

Shareholders' Information

Share Capital

	1997	1998	EUROS 1999	2000	2001
Share Capital (Millions of euros)	2,823.17	3,079.82	3,262.82	4,340.71	4,671.91
Profit per share (euros) (*) (1)	0.41	0.43	0.55	0.58	0.45
Profit per share (euros) (*) (2)	0.41	0.44	0.57	0.67	0.46
PER	21.50	29.72	44.84	30.50	33.33
Pay out (%)	50.42	—	—	—	—
Price/Cash-Flow p.a.	4.25	5.97	9.01	7.30	6.65

(*) Figures homogenized by the three-to-one split effective on July 23, 1999, considering: (1) The number of shares at the close of the fiscal year and (2) the average number of shares outstanding during the fiscal year. This includes the capital increases effected, weighted by the number of days on which they were quoted.

Evolution of the Company's Share Capital

At the end of the 2001 fiscal year, Telefónica had 4,671,915,885 outstanding shares, which reflects a 7.63% increase in the company's share base with respect to the end of the 2000 fiscal year (4,340,710,735 shares).

This increase in the number of shares is the result of the following actions taken by the Group: on February 2, 2001, 86,814,214 new shares were issued when the first 1:50 bonus share issue was approved by the Telefónica Shareholders' Meeting on April 7, 2000. At that same meeting, two other share issues were approved to cover the TIES programs; this action gave rise to the issue of 1,123,072 shares on February 19, 2001 and 31,504,244 shares on March 1, 2001. The second bonus distribution, approved at the same General Shareholders' Meeting, resulted in the issue of 89,203,045 new shares on April 9, 2001.

Subsequently, as the consequence of the purchase of Telefónica Móviles Mexico's cellular assets, a total of 122,560,575 shares were issued and delivered to Motorola as payment for the assets sold; these shares were issued on June 25, 2001.

Finally, on December 19, 2001 Telefónica's Board of Directors approved the issue of 93,438,317 new shares as an initial 1:50 bonus share issue approved by the General Shareholders' Meeting held on June 15, 2001. These shares were not actually issued until February 26 of the 2002 fiscal year.

Telefónica has continued to apply the policy initiated in the 1998 fiscal year of not distributing cash dividends. To compensate our shareholders, Telefónica has continued to issue bonus shares that offer their recipients tax benefits, among other advantages, and which also give each shareholder the option of converting the new shares into cash whenever he or she decides to do so. Thus, all investors who were Telefónica stockholders before January 4, 2001 and who remained stockholders on March 5 of the same year, received a remuneration of 4%.

Increase in Capital

During the 1998, 1999, 2000 and 2001 fiscal years, Telefónica effected the following capital increases:

DATE	NO. OF SHARES ISSUED	PRICE ISSUE EUROS	ISSUE AMOUNT (MILLIONS)	
			NOMINAL EUROS	CASH EUROS
25/03/98	85,406,438	30.051	256.652	2,566.548
(*) 27/05/98	642	29.103	0.002	0.019
(**) 16/12/98	20,497,558	3.005	61.596	61.596
(**) 25/02/99	20,907,509	3.005	62.828	62.828
(*) 15/09/99	1,002	9.595	0.001	0.009
(**) 29/09/99	63,976,998	1.000	63.976	63.976
(*) 04/02/00	13,965,205	9.442	13.965	131.859
(*) 23/02/00	3,026,268	9.461	3.026	28.632
(*) 29/03/00	4,448,442	9.496	4.448	42.242
(***) 26/04/00	14,477,109 (1)	9.500	14.477	137.532
(*) 26/04/00	2,914,193	9.524	2.914	27.755
(*) 31/05/00	780,927	9.564	0.781	7.469
(*) 28/06/00	1,426,472	9.591	1.426	13.681
(***) 04/07/00	157,951,446 (2)	9.129	157.951	1,441.939
(***) 06/07/00	371,350,753 (3)	11.910	371.351	4,422.787
(***) 06/07/00	90,517,917 (4)	3.995	90.518	361.619
(***) 11/07/00	80,954,801 (5)	9.072	80.955	734.422
(*) 26/07/00	33,716,560	9.531	33.717	321.353
(***) 02/08/00	213,409,097 (6)	3.875	213.409	826.960
(***) 18/12/00	88,944,644 (7)	11.231	88.945	998.898
(**) 24/01/01	86,814,214	1.000	86.814	86.814
(****) 14/02/01	1,123,072	5.000	1.123	5.615
(****) 19/02/01	31,504,244	5.000	31.504	157.521
(**) 28/03/01	89,203,045	1.000	89.203	89.203
(***) 15/06/01	122,560,575 (8)	5.50	122.561	674.083

(*) Increases effected to pay for the conversion and consequent redemption of convertible debentures whose face value is US \$1,000 each.

(**) Capital increases charged to freely distributable reserves and approved by the Extraordinary General Shareholders' Meeting held on June 24, 1998, by the Ordinary General Shareholders' Meeting held on March 26, 1999 and by the Ordinary General Shareholders' Meeting held on April 7, 2000.

(***) Capital increases subscribed and paid in by non-cash contributions consisting of shares of the following companies: (1) Vigil Corp, S.A. and Ambit, S.A., (2) Telefónica de Argentina, S.A., (3) Telecomunicações de São Paulo, S.A., (4) Telesudeste Participações, S.A., (5) Telefónica de Perú, S.A., (6) Endemol Entertainment Holding N.V., (7) CEI Citicorp Holdings, S.A. (8) several Mexican mobile telephony service operators acquired from the Motorola Group.

(****) Capital increases subscribed and paid in by cash contributions made by Grupo Telefónica employees who are beneficiaries of the Stock Option Plan for non-management personnel (TIES program).

Price of Telefónica, S.A. shares

The 2001 fiscal year was characterized by instability in world stock markets caused by three clearly differentiated factors that brought their influence to bear during the twelve-month period:

1. During the first nine months of the year the entire European telecommunications industry experienced a downturn caused, on the one hand, by the difficult financial situation telecommunications operators were faced with as the result of the process of awarding third-generation mobile telephony licenses. This award process, which took place during fiscal year 2000, coincided with the finalization of the remaining commitments entailed by the consolidation process that the industry had been undergoing in previous years. In this context, and after successive lowerings of the affected companies' bond ratings, these operators sought to mitigate the deterioration of their balance sheets by selling non-strategic assets, announcing significant reductions in investments and, in some cases, increasing their capital. On the other hand, the delay in the availability of UMTS technology contributed to increased skepticism in the markets regarding the quick materialization of the initial growth prospects of third-generation technology for cellular operators.

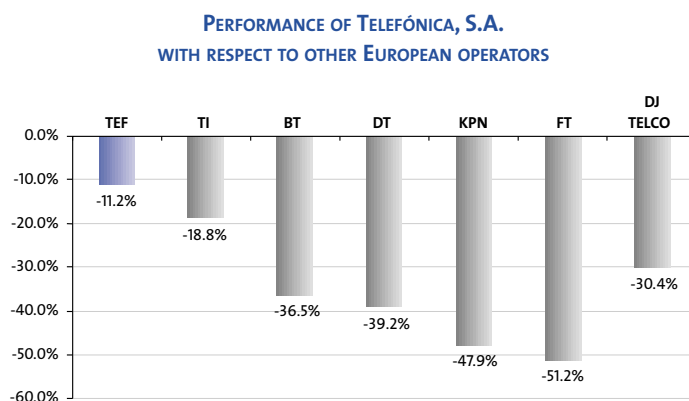
Other negative influences that must be mentioned are the difficulties experienced by alternative and data operators due to the lack of visibility over their heavy investments in infrastructure, the toughening of financial conditions after the downward revisions of their bond ratings and the crisis that affected many Internet companies.

2. Gradually during the first nine months of the fiscal year, and then more markedly after the end of the first quarter, worry about the evolution of the U.S. economy spread. Turning away from the soft landing anticipated earlier, the markets began to discount the possibility that the U.S. would enter a recession. That the preoccupation was shared by the Federal Reserve was demonstrated by the fact that 2001 was the year in which this institution lowered interest rates more often than in any other year in its history, reducing the official price of money from 6.5% in January to 1.75% at year's end. The atmosphere of uncertainty turned the stock markets bearish and, at the same time, increasingly volatile. Thus, at the end of the third quarter, the downturn accumulated by the leading stock indexes amounted to -19.7% for Spain's IBEX – 35, -21.2% for the American S&P 500, -33.0% for the German DAX and -30.9% for the Dow Jones Eurostoxx50, among others.
3. When it seemed that the stock markets had bottomed out and were beginning to recover, as a result of the aggressive interest rate cuts made by the U.S. Federal Reserve, the events occurred that marked the evolution of the financial markets for the remainder of the year: the terrorist attacks of September 11 on U.S. targets, which provoked a decidedly negative initial reaction in all the Western stock exchanges due to the possible negative effects they could have on world economic growth during the year 2002. These circumstances

pushed the indexes to the lowest levels of 2001: Spain's IBEX – 35 fell to -28.7%, the American S&P 500 recorded a -26.9%, Germany's DAX -41.1% and the Dow Jones Eurostoxx50 -39.7%. The stock markets then rose to levels above those reached on the day before the attacks, and finished the year clearly above the values registered in September. Specifically, the Spanish IBEX – 35 index finished the year at -7.8%, the S&P 500 at -13.0%, Germany's DAX at -19.8% and the Dow Jones Eurostoxx50 at -20.2%.

It was precisely the telecommunications industry that made one of the most significant contributions to the recovery of European stock indexes from their minimal levels. The share prices of the leading European telecommunications operators, which had been severely penalized during 2000, rose very strongly from those minimal levels. Thus, between September 11 and the end of the fiscal year, Telefónica shares rose 35.4%, Deutsche Telekom climbed 25.0%, France Telecom increased by 45.0%, Telecom Italia shares grew by 21.7%, KPN went up 137.1% and Portugal Telecom rose 25.0%.

In this context of uncertainty in the stock exchanges in general, and in the telecommunications industry in particular, Telefónica's track record can be considered positive, since the Spanish operator was, along with Portugal Telecom, the telecoms company that performed best during the 2001 fiscal year. While companies such as Deutsche Telekom, France Telecom, KPN, BT or Telecom Italia had highly negative returns (-39.2%, -51.2%, -47.9%, -36.5% and -18.8%, respectively), Telefónica and Portugal Telecom showed drops of -11.2% and -8.4%, respectively.



This relatively good performance is mainly due to the positive perception that most investment banks have of the company, an attitude that has enabled Telefónica shares to be included in most of the major market actors' benchmark portfolios. This perception is based on several factors, including the Grupo Telefónica's diversified asset portfolio, which enables the group to enjoy greater stability in its results than other operators, and its capacity to generate free cash flows in the coming years, combined with a much greater financial strength than that of its competing European operators.

But these developments are even more estimable if we take into account the circumstances that have surrounded Telefónica during the 2001 fiscal year. Fiscal 2001, for Telefónica, was characterized by two fundamental factors that have influenced the behavior of the company's shares: the flow of negative news on the development of third-generation mobile telecommunications technology (UMTS) and Argentina's economic crisis.

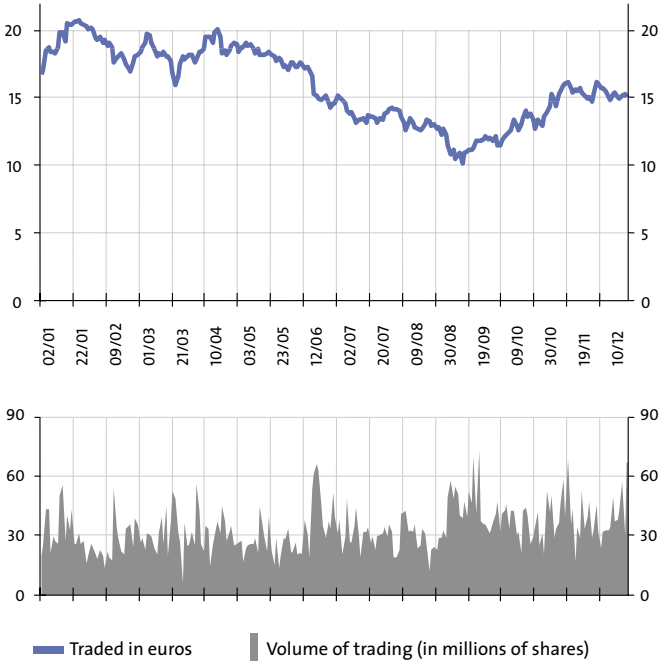
Telefónica's shares are quoted in continuous trading on Spain's stock exchanges (Madrid, Barcelona, Bilbao and Valencia) and on the following foreign stock exchanges: London, Paris, Frankfurt, Tokyo, Buenos Aires, New York (*), Lima (*), São Paulo (**) and the London Stock Exchange's SEAQ International.

During the 2000 fiscal year, Telefónica, S.A. shares were listed on three new exchanges: they were first quoted on the Lima stock exchange on March 2, 2000, and on the Buenos Aires and São Paulo exchanges on July 3, 2000.

Options on Telefónica stock are traded on the Mercado Español de Futuros Financieros (MEFF-RV-Spanish Financial Futures Market) and on the American Stock Exchange (AMEX) (*).

(*) American Depository Receipts (ADR) are quoted, 1 ADR = 3 shares
 (**) Brazilian Depository Receipts (BDR) are quoted, 1 BDR = 1 share

PERFORMANCE OF TELEFÓNICA, S.A. SHARES IN 2001
AVERAGE DAILY TRADING VOLUME OF 33.29 MILLION SHARES



Dividend

Dividends declared in recent years:

	1995		1996		1997	
	PESETAS	EUROS	PESETAS	EUROS	PESETAS	EUROS
Interim	30	0.18	35	0.21	40	0.24
Supplementary	46	0.28	54	0.32	62	0.37
Total	76	0.46	89	0.53	102	0.61

At the Extraordinary General Shareholders' Meeting held on June 24, 1998, Telefónica announced a new policy governing the search for other ways to reward shareholders than distributing dividends.

Based on that new dividend policy, starting from the 1998 fiscal year Telefónica has effected capital increases debited to freely distributable reserves, recognizing in these increases the right of free proportional allocation for the shareholders' benefit, at the rate of one new share for each 50 shares held. These share issues were approved by the Extraordinary General Shareholders' Meeting held on June 24, 1998, and by the Ordinary General Shareholders' Meetings of March 26, 1999, April 7, 2000 and June 15, 2001.

Shares held by members of the Board of Directors

According to the company's records, the total number of Telefónica, S.A. shares directly held by the company's current Board members on February 13, 2002 was 404,753 shares (0.0085% of the total share capital). A detailed listing of these holdings is given below.

NAME	NO. OF SHARES
César Alierta Izuel	159,516
Isidro Fainé Casas	1,533
Pedro Luis Uriarte Santamarina	9,601
Fernando Abril-Martorell Hernández	30,289
Gaspar Ariño Ortiz	6,605
Pedro Ballvé Lantero	116,445
Maximino Carpio García	5,500
Carlos Colomer Casellas	500
Alfonso Ferrari Herrero	1,675
Luiz Fernando Furlán	12,010
José Ignacio Goirigolzarri Tellaeché	—
Miguel Horta e Costa	318
Luis Lada Díaz	27,925
Ignacio Larracochea Jausoro	3,375
José Maldonado Ramos	30
Antonio Massanell Lavilla	1,887
Mario E. Vázquez	10
Antonio Viana-Baptista	19,532
Gregorio Villalabeitia Galarraga	50
Antonio Alonso Ureba	7,952
TOTAL	404,753

The percentage of the company's share capital represented by the holdings of the members of the Board of Directors as of the last General Shareholders' Meeting held on June 15, 2001, was 38.12%.

Number of shareholders

In accordance with the information obtained by Spain's Servicio de Compensación y Liquidación de Valores (S.C.L.V., or Securities Clearing and Settlement Service), as of March 5, 2002, the number of holders of Telefónica, S.A. shares, according to individualized records showing both natural persons and corporate bodies, was approximately 1,649,000 shareholders.

Payment of the company's auditors

The compensation paid to Arthur Andersen y Cía. S. Com., independent auditors of Telefónica, S.A. and its Group during the 2001 fiscal year, amounted to 9.42 million euros (2.60 million euros are attributable to Telefónica, S.A. and the rest to other companies belonging to the Group).

Of these amounts, auditing services, which include quarterly reviews of financial statements, the auditing of proforma financial statements, due diligences, the drafting of comfort letters and special reports for the stock exchanges of various countries, represent 63% of the total compensation. The rest of the compensation paid to the auditors was for additional work or for work other than auditing services.