORTED IN THE SPANISH STATUTORY ACCOUNTS AT DECEMBER 31	1,437,055	1,512,031
INTERIM DIVIDEND	23,187	0
	<u>1,460,242</u>	<u>1,512,031</u>
Adjustments for U.S. GAAP purposes:		
Reversal of net effect of revaluation of fixed assets and related accumulated depreciation	(146,562)	(126,552)
Charges to provisions	1,917	1,468
Research and development expenses.		
Net effect between prior write-offs and current amortization	(38,806)	(42,379)
Costs of new equity capital	(226)	(349)
Exchange rate differences	0	5,033
Accrued financial income	0	(4,660)
Allowances for funds under construction	138,116	142,652
Lower amount due to the effect of fixed asset revaluations, of the dismantled plant not depreciated	52,998	55,777
Deferred tax due to U.S. GAAP adjustments	(12,446)	(20,846)
Approximate shareholders' equity in accordance with U.S. GAAP	<u>1,455,233</u>	<u>1,522,175</u>

**SHAREHOLDERS'
INFORMATION**

SHARE CAPITAL

	1990	1991	1992	1993	1994
Share capital (Million pts)	463,479.04	463,479.04	463,479.58	469,735.41	469,735.41
Earnings per share (pts)	81.8	87.2	90.5	90.8	97.6
Price/earnings ratio	10.27	14.10	12.60	20.54	15.93
Pay-out (%)	67.27	67.65	67.40	68.30	67.60
Price/Cash-flow per share	2.26	2.84	2.27	3.55	2.62

At December 31, 1994 Telefónica's share capital totalled 469,735,410,000 pesetas, divided into 939,470,820 bearer shares with a nominal value of 500 pesetas each fully paid in.

Since 1990 the following capital increases have been made, all of which through the conversion of bonds.

	Number of shares issued (thousands)	Issue Price (Pts)	Amount issued (Million Pts)	
			Nominal	Effective
1990	1,994.6	858.435	997.3	1,712.3
1992	1.1	924.75	0.5	1.0
1993	12,511.7	1,267.23(*)	6,255.8	15,855.2

(*) Average issue price

QUOTATION OF SHARES

Telefónica shares are quoted on the continuous markets of all the Spanish Stock exchanges (Madrid, Barcelona, Bilbao and Valencia) and on the following foreign exchanges: London, Paris, Frankfurt, Tokyo, New York (*) and the London Stock Exchange's SEAQ International.

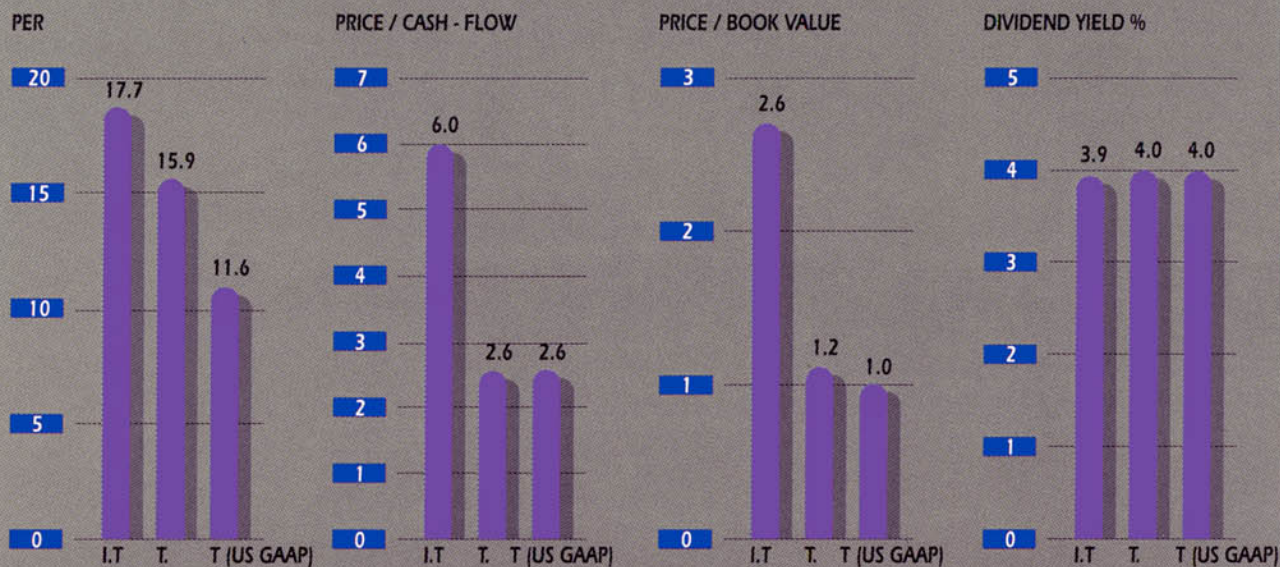
Option contracts on Telefónica shares are carried out on the Spanish Financial Futures Market (MEFF-RV) and on the American Stock Exchange (AMEX) (*).

(*) Quotes American Depository Receipts (ADR). 1 ADR = 3 shares.

QUOTATION OF TELEFONICA SHARES.

The table below reflects maximum, minimum and closing prices, in pesetas on the continuous Spanish market.

	Maximum	Minimum	Closing
1990	984	763	840
1991	1,290	832	1,230
1992	1,300	862	1,140
1993	1,880	1,135	1,865
1994 1st. Quarter	2,185	1,665	1,665
1994 2nd. Quarter	1,960	1,595	1,770
1994 3rd. Quarter	1,900	1,675	1,735
1994 4th Quarter	1,795	1,450	1,555



I.T.: International Telecommunications Index (Source: "Capital International Perspective")

T.: Information in accordance with Spanish accounting principles

T (U.S. GAAP): Information in accordance with US accounting principles

DIVIDEND POLICY

Telefónica normally pays an interim dividend at year-end and a final dividend once the total dividend for the year has been approved by the Annual General Shareholders' Meeting, following the proposal made by the Board of Directors.

RECENT DIVIDENDS HAVE BEEN:

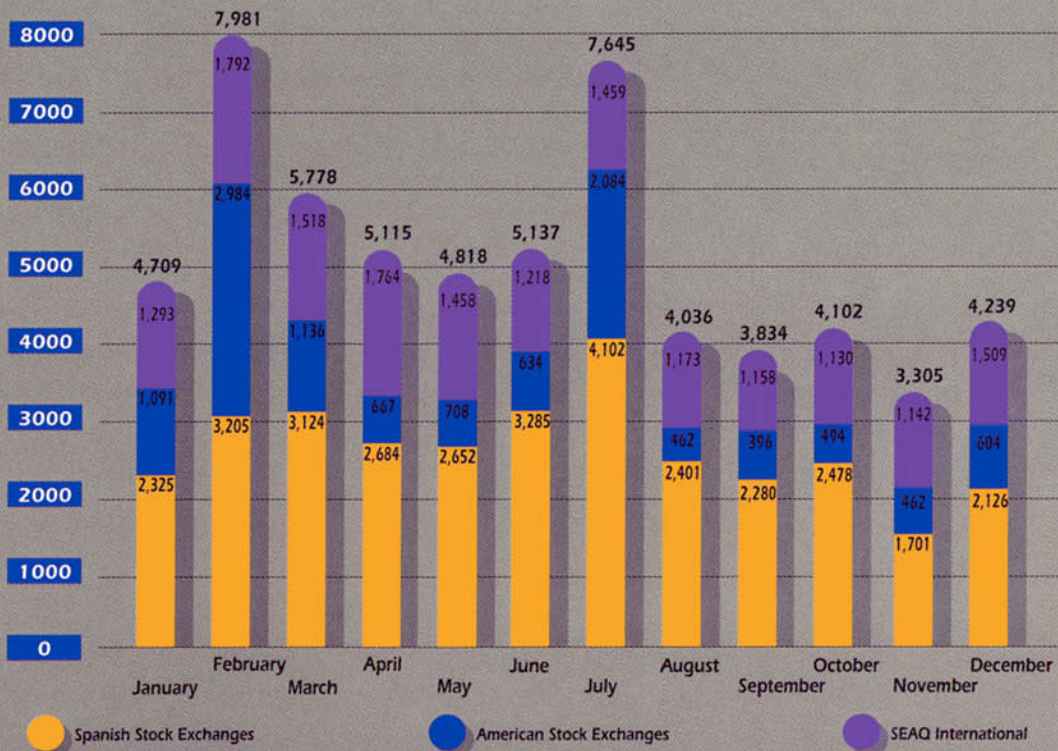
	1992	1993	1994
Interim	25 pts.	25 pts.	27 pts.
Final	36 pts.	37 pts.	39 pts. (*)
Total	61 pts.	62 pts.	66 pts.

* Pending approval by the Annual General Shareholders' Meeting in accordance with the proposed distribution of net income.

STATE PARTICIPATION IN TELEFÓNICA DE ESPAÑA, S.A

As Telefónica shares are bearer shares, there is no official register of shareholders. However, on payment of the interim dividend for 1994, on February 17, 1995, the State participation was seen to be the following

Spanish State: 31.86 participation in share capital as a percentage.



Average daily trading of Telefónica shares
Spanish Stock Exchanges, American
Stock Exchanges and SEAQ International

Thousand shares

STOCK MARKET CAPITALIZATION

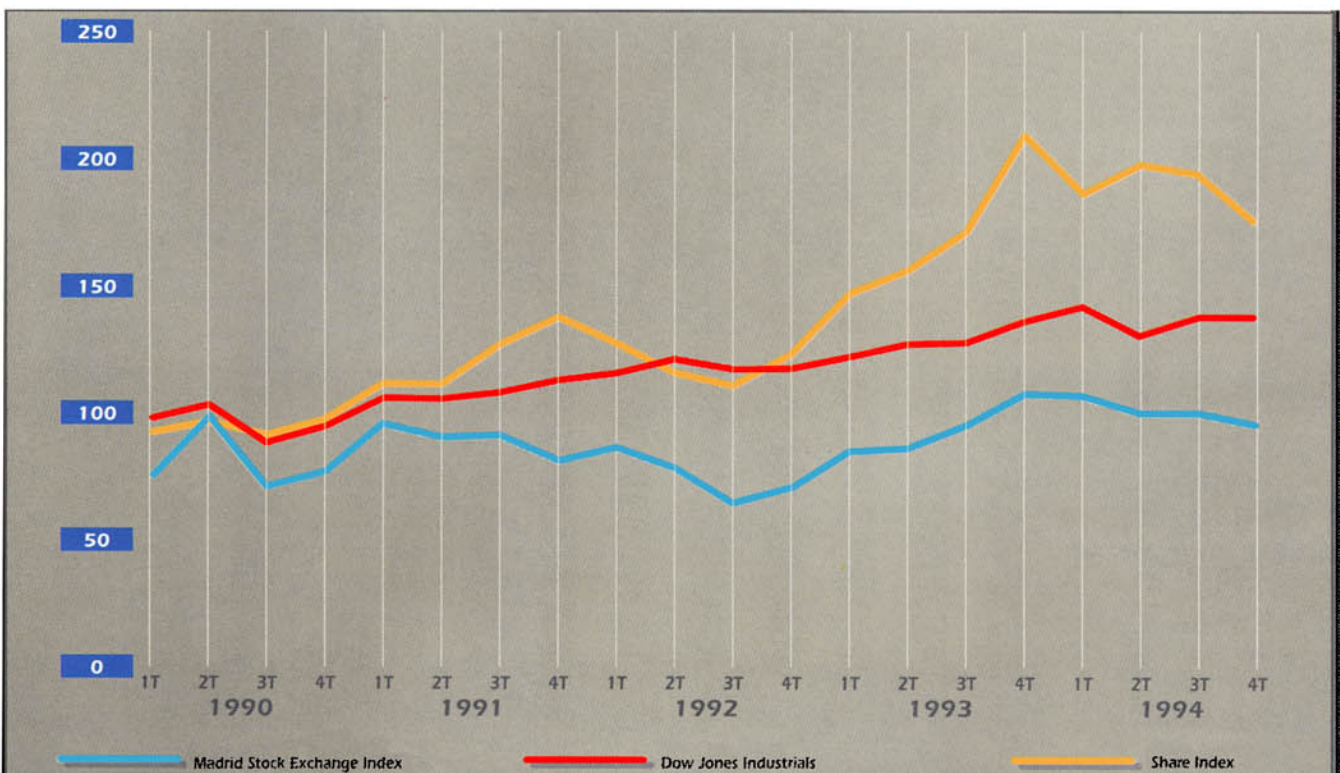
	1990	1991	1992	1993	1994	Average increase 90/94
Telefónica	778.6	1,140.2	1,056.7	1,729.8	1,460.9	17.0
Total Madrid Stock Exchange	11,744	14,303	13,332	18,286	18,038	11.3
Telefónica's weighting on the Madrid Stock Exchange Index (%)	6.53	7.80	9.25	9.43	10.44	—

Figures in billion pesetas, unless otherwise stated.

TELEFÓNICA GROUP SHARES

	CTC Chile		CPT Perú (*)		Telefónica Argentina	
	1993	1994	1993	1994	1993	1994
Stock market capitalization (million \$ US)	5,110	4,008	1,043	3,426	8,590	6,071
Closing price (\$ US)	5.95	4.67	4.52	1.47	7.29	5.15
Price/earnings ratio	21.6	16.1	88.1	116.5	23.3	14.0
Price/Cash-flow	14.2	11.4	8.1	30.3	11.1	6.5
Dividend yield	2.1%	3.3%	N.A.	N.A.	1.3%	4.9%

(*) The 1993 information corresponds to CPT, while that of 1994 corresponds to Telefonica del Peru, as a result of the merger between CPT and ENTEL Peru.



Share prices of Telefónica shares,
Spanish stock exchanges,
American stock exchanges

BOARD OF DIRECTORS

CHAIRMAN

Cándido Velázquez-Gaztelu Ruiz

VICE-CHAIRMEN

José María Concejo Alvarez

Claudio Boada Vilallonga

CHIEF EXECUTIVE

Germán Ancochea Soto

DIRECTORS

(representing shareholders)

Eduardo Abril Abadín

Diego Chacón Ortiz

Miguel Cruz Amorós

Isidro Fainé Casas

José Montes Fernández

José Constantino Nalda García

Marcos Peña Pinto

Marcial Portela Alvarez

Juán José Puerta Pascual

Juán Manuel Rebollo Castrillo

Epifanio Ridruejo Brieua

Mateo Ruiz Oriol

Alfredo Sáenz Abad

José Enrique Serrano Martínez

Juán Antonio Vázquez de Parga y Pardo

Carlos Westendorp y Cabeza

DIRECTORS

(representing the Government)

Julián Arévalo Arias

Juán Antonio Blanco-Magadán Amutio

Gonzalo Cedrún Rábago

Juan Ignacio Molto García

Elena Salgado Méndez

SECRETARY

(non director)

Heliodoro Alcaraz García de la Barrera

VICESECRETARY

(non director)

Mariano Aldama Magnet

GOVERNMENT REPRESENTATIVE

(non director)

Javier Nadal Ariño

Changes recorded in the Board of Directors of "Telefónica de España, S.A." after the end of the 1994 financial year.

Francisco Hernández Spínola was appointed director representing shareholders, in place of José Constantino Nalda García, on

25.01.1995. Claudio Boada Vilallonga, Epifanio Ridruejo Brieua and Alfredo Sáenz Abad resigned as directors on 29.03.1995.

Javier Nadal Ariño resigned as Government Representative on 17.03.1995, being replaced by Reinaldo Rodriguez Illera.

EXECUTIVE COMMITTEE

CHAIRMAN

Cándido Velázquez-Gaztelu Ruiz

VICE-CHAIRMEN

José María Concejo Alvarez

Claudio Boada Vilallonga

CHIEF EXECUTIVE

Germán Ancochea Soto

DIRECTORS

Juan Antonio Blanco-Magadán Amutio

Isidro Fainé Casas

Juan Ignacio Molto García

Mateo Ruíz Oriol

Elena Salgado Méndez

Juán Antonio Vázquez de Parga y Pardo

Epifanio Ridruejo Brieua (Advisory member)

SECRETARY

(non director)

Heliodoro Alcaraz García de la Barrera

VICESECRETARY

(non director)

Mariano Aldama Magnet

GOVERNMENT REPRESENTATIVE

(non director)

Javier Nadal Ariño

MANAGEMENT COMMITTEE

CÁNDIDO VELAZQUEZ-GAZTELU RUÍZ

Chairman of the Board of Directors

GERMÁN ANCOCHEA SOTO

Chief Executive

HELIODORO ALCARAZ GARCÍA DE LA BARRERA

General Secretary and Secretary of the Board of Directors

ANTONIO LOPEZ-BARAJAS Y GARCÍA VALDECASAS

General Manager of Coordination

MANUEL A. BLANCO LOSADA

General Manager of Corporate Planning

JOSÉ CABALLERO GUERRERO

General Manager of Administration and Resources

FRANCISCO MOCHÓN MORCILLO

General Manager of Finance and Management Control

RAFAEL HERNÁNDEZ GARCIA

General Manager of Infrastructures

GUILLERMO FERNÁNDEZ VIDAL

General Sales Manager

FRANCISCO ROS PERÁN

General Manager of International Communications

The members of the Management Committee of "Telefónica de España, S.A.", the Chairman of "Telefónica Servicios Móviles, S.A.", **Luis Lada Díaz**, and the Chief Executive of "Telefónica Internacional de España, S.A.", **Ignacio Santillana del Barrio**, make up the **Management Committee of the Telefonica Group**.

DEPUTY GENERAL MANAGERS

ACCOUNTS AND CONTROL

Isidro López Cuadra

COMMERCIAL MANAGEMENT

Antonio Cantón Góngora

CORPORATE CLIENTS

José Luis Guezuraga Villa

CORPORATE RELATIONS AND COMMUNICATIONS

Guillermo Medina González

CUSTOMER SERVICE

Augusto Serrano Santarromana

DATA PROCESSING

Alfredo García París

ECONOMIC STUDIES AND ANALYSIS

Crisanto Plaza Bayón

HUMAN RESOURCES AND ORGANIZATION

Oscar Maraver Sánchez-Valdepeñas

INTERNATIONAL RELATIONS

José Luis Rojo Serrano

MANAGEMENT CONTROL

Francisco García Aguilera

MARKETING AND SERVICE DEVELOPMENT

Julio Linares López

NETWORK OPERATION AND MAINTENANCE

Manuel Badenes Moles

PLANNING AND TECHNOLOGY

Carlos Díaz-Guerra Alvarez

PLANT

José Antonio Aranda Muñoz

PROCUREMENT AND SUPPLIES

Antonio Alboreca Vigo

SECURITY

José Luis Fernández Dopico

STRATEGIC PLANNING

José Alberto Blanco Losada

General Meeting of Shareholders

Date: April 21, 1995

Time: 12 h.

Place: Paseo de la Castellana, 259. Madrid

Pabellón de Deportes de la Ciudad Deportiva del Real Madrid

Shareholder information:

Copies of this Annual Report may be obtained free
of charge from Company offices or by request in writing to:

Telefónica de España, S.A.

Financial Department

General Perón, 38 - planta 15

Edificio Master's II

28020 MADRID

The information required by law is available
to shareholders and the general public.

TELEFÓNICA DE ESPAÑA

COMMUNICATION SERVICES

GENERAL DEPARTMENT OF CORPORATE RELATIONS AND COMMUNICATIONS

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HIGHLIGHTS

- CODITEL, 100% subsidiary of CETESA, begins to significantly increase its business figures, after being brought into line with the Automated Treatment of Personal Data Regulation Act, better known as LORTAD.

SEPTEMBER

- The AMERICAS I underwater cable (Latin America-Caribbean-USA) comes into service. Telefónica has a 3.68% share in this project, which is fundamental to its strategy as it serves as an extension to the circuits with Latin America through COLUMBUS II. A month earlier in Oslo, Telefónica signed the Agreement for the Construction and Maintenance of the ODIN fibre optics underwater cable system (Holland-Denmark-Norway-Sweden), which will serve as an extension to the RI-OJA system (Spain-United Kingdom, Belgium and Holland).

The United States Federal Communications Commission (FCC) authorizes TLD of Puerto Rico, in which Telefónica has a 79% holding, to participate in the Columbus II and Americas I underwater cable systems, and also to operate circuits with the Bahamas and Holland.

- The Boards of Directors of the Peruvian companies CPT and ENTEL agree to begin the process of merging the two operators. As a result of this merger the managements of CPT, ENTEL and Telefónica look forward to a significant improvement in operating margins and increased profitability in the merged company.

- CTC brings into service the Integrated Services Digital Network (ISDN) and completes the process of digitization of its domestic telephone network, in which it has invested 1,700 million dollars.

- Telefónica de Argentina is elected to chair the commission which is to coordinate and monitor the Agreement of Understanding (ADE) for the

introduction of Integrated Services Digital Networks in Latin America under a common standard.

OCTOBER

- Telefónica sells its holding in Alcatel Standard Eléctrica (13.24% of the share capital) to Alcatel N.V., thus complying with the European Commission's recommendation to cut its links with its suppliers.

- The government approves an agreement on the liberalization of telecommunications which includes the drawing up of a future contract between MOPTMA and Telefónica to bring tariffs up to date and expand the network to all areas of the country. The agreement confirms that the tender for the granting of the second TMA license will be decided before the end of the year, and grants Telefónica the right to provide the GSM mobile telephony service.

- The internal Quality audit process is begun in six Spanish provinces, culminating in December with the Certification by the Spanish Standardization Association (AENOR) of Telefónica's Quality System in these provinces, in line with UNE norm 66-901-89, equivalent to international norm ISO 9001. Tarragona, The Balearic Islands, Cádiz, Málaga, Castellón and Zamora thus begin a process which will continue throughout 1995 in the rest of Spain.

NOVEMBER

- The Board of Directors of Telefónica agrees on a new organization for the company, structured around a Corporate Core and 8 business areas, with the objective of improving the service to clients and adapting to an increasingly competitive environment.

- Telefónica, along with 16 other European operators, takes part in the inauguration of the European Information Superhighway.

based on ATM (Asynchronous Transfer Mode) technology.

- The mobile telephony service reaches 393,000 users, and it is expected that this figure will rise to over 400,000 by the end of the year. This exceeds the 1% penetration forecast, and is due to an annual increase of 60%. Two months earlier, the government approved the telephone tariffs to be applied to the interconnection between the future GSM pan-European mobile networks and the fixed telephony network.

DECEMBER

- Telefónica extends the 002 "By Appointment" repair service to all of Spain. Telefónica aims to improve customer service by offering the possibility of arranging the most convenient time for a technician to visit.

- The Dutch bank ABN Amro Bank, B.N. Argentaria and Telefónica Internacional agree on a syndicated loan of 1,100 million dollars for Telefónica Internacional.

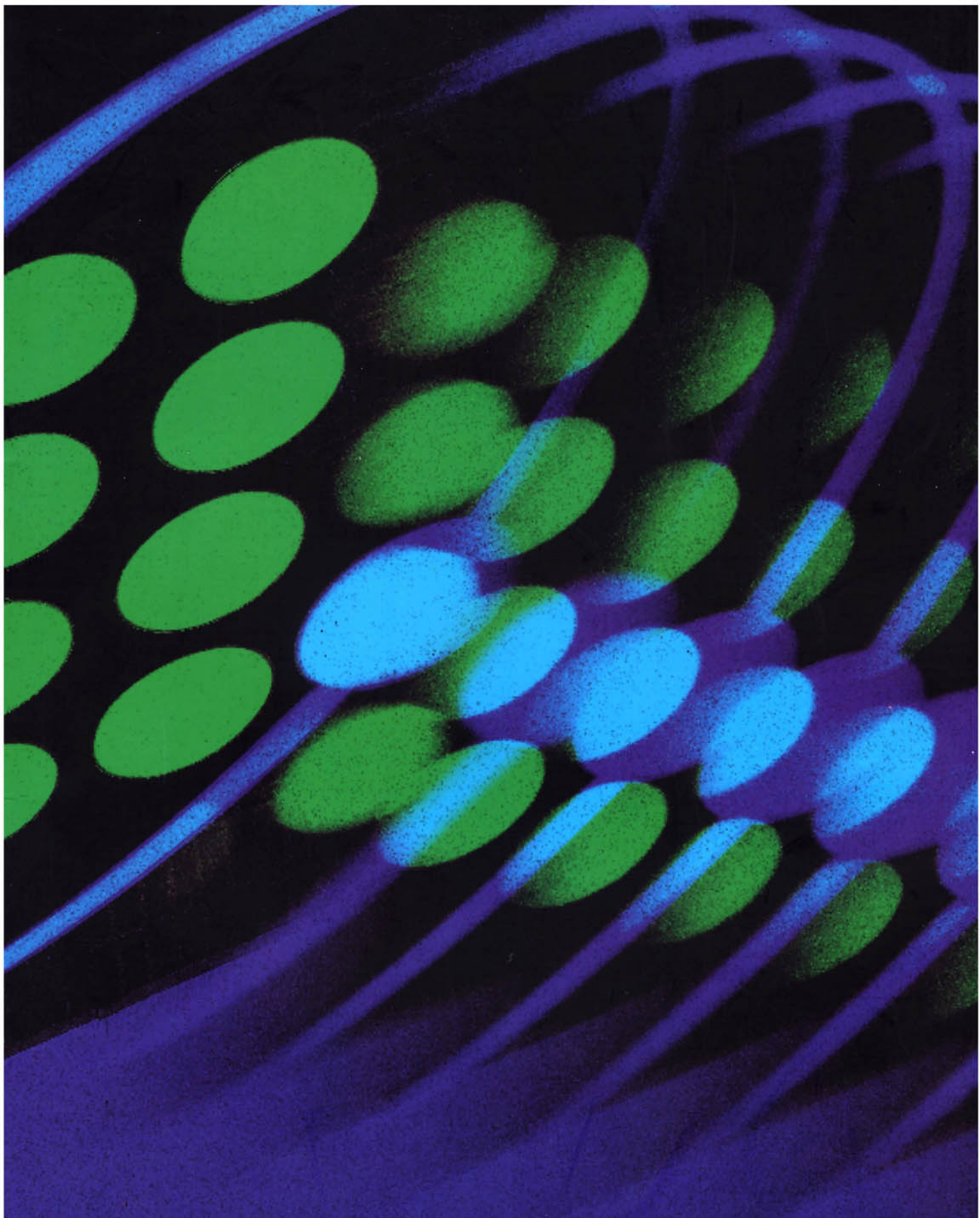
- Argentaria and Telefónica reach an agreement in which Telefónica is to take a holding of up to 10% in Telefónica Mobile Services, S.A.. This agreement is within the collaboration framework set up between Telefónica de España and Argentaria for the telecommunications business.

- Unisource and AT&T announce the formation of Uniworld (60% Unisource-40% AT&T), a joint enterprise aimed at bringing global communications services to multinational companies operating in Europe, and providing excellent access to North America and Asia.

- Telefónica Sistemas de Portugal TSP is formed, with Telefónica Internacional having a 25% share, and Telefónica Sistemas the remaining 75%.

The new company will offer its Portuguese clients systems engineering, networks and infrastructure, and security systems.





Telefónica de España, S.A.